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Nottingham City Council
Audit Committee

Date: Friday, 28 February 2020

Time: 10.00 am

Place: LB 31 - Loxley House, Station Street, Nottingham, NG2 3NG

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

Corporate Director for Strategy and Resources

Governance Officer: Kate Morris **Direct Dial:** 0115 876 4353

1	**Apologies**	
2	**Declarations of Interests**	
3	**Minutes** To confirm the minutes of the meeting held on 31 January 2020	3 - 8
4	**Governance of Major Projects** Presentation by Richard Beckett – Head of Major Projects	9 - 20
5	**Partnership Governance Annual Health Checks of Nottingham City Council's Significant Partnerships** Report of the Director of Strategy and Policy and the Head of Analysis and Insight	21 - 38
6	**Council Plan Corporate Performance Reporting** Report of the Corporate Director for Strategy and Resources	39 - 46
7	**Treasury Management Strategy 2020/21 and Capital & Investment Strategy 2020/21** Report of the Strategic Director of Finance and S151 Officer	47 - 126
8	**External Audit Report** Update from Grant Thornton, External Auditors	To Follow
9	**Annual Governance Statement - Progress Made To Date On Issues Reported 2018/19 And Process For Producing 2019/20 Statement** Report of the Corporate Director of Strategy & Resources	127 - 140

10	**Internal Audit Progress Report 2019/20** Report of the Strategic Director of Finance	141 - 198
11	**Work Programme** To note the work programme.	199 - 200
12	**Exclusion of the Public** To consider excluding the public from the meeting during consideration of the remaining item(s) 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** To confirm the exempt minutes of the meeting held on 31 January 2020	201 - 204
14	**Treasury Management Strategy 2020/21 and Capital & Investment Strategy 2020/21 - Exempt appendix** Report of the Strategic Director of Finance and S151 Officer	205 - 208

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 LB 31 - Loxley House, Station Street, Nottingham, NG2 3NG on 31 January 2020 from 10.35 am - 12.29 pm

Membership

Present	**Absent**
Councillor Steve Battlemuch (Chair)	Councillor Leslie Ayoola
Councillor Graham Chapman	
Councillor Michael Edwards	
Councillor Jane Lakey	
Councillor Lauren O`Grady	
Councillor Anne Peach	
Councillor Andrew Rule	
Councillor Audra Wynter (Vice Chair)	

Colleagues, partners and others in attendance:

Glyn Daykin	-	Senior Accountant Treasury Management
Jane Garrard	-	Constitutional Services
John Gregory	-	Grant Thornton External Auditors
Jackie Handley	-	Insurance & Risk Manager
Naomi Matthews	-	Data Protection Officer
Rob McCutcheon	-	Health and Safety Team Leader
Steve Oakley	-	Head of Contracting and Procurement
Laura Pattman	-	Strategic Director of Finance
Tony Roman	-	IT Customer Services Manager
Shail Shah	-	Head of Audit and Risk
John Slater	-	Group Auditor
Thomas Straw	-	Senior Accountant Capital Programmes
Caroline Stevens	-	Principal Risk Specialist
Kate Morris	-	Governance Officer

50 Apologies

Councillor Leslie Ayoola – Council Business

51 Declarations of Interests

Councillors Steve Battlemuch and Lauren O'Grady declared an Other Interest in agenda item 11 Exempt Minutes (minute number 62) because they are members of the Robin Hood Energy Board. They both left the room prior to discussion on this item.

52 Minutes

Councillor Audra Wynter noted that within item 27 – Declarations of Interests it should also note that she is a member of Nottingham City Transport Board, and a member of the Nottingham City Homes Board.

For minute item 42 – Audit Committee Terms of Reference and Annual Work Programme – Councillor Chapman asked that the Work Programme come to each meeting as a standing item for noting. The Committee agreed that this would be beneficial.

With these amendments and suggestions the minutes of the meetings held on 27 September 2019 and 14 October 2019 confirmed as a true record and were signed by the Chair.

53 Non-Executive Amendments to the Constitution

Jane Garrard, Senior Governance Officer introduced the report asking that the Audit Committee to recommend to Council the amendments to non- executive aspects of the Council's Constitution, mainly focused on Contract Procedure rules contained within Part 5 of the Constitution.

The Committee thanked Officers for the work on the amendments. The questions raised were on:

- formalising and making transparent who makes Make or Buy decisions
- a suggested de minimis level where a discounted cash flow would be expected to be included within the business case

Officers confirmed that work is underway on Make or Buy decisions and that this matter and that any alterations would come back to Audit Committee to recommend to Council at a future committee

Resolved to recommend to Council that it approve the following amendments to non-executive aspects of the Council's Constitution: Adoption of revised Contract Procedure Rules as detailed in appendix A of the published report.

54 Annual report of Health and Safety within the Council

Rob McCutcheon, Team Leader for Corporate Safety Advice presented the annual report updating the Committee on Health and Safety within the Council. He highlighted the following points:

(a) A new system has been introduced to record accidents and violent incidents. There has been a lot of work between teams and the Unions around ensuring teams across the Council report incidents consistently and as a result there has been a slight increase in incidents;

(b) An estimated break down of reported incidents is 25% verbally threatening, 65% physical (this ranges from minor incidents through to serious incidents of physical violence) 10% physical intervention (primarily within school settings);

(c) In relation to accidents almost half of the incidents reported within the Commercial operations relates to Civil Enforcement Officers;

(d) All road traffic accidents are recorded which supports the Council in dealing with claims and helps keep insurance premiums down;

(e) Current Health and Safety training for managers in required modules is much improved since the internal audit report 2016/17. 100% competency amongst SLMG managers was expected to be achieved shortly;

(f) There has been no Health and Safety Executive interventions in the Council within the last three years, and there are no very high risks currently;

During discussion and following questions from Committee members the following additional information was highlighted:

(g) There has been around a 10% rise in recorded incidents of violence towards staff. This jump is believed to be due to the more consistent reporting has made claims easier to investigate;

(h) The increase in reported incidents has not led to a significant impact on insurance claims. The increased and more consistent reporting has made claims easier to investigate;

(i) There have been a small number (3) of serious incidents within recent months where there is very little that could have been done to prevent them due to behaviour of citizens that could not be predicted;

The Committee asked that previous year's figures be included in subsequent reports to allow the Committee to make year on year comparisons.

Resolved to:

(1) Note that Corporate Directors have been requested to ensure their departmental colleagues can demonstrate up to date training in the mandatory health and safety courses, and, where appropriate, asbestos management, by Friday 27 March 2020;

(2) Note that Corporate Directors have been requested to ensure that all outstanding Accident/Violence/Audit recommendations are completed and recorded on the corporate system by Friday 27 March 2020; and

(3) Note the absence of any Health and Safety Executive intervention in the Council in the past three years

55 Treasury Management 2019/20 Half Yearly Update

Glyn Daykin, Senior Accountant – Treasury Management, presented the Treasury Management 2019/20 half-yearly update to the Committee. He highlighted the following points:

(a) The Bank of England base rate has remained at 0.75% throughout this period and looks unlikely to change in the immediate future. Economic growth has fallen due to global uncertainty;

(b) £40million of new borrowing has been undertaken in the period to 30 September 2019. External debt has increased by £24.3 million with an average rate of interest payable on the debt portfolio decreasing from 3.359% to 3.316%;

(c) There has been an increase in the PWLB rates which was unexpected and covers the new loans only, the increase is to the margin that the treasury makes on top of the gilts rate. The October increase broadly reverses last year's decreases in PWLB rates;

(d) There have been no breaches of the Prudential Indicators set for 2019/20;

Following questions and comments from the Committee the following further information was highlighted:

(e) Short term borrowing has been used, particularly since the increase in PWLB rates;

(f) The relevant teams are closely watching the Municipal Bonds to establish what, if any benefit Nottingham City Council could gain from them;

The Committee requested that in future the report could include

- comparison columns on tables so that original forecast and current forecast could easily be seen for schemes subject to slippage;
- a list of all schemes contributing to an increase in operational borrowing boundary

Resolved to note the treasury management actions taken during the first half of 2019/20

56 Review of Accounting Policies 2019/20

Shail Shah, Head of Audit and Risk introduced the report informing the Committee about the review of Accounting Policies 2019/20. He informed the Committee that the small changes made to the policies were to be reviewed by the external auditors. He confirmed that there have been very few changed to the codes and changes were minimal as a result. Key changes were listed in the report.

The Committee asked for and received details of how an asset with deteriorating value would be treated.

Resolved to:

(1) Agree the Accounting Policies for inclusion in the 2019/20 annual Statement of Accounts as detailed in Appendix A as published with the agenda; and

(2) Agree the proposals where International Financial Reporting Standards allow a degree of choice.

57 Risk Management and Corporate Risk Register Update

Caroline Stevens, Principal Risk Specialist and Jackie Handley Insurance and Risk Manager introduced the report on updating the Committee on Risk Management and the Corporate Risk Register.

(a) A review in November 2018 showed that although risks were being identified departmentally they were not all being managed in line with the agreed framework, that departmental risk registers were not consistent across the Council and that links to the Corporate Risk Register were unclear;

(b) As a result of this review the Risk Management Framework was refreshed and supporting guidance, templates and training developed to assist managers in undertaking any risk management activities;

(c) Formal corporate risk reporting has been re-established the Corporate Leadership Team and a Corporate Risk Group has been established to allow thorough review of corporate risks and risks escalated from departmental risk registers;

The Committee expressed concern that Risk Management had once again needed to be “refreshed” and that the principles of Risk Management were not part of day to day practice. Officers assured the Committee that although it needed time to mature the Risk Framework was now in place.

Following additional comments and questions from the Committee the following points were highlighted;

(e) There is still work to be done, but this is around embedding good practice around risk management and ensuring that departmental level reporting is supported and improved;

(f) A risk management training session for Audit Committee would be scheduled in summer 2020.

Resolved to:

(1) Note the update on actions and progress made to review existing processes and embed Risk Management across the Council;

(2) Note the refreshed Risk Management Framework;

(3) Note the risks identified on the Corporate Risk Register; and

(4) Identify any risks requiring additional assurance for review with the risk lead at a future Audit Committee meeting

58 Additional Dates

Resolved to meet on the following additional dates:

- **28 February 2020 at 10.30am**
- **1 May 2020 at 10am**

59 Exclusion of the public

The Committee decided to exclude the public from the meeting during consideration of this/ the remaining agenda item(s) 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 Paragraph(s) 3 of Part 1 of Schedule 12A to the Act**.**

In a change to the published agenda the Committee agreed to hear items 12 and 13, Exempt appendices for the Risk Management and Corporate Risk register, and the Annual Information Compliance Assurance report prior to the exempt minutes.

60 Risk Management and Corporate Risk Register Update - Exempt appendices

The Committee considered the exempt appendices and discussion is noted within the exempt minutes.

61 Annual Information Compliance Assurance Report

The Committee considered the Annual Information Compliance Assurance report.

Resolved to agree the recommendations as set out in the exempt minute.

62 Exempt Minutes

Councillors Steve Battlemuch and Lauren O'Grady declared an Other Interest in this item because they are members of the Robin Hood Energy Board. They left the room prior to discussion on this item.

As Councillor Steve Battlemuch had left the room Councillor Audra Wynter, the Vice-Chair, chaired the remaining item of the meeting.

The exempt minutes of the meetings held on 27 September 2019 and 14 October 2019 were confirmed as a correct record and they were signed by the Chair.

Governance of Major Projects and Capital Schemes

Richard Beckett

Head of Major Projects

GREAT CITY
GREAT WORKFORCE
CITIZENS AT THE HEART
GREAT SERVICES
GREAT COUNCIL

Nottingham City Council

Context

- What is a major project?
  - £1m + (tier 1 projects hgher)
  - Complex
- Quantum of live major projects:
  - 15 tier 1 projects in delivery or approved
  - £400m + total value
  - 6 tier 1 projects in development

Gateway Zero

- Inception / High level
- Strategic / Business Need
- Review by Finance and Major Projects
- CLT Decision
  - Transparency
  - Buy in
- Recommendations / Conditions

Assurance

- Gateway Zero
- Project Assurance Group – pre and post approval
  - Gateway One (Business Case – based on Treasury Five Case / NPV requirements)
  - Gateway Two (Pre-procurement)
- Recommendations / Action Plans
- Corporate recommendations to CLT

Project Governance

- Sponsor
- Project Manager
- Major Projects involvement
- Board oversight
- Approval process

Monitoring - Reporting

- Monthly monitoring reports
  - Activity, Programme Milestones
  - Finance, Change, Contract / Perfomance
  - Risk / Benefits
- Dashboard reporting
  - Summary
  - Audience

Monitoring - Meetings

- Project Boards
- Capital Programme Boards
- Portfolio Holder / Leader Briefings
- CLT Quarterly reporting
- Capital Monitoring Group
- Triangulation – written reports and meeting information

Lessons Learned

- Monthly monitoring
- End of project lessons learned session
- Corporate knowledge fed into:
  - New projects
  - Assurance reviews
  - PMO contact

Training

- Project management training
  - Intranet
  - 100 colleagues
- Pipeline / enabler feedback
- PAG training
- Drop in sessions
- 1:1 Assistance

Small Project Assurance

- Internal Audit Recommendation
- £150k - £1m capital
- £11.3m total value (33 projects)
- Initial engagement
- Monitoring and support

Role of Major Projects

- Major Projects role
  - Governance, Delivery, Contract Management
- Portfolio Management Office
  - Project Management Handbook / Templates
  - Monitoring / Assurance / Corporate Knowledge

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Audit Committee – 28th February 2020

Title of paper:	Partnership Governance Annual Health Checks of Nottingham City Council's Significant Partnerships	
Director(s)/ Corporate Director(s):	Colin Monckton - Director of Strategy and Policy James Rhodes - Head of Analysis and Insight	**Wards affected: All**
Report author(s) and contact details:	Elaine Fox, Corporate Policy and Performance Team Tel: 0115 8764540 elaine.fox@nottinghamcity.gov.uk	
Other colleagues who have provided input:	Oliver Maltby, Internal Audit John Slater, Internal Audit	

Recommendation(s):	
1	To note the key findings from the Partnership Governance Health Checks of partnerships on the Register of Significant Partnerships.
2	To note the findings and recommendations following verification of governance documentation of three of the partnerships.
3	To remove the Green Nottingham Partnership from the Register of Significant Partnerships.

1 Reasons for recommendations

1.1 It is recommended that Audit Committee note paragraphs 2.7 and 2.8 detailing the key findings of the annual partnership governance Health Checks. The vast majority of partnerships scored 'good/excellent' in all areas. Two of these Health Checks, and the governance documents referenced in them, have been verified by colleagues from the Corporate Policy and Performance team and Internal Audit. The findings of all verifications can be found in Appendix 4.

1.2 There are two proposed changes to the Register of Significant Partnerships for 2019/2020, the first of which is to note that as of 27th June 2019 the Nottingham City Safeguarding Children Board was replaced by the Nottingham City Safeguarding Children Partnership. It is proposed that the partnership remains on the register under its new guise. The register is included in Appendix 1.

1.3 The second proposed change to the Register is the removal of the Green Nottingham Partnership. In previous years, issues have arisen whereby governance documentation has not been in place or has not been formalised. It has been impossible to resolve these due to the group having no formal administrative function, unlike others on the Register which may have dedicated officer and/or Constitutional Services support for their partnerships. Following discussion with officers from Energy Services about these meetings, and with colleagues in Internal Audit, it has been suggested that the Green Nottingham Partnership does not meet the threshold of a formal partnership and as such should be removed from the Register. A further conversation with the Head of One Nottingham has confirmed that if the Green Nottingham Partnership is removed from the Register it will not affect its status as a

themed One Nottingham partnership, therefore oversight of the group's work and remit will still be in place. The Strategic Cultural Partnership was removed from the Register in 2015 for similar reasons and continues to operate. The Green Nottingham Partnership, which includes representation from the two Nottingham universities and local businesses, will continue to act as an invaluable advisory group for Nottingham City Council to work towards its ambitious environmental agenda.

2 Background

2.1 The Council has a long and successful history of working in partnership across the public, private, voluntary and third sectors. The benefits and opportunities of working in partnership are well understood but risks can arise from collaborative working and the Council must ensure that its involvement in partnerships does not expose it to an unacceptable level of risk.

2.2 The Partnership Governance Framework includes an annual 'Health Check' of each partnership which is significant to the City Council in terms of strategic, reputational or financial importance. This Health Check is designed to identify any risks to the Council from its involvement in any of the partnerships. The results of these Health Checks are reported to Audit Committee along with remedial actions that are needed to protect the Council from an unacceptable level of risk.

2.3 Partnerships are not included where there are other governance arrangements in place, for example a contract or Service Level Agreement.

2.4 The partnerships that are deemed significant to the Council in terms of their strategic, reputational or financial importance are listed in the Register of Significant Partnerships (Appendix 1). Any changes to the register are reported to Audit Committee annually.

2.5 **Health Checks**
Each partnership on the Register of Significant Partnerships is asked to complete an annual self-assessment of the 'health' of the partnership's governance, giving a score as to how well they meet the criteria. The scores from the Health Checks undertaken in 2019 (this paper was due to be presented to Audit Committee in November 2019 but the meeting was cancelled) are provided in Appendix 2.

2.6 As Appendix 2 shows, the majority of partnerships scored themselves 'Excellent' or 'Good' (1 or 2) in all areas. We reviewed the supporting information and agreed with the majority of scores. Where we questioned any of the evidence for partnerships subject to verification this year, recommendations for remedial action are detailed in Appendix 4. For partnerships which were not verified this year, an explanation of any disputed scores is included below.

2.7 This report draws Audit Committee's attention to partnerships with a rating of 3 (some key areas for improvement) or 4 (many key weaknesses) in one or more areas. In 2019 the following partnership scored themselves 3 or 4:

2.7 The Nottingham City Safeguarding Children Partnership (NCSCP, formerly the Nottingham City Safeguarding Children Board) has again scored itself 3 (some key areas for improvement) for 'Finance', which it has done for the last three years. The NCSCP states that "There continues to be a significant pressure on the proposed budget for the Safeguarding Boards for 2019/20 and there will be again for the

foreseeable future". It provides a degree of reassurance by also confirming that "Partners have set a budget that has enabled the partnership to deliver its Business Plan". The majority of partnerships, alongside local authorities themselves, are affected by pressure on budgets; this fact could therefore result in a similar score across the majority of the Council's partnerships. Last year we accepted a score of 3 due to changes in working practice and the move to a Strategic Management Board from June 2019, which meant responsibility was shared between the local authority, the Clinical Commissioning Group (CCG) and the Police. Now that these changes have been implemented, we recommend this score is changed to 2 to reflect that budget concerns are inherent to the future and operation of any of the partnerships, and that the NCSCP does at least have assurance it can deliver on its business plan.

2.10 **Verification of governance documents**
The Health Checks of some of the partnerships are verified each year on a rolling programme. Officers from Corporate Policy and Performance and Internal Audit evaluate the partnerships' governance documents and other documentation noted in their Health Check. The recommendations from the verification process can be found in Appendix 4. This year the partnerships which were verified were:

2.10.1 Children's Partnership Board

2.10.2 D2N2 Local Enterprise Partnership (LEP)

2.11 The schedule for verifying partnerships has been updated and is included in Appendix 5.

2.12 **Register of Significant Partnerships**
As proposed in paragraph 1.3, we recommend the Green Nottingham Partnership is removed from the Register of Significant Partnerships as it does not meet the threshold for inclusion and does not have the administrative support function of other partnerships on the Register. The Green Nottingham Partnership enjoys representation from the two Nottingham universities and local businesses, and will continue to act as an advisory group supporting Nottingham City Council to work towards its environmental agenda.

2.13 One partnership has changed its name; the Nottingham City Safeguarding Children Board is now the Nottingham City Safeguarding Children Partnership. We recommend the partnership remains on the register. The register is included in Appendix 1.

2.14 **Additions for next year**
We have no recommendations for partnerships which should be added to the register for next year. If a partnership is found to meet the criteria for addition to the register before the process begins next year, a request will be sent to the Chair of Audit Committee.

2.15 **Looking Ahead**
It is likely the partnership landscape will change significantly over the next few years with potential changes occurring as a result of new Government leadership and a new Parliamentary Session, and also due to the UK's exit from the European Union and funding challenges facing local authorities. Any new and emerging partnerships will be considered for inclusion on the Register of Significant Partnerships and the validity of partnerships currently on the register will be evaluated on an annual basis.

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

4.1 Partnership Governance Framework, approved by the Executive Board Commissioning Sub Committee on 13 May 2009.

Appendix 1
Register of Significant Partnerships 2020

Number	Name of Partnership	Chair's name	NCC contact name
1	One Nottingham	Professor Kevin Shakesheff	Lorel Manders
2	Children's Partnership Board	Cllr Neghat Khan and Cllr Cheryl Barnard	Emily Humphreys
3	Derby, Derbyshire, Nottingham, Nottinghamshire Local Enterprise Partnership (D2N2 LEP)	Peter Richardson	Peter Davies-Bright
Recommend removal from the Register	Green Nottingham Partnership	Richard Barlow	Jonathan Ward / Ellen Cooper-Tydeman
4	Health and Wellbeing Board	Cllr Eunice Campbell-Clark	Jane Garrard
5	Nottingham Crime and Drugs Partnership	Cllr David Mellen	Laura Patterson
6	Education Improvement Board	Professor Sir David Greenaway	Jennifer Hardy / Isabella Kisielowska
7	Nottingham City Safeguarding Children Partnership	Chris Cook	John Matravers
8	Nottingham City Safeguarding Adults Board	Joy Hollister	Chair
9	Midlands Engine	Sir John Peace	Adele Margetson

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Appendix 2 - Health Check scores 2019

	Partnerships	Aims and objectives	Membership and structure	Decision making and accountability	Performance management	Evaluation and review	Equalities	Finance	GDPR	Partnership Risk Management
1.	One Nottingham	1	1	1	2	1	2	2	1	2
2.	Children's Partnership Board	1-2	1-2	1-2	1-2	1-2	1-2	N/A**	2	2
3.	D2N2 Local Enterprise Partnership	2	1	2	2	2	2	2	1	2
.	Green Nottingham Partnership	Recommend removal from the Register of Significant Partnerships								
4.	Health & Wellbeing Board	1	1	1	1-2	1-2	1-2	1-2	1-2	2
5.	Crime and Drugs Partnership	2	1	1	2	1	1	1	1	2
6.	Education Improvement Board	2	2	2	2	2	2	2	1	**TBC**
7.	Nottingham City Safeguarding Children Partnership	1	1	1	2	2	2	**3***	1	2
8.	Nottingham City Safeguarding Adults Board	1	1	1	1	1	3	1	3	1
9.	Midlands Engine	1-2	1-2	1-2	2	2	1	1	1	2

*denotes scores which were not agreed with for partnerships not being verified - explanation in main report paragraph 2.6
**partnerships which receive no funding, therefore responses of 'N/A' were accepted.

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PARTNERSHIP GOVERNANCE HEALTH CHECK GUIDANCE

The health check is a guide for an annual assessment of a partnership's governance and capacity. The aim is to make an overall assessment of the effectiveness of the partnership; identify whether there is any strategic, reputational or financial risk to the Council through its membership of the partnership; and lead to proposals for changes/improvements.

Some of the detailed definitions and examples may not be directly applicable. There may be some additional definitions of good governance that the nominated lead officer will need to apply given the specific circumstances or arrangements for a partnership. Evidence to support the findings of the health check will be held by the nominated lead officer.

This health check does not substitute for the partnership itself reviewing its governance and performance. The Council's nominated lead officer and chief officer have a responsibility to support and advise the partnership to carry out its own review and take any action required to improve its governance.

The health check has 4 categories:

Score	Category	Description
1	Excellent	There is an excellent system of governance designed to achieve the partnership's and the council's objectives; any potential financial risks for the council are noted and well managed; performance is on track.
2	Good	There is a basically sound system of governance, but some weaknesses that may threaten some of the partnership's and the council's objectives; any concerns regarding management of potential financial risks to the council are minor; performance is mainly on track.
3	Some key areas for improvement	There are some significant weaknesses that could threaten some of the partnership's and the council's objectives; there are some significant concerns about potential financial risks to the council and their management; performance is not on track in some areas.
4	Many key weaknesses	Governance and controls are generally weak leaving the partnership's system open to significant error or abuse; the partnership's and council's objectives are unlikely to be met; there are many significant concerns about financial risks to the council and their management; performance is not on track in most areas.

NOTTINGHAM CITY COUNCIL
SIGNIFICANT PARTNERSHIPS GOVERNANCE HEALTH CHECK 2019

In consultation with your partnership please complete the tables below. Once the details have been agreed by the partnership please return them to elaine.fox@nottinghamcity.gov.uk. If you require any assistance please contact Elaine Fox, Corporate Policy and Performance Officer, Nottingham City Council, on 0115 87 64540.

Name of Partnership:	
NCC Lead Councillor:	**Does a Cllr attend partnership meetings?** Yes / No
NCC Corporate Director (to identify which department is responsible)**:**	
NCC Lead Officer:	
Partnership Chief Executive/Manager (if appropriate)**:**	
Accountable body (if the partnership isn't a legal entity; if 'don't know' please state)**:**	

We have identified 8 areas of good governance. In each area we have provided a number of clear statements to illustrate what 'excellent' looks like for that area of governance. Using the criteria where 1 is 'excellent' and 4 is 'many key weaknesses' (page 1), please record a score (1-4) for each area of good governance for your significant partnership, making relevant notes on how the score could be improved.

Good governance	Health assessment (score 1-4)	Notes and further explanation
1. Aims and objectives 1. The partnership has clear aims and SMART objectives. 2. The partnership has clearly allocated responsibility for achieving its objectives, and has gathered assurance that the objectives will be achieved. 3. The partnership ensures that it uses its allocated resources to achieve its objectives. 4. Do the aims and objectives link with relevant parts of the Council Plan / Nottingham Plan?		•
2. Membership and structure		•

1. The NCC lead officer is actively engaged. 2. The structure is clear, is set out in Terms of Reference, a Memorandum of Agreement or other governing documents and is regularly reviewed, to ensure roles, responsibilities and contributions are defined for all partners. Also set out in the governing documents are whistle-blowing protocols, how to respond to compliments and complaints, risk assessments, personnel and financial management and financial and performance reporting. 3. Key partners provide effective leadership. Their leadership roles and responsibilities are understood and fulfilled. 4. The membership provides the necessary knowledge, skills and experience to do the job. Partners ensure that the right people are in the right place at the right time. 5. Changes to membership, dispute resolution and exit strategies are considered and the governing documents say what will happen if/when a partner wishes to leave.		
3. Decision making and accountability 1. Decision making is clear and transparent. Authority and delegations are set out in governing documents including a. Who can make what decisions b. Delegated responsibilities 2. The partnership has a clear procedure for dealing with conflicts of interest. 3. The role of the partnership in relation to finance and the extent of its powers to make financial decisions and approvals are stated and understood. 4. Decisions are:		•

a. properly recorded b. notified promptly to those who are affected by them 5. The partnership has: a. A communication plan to inform service users, members and the public about the partnership, its decisions, its achievements and successes, who is accountable and responsible for what. It provides routes for people to comment/contribute to the partnership's work b. Clear lines of accountability and arrangements for the timely reporting of performance and achievements to Council officers and Councillors. c. Processes in place for scrutiny of decisions and activities at the appropriate level		
4. Performance management 1. The partnership reviews its progress and delivery against clear outcomes, outputs and milestones and takes prompt corrective action if necessary. 2. Delivery contracts and agreements are monitored and poor performance is tackled.		•
5. Evaluation and review 1. The partnership regularly reviews its policies, strategies, membership and use of resources against its objectives and targets. 2. The partnership reviews its progress and delivery against clear outcomes, outputs and milestones and takes prompt corrective action if necessary.		•
6. Equalities 1. The partnership assesses its policies and programmes for their impact on equalities and		•

considers impact on inequality and deprivation as part of its performance management.		
7. Finance 1. The partnership has a financial and /or procurement plan that identifies how it proposes to use these funding to achieve its objectives. 2. The partnership has effective arrangements for financial monitoring and reporting, uses its resources well and demonstrates how it uses them to add value and ensure value for money. 3. Where applicable, for the most recent financial year the partnership has had “unqualified audit opinion” (i.e. it has passed audit without any qualifications) and any recommendations raised by auditors have been actioned.		•
8. GDPR 1. The partnership has a clearly identified data controller. 2. The partnership has taken action to ensure it complies with GDPR requirements.		• This partnership’s data controller is (individual/organisation name):
9. Partnership Risk Management 1. The partnership has an agreed mechanism for identifying, assessing and managing risks.		•
10. Additional information 1. Is there anything else relating to the partnership and its governance you wish to highlight?		•

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Appendix 4
Recommendations for improvement from verification of partnership governance Health Checks 2019

All partnerships
When considering the financial resource invested in the partnership, we recommend all partnerships consider the officer time involved, including attendance at meetings, any secretariat function undertaken and other work completed to support the partnership.

Children's Partnership Board (CPB)
- When looking for the CPB online it was not as easy to find the resources as we would hope. For example, the Terms of Reference were only available by looking through the minutes of meetings to find the one at which they were signed off. We recommend that the CPB looks to review its online presence for greater transparency.
- Further to the above, we would also recommend that consideration is given to providing a facility through which people can offer comments, compliments and complaints.
- We did not see evidence of a whistle-blowing policy. If Nottingham City Council's policy is to be used, we would recommend that this is made explicit in the Terms of Reference or other suitable documentation.
- We would recommend a statement on conflicts of interest is added to the Terms of Reference including when these should be discussed and what action would be taken.
- For risk management the CPB said they use NCC's processes. We would recommend the partnership gives consideration at Board level to assessing and recording risks specific to the partnership and its work. We also recommend the CPB record any mitigating actions taken to remedy any potential risks in a risk register or similar document.

D2N2 Local Enterprise Partnership (LEP)
- When the partnership was subject to this verification process previously, we made recommendations around conflicts of interest. We were very pleased to see that these have been addressed and formalised.
- We noted the ongoing concern around capacity issues. There are several Council Plan objectives linked with the D2N2 LEP's work and we recommend the City Council is mindful of any risk around deliverability arising from any capacity issue.

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Appendix 5
Schedule for Verifying Health Checks to 2025

No.	Name of Partnership	2018	2019/20	2020	2021	2022	2023	2024	2025
1.	One Nottingham			Scheduled			Scheduled		
2.	Children's Partnership Board		Verification completed			Scheduled			Scheduled
3.	D2N2 LEP		Verification completed			Scheduled			Scheduled
	Green Nottingham Partnership	Recommend removal from Register of Significant Partnerships							
4.	Health and Wellbeing Board				Scheduled			Scheduled	
5.	Nottingham Crime and Drugs Partnership	Verification completed				Scheduled			Scheduled
6.	Education Improvement Board			Scheduled			Scheduled		
7.	Safeguarding Children Board			Scheduled			Scheduled		
8.	Safeguarding Adults Board				Scheduled			Scheduled	
9.	Midlands Engine	Verification completed			Scheduled			Scheduled	

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Audit Committee - 28 February 2020

Title of paper:	**Council Plan Corporate Performance Reporting**	
Director(s)/ Corporate Director(s):	Candida Brudenell, Strategic Director for Strategy and Resources	**Wards affected:** All
Report author(s) and contact details:	David Rosselli, Policy & Performance Manager Tel:0115 8764008 David.Rosselli@nottinghamcity.gov.uk	
Other colleagues who have provided input:	James Rhodes, Head of Analysis and Insight James Schrodel, Policy and Performance Manager	
Recommendation(s):		
1	To note the corporate performance framework used	
2	To provide any comments as appropriate	

1 Reasons For Recommendations

1.1 To inform Audit Committee and to seek comments as appropriate.

2 Background

2.1 Audit Committee requested a report on how Council Plan performance is managed. This report considers arrangements for the current Council Plan 2019-23.

3 Council Plan 2019-23

3.1 Formation of the Council Plan

The Nottingham Labour Party won Nottingham's 2019 local elections. The 20th May 2019 meeting of Full Council resolved to adopt the plans in the Nottingham Labour Party Manifesto 2019 as a basis for Council policies for the current term of office. Then the Leader, Portfolio Holders, CLT and colleagues worked jointly to express the Manifesto as specific Actions and Performance Indicators (PIs), ensuring as far as possible that:

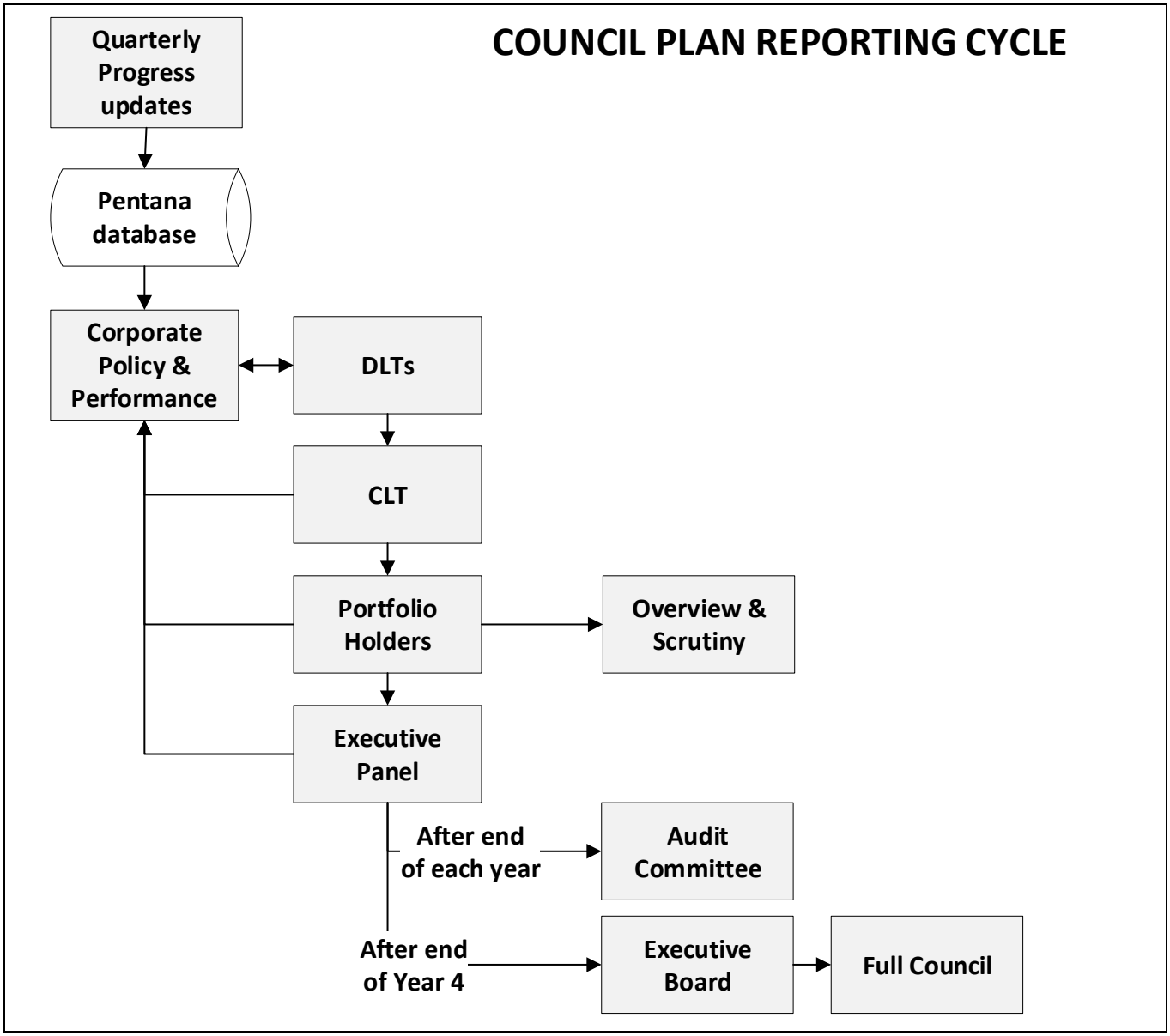
- Every item was specific, measurable, achievable, relevant, timed (SMART),
- PIs had a baseline of past data (where available)
- PIs had a target set and profiled over the four years of the Council Plan period,
- A named manager was accountable for achieving each objective and a named colleague was assigned to do the work and to write the performance updates.

3.2 Council Plan Performance Reporting

The Council Plan reporting cycle is as follows (also see the diagram overleaf):

- The reporting cycle is quarterly.
- Colleagues are responsible for updating any items they are working to deliver.
- Colleagues enter updates into the Pentana IT system, including explanatory notes, the latest data, and the expected outcome (Red/ Amber/ Green).
- The Corporate Policy and Performance Team reminds colleagues when to do the next quarterly update, chases late items, and prepares the reports.

- Where under-performance occurs, the explanatory notes include the improvements underway or planned to resolve the matter.
- The Corporate Policy and Performance Team prepares draft reports and summary slides and takes them to Departmental Leadership Teams (DLTs) for Corporate Director sign-off.
- The quarterly reports and slides go to Corporate Leadership Team (CLT) for discussion and any decisions needed.
- The quarterly reports and slides go to each Portfolio Holder.
- Portfolio Holders attend Executive Panel and present their progress update.
- A Council Plan progress report goes to Audit Committee each year.
- Portfolio Holders attend the Overview and Scrutiny Committee to give a progress update on their elements of the Council Plan.



3.2 Pentana

Pentana is our performance management software that allows us:

- To store data, commentary and so form the agreed record for each item,
- To report progress towards achieving the Council Plan objectives,

- To identify responsibilities and accountability,
- To see when anything is under-performing,
- To access customised dashboards and information online.

The Corporate Policy and Performance Team administers and manages the Pentana system, and provides support and training for Pentana users.

4 Performance Management Framework

Nottingham City Council uses a Performance Management Framework (PMF, see diagram in Appendix 1), which was adopted in 2014. The PMF is useful as it:

- Sets out our high level performance management approach,
- Shows the 'golden thread' from high level strategy to frontline services,
- Illustrates how the Council Plan is performance managed and reported on,
- Supports service delivery and decision making with evidence-based data,
- Drives improvement to achieve the best results for Nottingham's citizens.

Audit Committee has a lead role regarding the PMF (see Appendix 3); however, everyone in the Council plays a part in the PMF (see Appendix 2).

5 Internal Audit 2019

In 2019, the Internal Audit Service conducted a review of the arrangements for corporate performance monitoring and reporting. The arrangements were found to be satisfactory. Three recommendations were made to further improve matters. They were as follows.

5.1 Recommendation: Maintain a master record of changes made to performance indicators or actions.

Response: In response to this a comprehensive master table was created for every action and performance indicator. In this centralised record, any changes made (e.g. dates, definitions, data source, baselines, ownership) were noted thereby giving a full change record.

5.2 Recommendation: Carry out sample checks to spot test for robustness. Checks were to include whether: Items recorded as 'Green' for Expected Outcome were fairly graded; whether Actions and Performance Indicators Items were worded to properly reflect the original intended Objective; and whether the scope had not changed.

Response: Since the creation of the new Council Plan 2019-23 all these matters have been given close attention. Every Council Plan pledge was converted into achievable Actions and Performance Indicators so that the Pledges could be achieved. There was a process of discussion with frontline staff, managers and Councillors. The resulting Council Plan 2019-23 was formally adopted at Full Council in November 2019. Progress since then was checked via the Quarter 3 corporate reporting cycle, which started in early January and is now nearing completion. During this cycle, every item in the Council Plan was checked and reported to DLTs, CLT (exceptions) and Portfolio Holders. This exercise will repeat starting April 2020 for the Quarter 4/ Year End corporate reporting cycle.

5.3 Recommendation: Check that the ‘software as a service’ contract for the Pentana software used for performance management still provides good value for money for the Council.

Response: During 2019 a detailed market testing exercise was done, looking at other potential software providers. Our current system was found to be the most affordable with a sufficient level of quality to meet our requirements and with minimum disruption during our busiest year (setting up the new Council Plan). Following that exercise, a delegated decision was authorised by the Corporate Director (Strategy and Resources) to approve the procurement for a further year. Since then, the time has come to renew the annual contract. The price was checked and found to be affordable and low compared to similar systems, so it has been procured for 2020/21.

5.4 Recommendation: Ensure that the users named in the Pentana system are up to date.

Response: During the process of setting up the new Council Plan new users have been added where required, and others removed. During the summer of 2020 there will be a full scale review of all users to ensure that people who no longer require use of the system are removed.

6 Internal Audit 2020

In 2020, the Internal Audit Service started a further review of the arrangements for corporate performance monitoring and reporting. The exercise is still ongoing. It is not known if there will be any recommendations.

7 Background Papers Other Than Published Works Or Those Disclosing Exempt Or Confidential Information

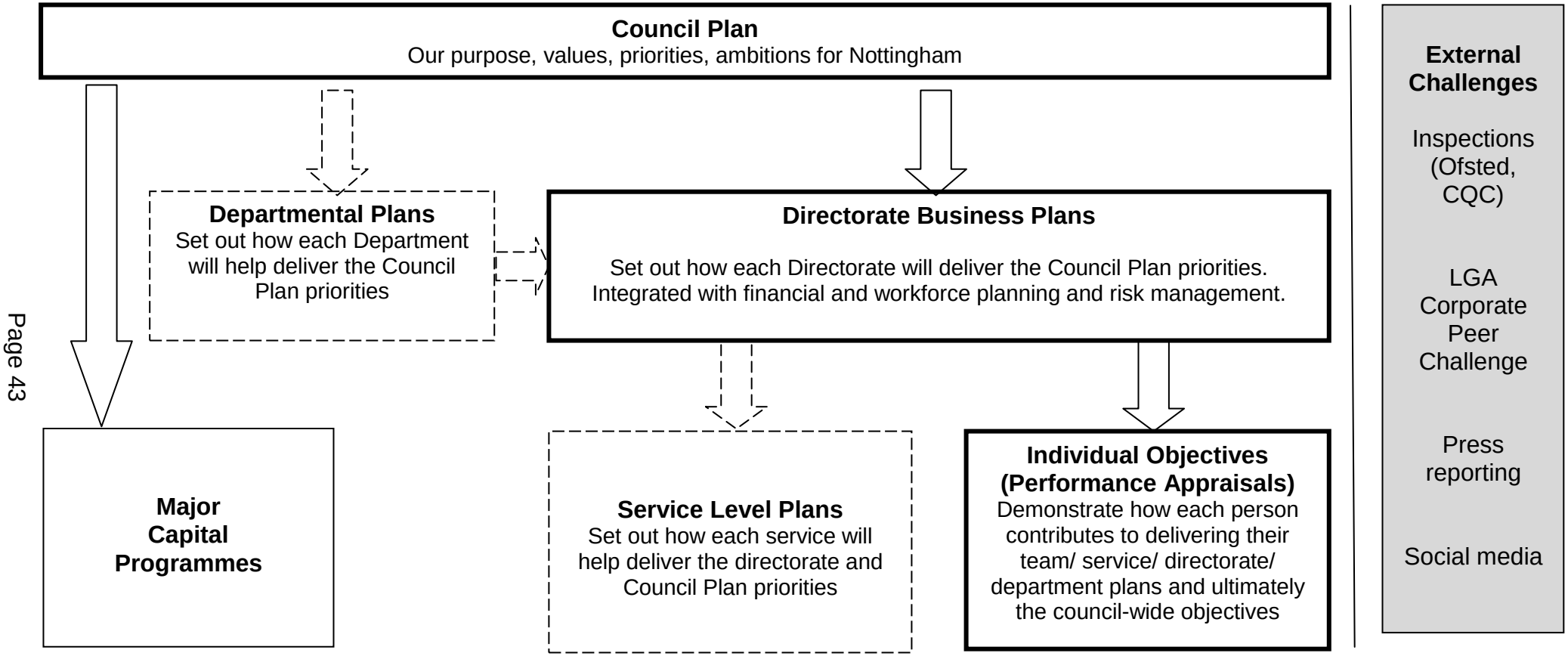
None

8 Published Documents Referred To In Compiling This Report

8.1 Council Plan 2019-23

8.2 Nottingham City Council Performance Management Framework

Appendix 1: Performance Management Framework (PMF)



The PMF has many benefits. Colleagues know who will do what and when. We focus on achieving the right outcomes. We know how each initiative is progressing. We can take action early to fix under-performance. Colleagues know how to seek support. Everyone in the Council plays a part in the PMF (see Appendix 2).

The PMF links to: Financial Regulations, Medium Term Financial Strategy, People Management Handbook, Performance Appraisals, Our Behaviours framework.

The PMF has four stages, in a cyclical pattern: Analysis, Plan, Do, Review.

Analysis

The needs of users, citizens and their environment are analysed in the context of:

- The Council Plan,
- National legislation and any regulatory duties,
- The Nottingham Plan (Nottingham's overarching community strategy),
- Citizen demographics (including age profile, gender, ethnicity, etc.),
- Wider social trends (e.g. unemployment, demand for social care, etc.),
- Customer satisfaction and feedback about how services are provided,
- Past performance and trends (e.g. cost, quality, effectiveness),
- Workforce profile (e.g. demographics, skills, talents, engagement etc.).

Plan

The Council Plan sets our purpose, values, priorities and ambitions and shows how we contribute to the strategic priorities in The Nottingham Plan.

Each Directorate produces a business plan, including elements to delivering the Council Plan. Some departments/ Services choose to have a departmental/ Service plan.

Major Capital Programmes are so large and complex that they have a separate management and reporting stream outside the directorate business plans.

Do

The Council Plan and Departmental plans state what will happen and when. They are live documents and are monitored and updated as actual events unfold.

Review

Reviewing outcomes helps us learn and then improve. Progress is reported to the appropriate level: Heads of Service, DLTs, CLT, Portfolio Holders. This applies to the Council Plan and at corporate, departmental, service and team levels. External challenge/ feedback also comes via public consultations, citizen surveys, complaints received, statutory inspections and LGA peer challenges.

Appendix 2: ACCOUNTABILITY IN THE PERFORMANCE MANAGEMENT SYSTEM

ACCOUNTABILITY IN THE PERFORMANCE MANAGEMENT SYSTEM	
Councillors	**Full Council** • Approve the overall priorities and budget for the Council **Council Executive** • Make budget recommendations to Council and approve the Housing Revenue Account • Oversight of Council Plan/ Manifesto commitments adopted as Council policy • Portfolio Holders lead and are accountable for their portfolio of services **Audit Committee** • Corporate governance oversight: internal control, risk management, financial reporting • Approve and critically appraise application of the PMF
Senior management	**Corporate Leadership Team (CLT)** • Strategic responsibility for achieving Council priorities • Oversight of corporate performance, taking necessary action and focussing resources • Deliver the MTFS and MTFP **Corporate Directors** • Deliver departmental objectives • Accountable for departmental operational performance and overall outcomes achieved • Help deliver the Council's strategic priorities • Deliver within budget and strive to achieve better value for money/reduce net cost **Directors/Heads of Service** • Are accountable for delivering their service objectives and operational performance • Develop colleagues and teams • Ensure staff deliver their objectives and contribute to the Council's strategic objectives • Deliver services on time, to standard and within budget • Identify and implement net cost reductions
Colleagues	**Corporate Policy and Performance Team** • Administer the PMF and the performance management IT system • Act as a corporate centre of excellence for performance management • Customise the PMF IT system to the specific needs of each department or service • Support CLT and Portfolio Holders for performance management **Departments** • Ensure corporate performance information is gathered and provided • Take improvement action if anything is under-performing **All Colleagues** • Achieve their personal objectives and contribute to those of their team/ service/ Dept. • Take responsibility for individual performance and development • Understand how they contribute to the Council Plan objectives

Appendix 3: AUDIT COMMITTEE'S ROLE IN THE PMF

1. Overview

The Audit Committee's role includes to review the Council's integrated planning and performance framework.

Purpose

Audit Committee has the purpose to:
'**Scrutinise the council's financial and non-financial performance to the extent that it affects the council's exposure to risk and weakens the control environment**.' (Constitution Part 2, Responsibility for Functions and Terms of Reference).

This will involve receiving reports and presentations at least once a year relating to: (a) the PMF, (b) Corporate Risk, (c) financial matters.

2. Function

Audit Committee's function is to:
'Consider arrangements for and the merits of operating quality assurance and performance management processes'. (Constitution Part 2, Responsibility for Functions and Terms of Reference).

This will involve receiving an annual reports relating to performance management.

3. Providing assurance regarding non-financial performance management

Audit Committee therefore needs to be assured as follows:

THEME	NON-FINANCIAL ASSURANCE REQUIRED
System	That suitable arrangements exist and in use for corporate planning and performance management.
Effectiveness	That the corporate planning and performance management system is working well in reality, and that items within the scope of corporate performance management are managed well and are achieving the Council's desired outcomes.

Audit Committee – 28 February 2020

Title of paper:	Treasury Management Strategy 2020/21 And Capital & Investment Strategy 2020/21	
Director(s)/ Corporate Director(s):	Laura Pattman, Strategic Director of Finance and S151 Officer	**Wards affected:** All
Report author(s) and contact details:	Glyn Daykin, Senior Accountant - Treasury Management Tel: 0115 8763724 Thomas Straw, Senior Accountant – Capital Programmes Tel: 0115 8763659	
Other colleagues who have provided input:	Members of Treasury Management Panel: Laura Pattman, Strategic Director of Finance Theresa Channell, Head of Corporate Finance Susan Risdall, Technical Team Leader Jo Worster, Strategic Finance Team Leader	

Exempt information:
An appendix to this report is exempt from publication under paragraph number 3 of Schedule 12A to the Local Government Act 1972 because it contains information relating to the financial or business affairs of any particular person (including the authority holding that information).and, having regard to all the circumstances, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

It is not in the public interest to disclose this information because it relates to the terms of financing of 3rd party organisations which could be useful to competitors and harm future negotiations

Recommendation(s):	
1	To consider and comment on the Treasury Management Strategy for 2020/21, attached as **Appendix 1**, and, in particular: a. the Strategy for Debt Repayment (Minimum Revenue Provision) in 2020/21 (**section 5.2**); b. the Treasury Management Investment Strategy for 2020/21 (**section 4**); c. the Prudential Indicators and limits for 2020/21 to 2022/23 (**section 5.1**); d. the Treasury Management Policy Statement (**section 5.3**).
2	To consider and comment on the Capital & Investment Strategy 2020/21 (**Appendix 2**).

1 Reasons For Recommendations

1.1 Approval of a Treasury Management 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;
- 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;
- guidance issued by the Secretary of State under section 21 (1A) of the Local Government Act 2003 which requires the preparation of an annual statement of the Council's policy on making a Minimum Revenue Provision (MRP) for the repayment of debt.

1.2 The Capital Strategy is a new requirement for Nottingham City Council, the strategy has to comply with:

- The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code and the Code of Practice on Treasury Management;
- regulations requiring the Council to have regard to the Code are issued under section 1 of the Local Government Act 2003.
- 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;

1.3 The Treasury Management Code of Practice and Prudential Code 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, and given the interrelationship of treasury management and capital planning, the requirements of both codes will best be met by aligning the scrutiny of both Treasury Management and Capital Strategies. It is considered that the City Council's Audit Committee is the most appropriate body for this function.

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 Treasury Management Strategy Statement (TMSS) as set out in **Appendix 1** sets the strategic context, within the Council's planning cycle, for how treasury management activity will take place. The various aspects of the strategy require approval by Full Council these include the Treasury Management and Treasury Investment strategies for 2020/21, the Debt Repayment Strategy, the Prudential Indicators and the associated treasury policies.

2.3 The Treasury Management budget for 2020/21 is £56.921m and is based on the financial implications of the various proposed strategies, as detailed in Appendix 1, and has been included within the Medium Term Financial Plan (MTFP).

2.4 The Capital Strategy as set out in **Appendix 2** provides the council with a framework in which capital investment and financing decisions can be aligned with the Council's corporate priorities over the medium term. This strategy requires approval by Full Council.

2.5 The 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 current requirements of these codes as part of its Treasury Management Policy Statement and its Capital & Investment Strategy.

2.6 The Treasury Management Strategy 2020/21 and Capital & Investment Strategy 2020/21 will be considered by Executive Board on the 18 February 2020 and be considered for approval by Full Council on the 9 March 2020.

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

4.1 Money Market and PWLB loan rates

4.2 Treasury Management in the Public Services Code of Practice 2017–CIPFA

4.3 Prudential Code 2017-CIPFA

4.4 Treasury Management in the Public Services Guidance Notes 2018 - CIPFA

4.5 Statutory guidance on local government investments 3rd Edition 2018

4.6 Statutory guidance on Minimum Revenue Provision (MRP) 2018

4.7 Treasury Green Book

4.8 Corporate Asset Management Plan

4.9 The Council Plan 2019-2023

4.10 Executive Board Report dated 18 February 2020 – Treasury Management Strategy 2020/21 and Capital & Investment Strategy 2020/21.

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Appendix 1

Nottingham City Council

Treasury Management Strategy 2020/21

INDEX

1.INTRODUCTION

1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.

CIPFA defines treasury management 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."*

1.2 Reporting requirements

1.2.1 Capital Strategy

The CIPFA 2017 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report which will provide the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of this capital strategy is to ensure that all elected councillors on the Full Council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

The capital strategy (referred to as the Capital & Investment Strategy) is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The Capital & Investment Strategy will show:

- The corporate governance arrangements for these types of activities;
- Any service objectives relating to the investments;
- The expected income, costs and resulting contribution;
- The debt related to the activity and the associated interest costs;
- For non-loan type investments, the cost against the current market value;
- The risks associated with each activity.

Where a physical asset is being bought, details of market research, advisers used, (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the Capital & Investment Strategy.

To demonstrate the proportionality between the treasury operations and the non-treasury operation, high-level comparators are shown throughout this report.

1.2.2 Treasury Management reporting

The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

a. **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers:
   - the capital plans, (including prudential indicators);
   - a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);
   - the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
   - an investment strategy, (the parameters on how investments are to be managed).

b. **A mid-year treasury management report** – This is primarily a progress report and will update councillors on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

c. **An annual treasury report** – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit Committee.

1.3 Treasury Management Strategy for 2020/21

The strategy for 2020/21 covers two main areas:

Capital issues

- the capital expenditure plans and the associated prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- investment policy including creditworthiness; and
- the policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the Ministry of Housing, Communities and Local Government, [MHCLG] MRP Guidance, the CIPFA Treasury Management Code and the MHCLG Investment Guidance.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that councillors with responsibility for treasury management receive adequate training in treasury management. This especially applies to councillors responsible for scrutiny. The Audit Committee received a Treasury Management training session delivered by Link Asset Services on 27 September 2019. Further training will be arranged as required. The training needs of treasury management officers are periodically reviewed.

1.5 Treasury management advisors

The Council uses Link Asset Services, Treasury solutions as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

2 THE CAPITAL PRUDENTIAL INDICATORS 2019/20 – 2024/25

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist councillors' overview and confirm capital expenditure plans.

2.1 Capital expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

Capital Expenditure £m	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
General Fund	62.582	129.083	108.042	22.806	14.220	13.240	9.794
Commercial Activities / Non-financial investments *	43.297	52.330	50.826	26.036	2.274	1.500	-
General Fund Total	**105.879**	**181.413**	**158.868**	**48.842**	**16.494**	**14.740**	**9.794**
HRA	42.116	54.199	59.645	58.648	41.724	33.469	27.926
TOTAL	**147.995**	**235.612**	**218.513**	**107.490**	**58.218**	**48.209**	**37.720**

* Commercial activities / non-financial investments relate to areas such as capital expenditure on investment properties, loans to third parties etc.

The above capital expenditure figures exclude potential schemes in the planning stage, these schemes are awaiting completion of feasibility assessments.

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Financing of Capital Expenditure £m	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Capital Receipts	23.376	18.297	20.107	12.352	7.087	4.468	3.077
Capital Grants & Contributions	31.306	71.896	43.833	10.009	8.394	8.114	2.206
Capital Reserves	25.822	31.861	36.736	33.270	25.210	25.678	25.039
Revenue	0.978	1.386	1.166	0.211	-	-	-
Capital expenditure to be financed by borrowing	**66.513**	**112.172**	**116.671**	**51.648**	**17.527**	**9.949**	**7.398**
TOTAL	**147.995**	**235.612**	**218.513**	**107.490**	**58.218**	**48.209**	**37.720**

The net financing need for commercial activities / non-financial investments included in the above table against expenditure is shown below:

Commercial activities / capital investments £m	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Capital Expenditure	43.297	52.330	50.826	26.036	2.274	1.500	-
Commercial activity financed by borrowing	**41.982**	**48.704**	**50.083**	**25.856**	**2.200**	**1.500**	**-**
Overall Capital expenditure to be financed by borrowing	**66.513**	**112.172**	**116.671**	**51.648**	**17.527**	**9.949**	**7.398**
Percentage of total net financing need %	**63%**	**43%**	**43%**	**50%**	**13%**	**15%**	**0%**

The table above shows in 2020/21 that 43% of the overall capital expenditure financed by borrowing is forecast to be for commercial/non-financial investments.

2.2 The Council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the PFI, PPP lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has £191.4m of such schemes within the CFR.

The CFR projections are shown below:

	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Capital Financing Requirement (£m)							
CFR – General Fund	1,088.356	1,155.707	1,209.192	1,197.272	1,154.375	1,104.572	1,054.636
CFR – HRA	294.811	296.981	312.755	325.394	332.406	333.308	330.638
Total CFR	**1,383.167**	**1,452.688**	**1,521.947**	**1,522.666**	**1,486.781**	**1,437.880**	**1,385.274**
Movement in CFR		**69.521**	**69.260**	**0.718**	**(35.885)**	**(48.901)**	**(52.606)**
Movement in CFR represented by (£m)							
Net financing need for the year (above)	66.513	112.172	116.671	51.648	17.527	9.949	7.398
Less MRP/VRP and other financing movements		42.651	47.411	50.930	53.412	58.850	60.004
Movement in CFR		**69.521**	**69.260**	**0.718**	**(35.885)**	**(48.901)**	**(52.606)**

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

A key aspect of the regulatory and professional guidance is that elected councillors are aware of the size and scope of any commercial activity in relation to the authority's overall financial position. The capital expenditure figures shown in 2.1 and the details above demonstrate the scope of this activity and the scale proportionate to the Authority's remaining activity.

3 BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's Capital & Investment Strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The Treasury Management Strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current portfolio position

The overall treasury management portfolio as at 31 March 2019 and for the position as at 31 December 2019 are shown below for both borrowing and investments.

TREASURY PORTFOLIO				
	actual	actual	current	current
	31.3.19	**31.3.19**	**31.12.19**	**31.12.19**
Treasury investments	£m	%	£m	%
banks	0	0%	40.000	40%
local authorities	57.500	63%	35.000	35%
DMADF (H.M.Treasury)	0	0%	0	0%
money market funds	33.100	37%	23.800	24%
Total treasury investments	**90.600**	**100%**	**98.800**	**100%**
Treasury external borrowing				
local authorities	22.000	2%	75.500	7%
PWLB	882.005	93%	891.732	88%
market loans inc LOBOs	49.000	5%	49.000	5%
other	0.235	0%	0.235	0%
Total external borrowing	**953.240**	**100%**	**1,016.467**	**100%**
Net treasury investments / (borrowing)	**(862.640)**		**(917.667)**	

The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

It should be noted that the forecast under borrowing position is supported by the council balance sheet i.e. reserves and working capital balances, should these balances reduce further borrowing will be required and additional costs of financing will be incurred. This should be seen in context of the council's overall budget position and current level of budget flexibility.

£m	**2018/19 Actual**	**2019/20 Estimate**	**2020/21 Estimate**	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**
External Debt at 1 April	788.9	953.2	1,049.0	1,112.8	1,125.9	1,105.9	1,074.5
Expected change in Debt	164.3	95.8	63.8	13.2	(20.0)	(31.4)	(27.4)
Other long-term liabilities inc PFI	226.0	201.0	191.4	181.8	170.7	158.7	146.7
Expected change in OLTL *	(25.0)	(9.6)	(9.6)	(11.1)	(12.0)	(12.0)	(12.8)
Gross debt at 31 March	**1,154.3**	**1,240.4**	**1,294.6**	**1,296.6**	**1,264.6**	**1,221.2**	**1,180.9**
Capital Financing Requirement (CFR)	**1,383.2**	**1,452.7**	**1,521.9**	**1,522.7**	**1,486.8**	**1,437.9**	**1,385.3**
Under / (over) borrowing	**228.9**	**212.3**	**227.4**	**226.0**	**222.2**	**216.7**	**204.4**

* (OLTL) – Other Long Term Liabilities

Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2020/21 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Council complied with this prudential indicator in the current year and does not envisage difficulties for the future estimates below. This view takes into account current commitments, existing plans, and the proposals in this report.

3.2 Treasury Indicators: limits to borrowing activity

The operational boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

£m	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Operational boundary	1,452.7	1,521.9	1,522.7	1,486.8	1,437.9	1,385.3

The authorised limit for external debt. This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

£m	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Authorised limit	1,482.7	1,551.9	1,552.7	1,516.8	1,467.9	1,415.3

Abolition of HRA debt cap. Separately, the Council was also limited to a maximum HRA CFR through the HRA self-financing regime. (*) In October 2018 Prime Minister Theresa May announced a policy change of abolition of the HRA debt cap.

Any new HRA borrowing should be compliant with the Prudential Code i.e. prudent, affordable, sustainable and in proportion with the available resources. The Capital & Investment Strategy (section Housing Revenue Account (HRA) – Financial Appraisal details the affordability criteria and minimum financial parameters used when considering new schemes.

The planned HRA borrowing is shown below against the now abolished debt cap:

HRA Debt Limit £m	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
HRA debt cap *	319.8	319.8	319.8	319.8	319.8	319.8	319.8
HRA CFR	294.8	297.0	312.8	325.4	332.4	333.3	330.6
HRA headroom	25.0	22.8	7.0	-5.6	-12.6	-13.5	-10.8

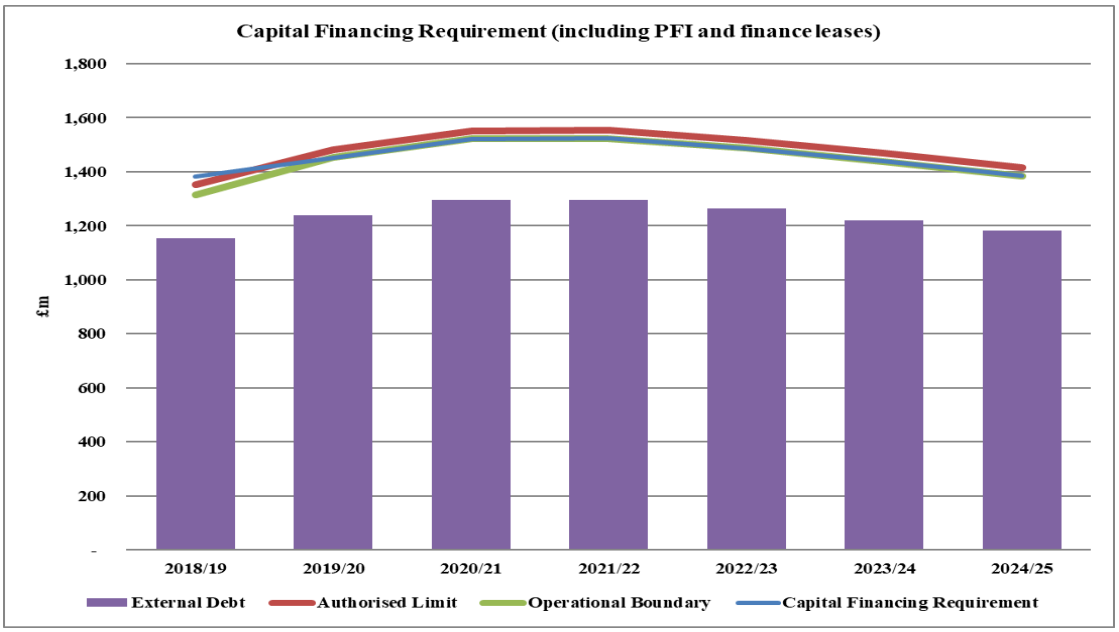
The upper limit on variable interest rate exposure. – This is a local indicator to control the Council's exposure to interest rate risk including LOBO loans with a call option in the next 12 months. The upper limits on variable rate interest rate exposures, expressed as the amount of principal borrowed for the next three financial years. 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**.**

£m	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Variable rate debt	300.0	350.0	350.0	300.0	300.0	300.0

The level of variable rate debt as at 31 December 2019 was £130.4m.

Debt limits against the CFR: - The following table and graph discloses how the indicators on the limits to borrowing compare to actual external debt and the forecast capital financing requirement (CFR). The difference between the CFR and the forecast external debt represents the level of under borrowing expected over the forecast period.

CAPITAL FINANCING REQUIREMENT (including PFI and finance leases)							
	Actual 2018/19 £m	**Est 2019/20 £m**	**Est 2020/21 £m**	**Est 2021/22 £m**	**Est 2022/23 £m**	**Est 2023/24 £m**	**Est 2024/25 £m**
HRA CFR	294.8	297.0	312.8	325.4	332.4	333.3	330.6
General Fund CFR	1,088.4	1,155.7	1,209.2	1,197.3	1,154.4	1,104.6	1,054.6
Total CFR	**1,383.2**	**1,452.7**	**1,521.9**	**1,522.7**	**1,486.8**	**1,437.9**	**1,385.3**
External Borrowing	953.2	1,049.0	1,112.8	1,125.9	1,105.9	1,074.5	1,047.0
Other long term liabilities	201.0	191.4	181.8	170.7	158.7	146.7	133.9
Total Debt	**1,154.3**	**1,240.4**	**1,294.6**	**1,296.6**	**1,264.6**	**1,221.2**	**1,180.9**
Authorised Limit	1,353.8	1,482.7	1,551.9	1,552.7	1,516.8	1,467.9	1,415.3
Operational Boundary	1,313.8	1,452.7	1,521.9	1,522.7	1,486.8	1,437.9	1,385.3


Capital Financing Requirement (including PFI and finance leases)
1,800
1,600
1,400
1,200
1,000
800
600
400
200
-
£m
2018/19
2019/20
2020/21
2021/22
2022/23
2023/24
2024/25
External Debt
Authorised Limit
Operational Boundary
Capital Financing Requirement

3.3 Prospects for interest rates

The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives our central view. The Interest rate forecast below should be considered alongside the detailed economic background and forecast commentary provided in sections 5.4.

Link Asset Services Interest Rate View	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.80	0.80	0.90	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.90	1.00	1.00	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	0.90	0.90	1.00	1.10	1.20	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.30	2.40	2.40	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.00	3.10
10yr PWLB Rate	2.50	2.50	2.60	2.60	2.70	2.80	2.90	3.00	3.10	3.10	3.20	3.20	3.30
25yr PWLB Rate	3.00	3.00	3.10	3.20	3.30	3.40	3.50	3.60	3.70	3.80	3.80	3.90	3.90
50yr PWLB Rate	2.90	2.90	3.00	3.10	3.20	3.30	3.40	3.50	3.60	3.70	3.70	3.80	3.80

The PWLB rate forecasts shown above have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012.

The above forecasts have been based on an assumption that there is an agreed deal on Brexit, including agreement on the terms of trade between the UK and EU, at some point in time. The result of the general election has removed much uncertainty around this major assumption. However, it does not remove uncertainty around whether agreement can be reached with the EU on a trade deal within the short time to December 2020, as the prime minister has pledged.

Investment and borrowing rates

- Investment returns are likely to remain low during 2020/21 with little increase in the following two years. However, if major progress was made with an agreed Brexit, then there is upside potential for earnings.

- Borrowing interest rates were on a major falling trend during the first half of 2019-20 but then jumped up by 100 bps/1% on 9 October 2019. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. However, the unexpected increase of 100 bps in PWLB rates requires a major rethink of local authority treasury management strategy and risk management. Now that the gap between longer term borrowing rates and investment rates has materially widened, and in the long term Bank Rate is not expected to rise above 2.5%, it is unlikely that this authority will do any further longer term borrowing for the next three years, or until such time as the extra 100 bps margin is removed.

- The cost of carry (the difference between higher borrowing costs and lower investment returns) will need to be considered on any new long or medium-term borrowing decision that cause a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.

In addition, PWLB rates are subject to ad hoc decisions by **H.M. Treasury** to change the margin over gilt yields charged in PWLB rates: such changes could be up or down. It is not clear that if gilt yields were to rise back up again by over 100bps within the next year or so, whether H M Treasury would remove the extra 100 bps margin implemented on 9 October 2019.

3.4 Borrowing strategy

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

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2020/21 treasury operations. Interest rates are closely monitored in financial markets and a pragmatic approach to changing circumstances will be taken:

- *if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast,* perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Based on the current central case forecast the Council will look to maintain the under-borrowed position and continue to utilise short term loans at low interest rates whilst retaining some flexibility to take advantage of longer term funding opportunities to reduce the overall interest rate exposure if appropriate.

The benefits of short-term borrowing and/or maintaining an under-borrowed position will be monitored regularly against the potential for incurring additional costs should interest rates increase in future years when long-term borrowing rates are forecast to rise modestly. Our treasury advisors will assist the Council with this 'cost of carry' and breakeven analysis.

The Council may where advantageous arrange forward starting loans during 2020/21, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period and reduce the overall level of interest rate exposure.

This may include to pre-fund future years' requirements, to reduce the level of internal borrowing or for additional capital schemes that are not yet in the approved capital program providing this does not exceed the authorised limit for borrowing.

Any borrowing will be subject to the Council's borrowing limits and maturity limits shown in the Prudential Indicators section 5.1.3 and the limits on the exposure to variable interest rates shown in section 3.2 and will be reported to the appropriate decision making body at the next available opportunity following its action.

Sources: The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and its successor body

- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except Nottinghamshire County Council Pension Fund)
- Insurance and Assurance companies
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

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

- operating and finance leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

3.5 Policy on borrowing in advance of need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

3.6 Debt rescheduling

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as the 100 bps increase in PWLB rates only applied to new borrowing rates and not to premature debt repayment rates.

If a debt rescheduling is transacted, it will be reported to the appropriate decision making body at the next available opportunity following its action.

3.7 New financial institutions as a source of borrowing and / or types of borrowing

Following the decision by the PWLB on 9 October 2019 to increase their margin over gilt yields by 100 bps to 180 basis points on loans lent to local authorities, consideration will also need to be given to sourcing funding at cheaper rates from the following:

- Local authorities (primarily shorter dated maturities)
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of spot or forward dates)
- Municipal Bonds Agency

The degree which any of these options proves cheaper than PWLB Certainty Rate is still evolving at the time of writing but this will be monitored closely.

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy – management of risk

The MHCLG 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 & Investment Strategy, (a separate report).

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

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return).

The above guidance from the MHCLG 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 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 authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two categories 'specified' and 'non-specified' investments.

    - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of 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. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e. an 18 month deposit would still be non-specified even if it has only 11 months left until maturity.

5. **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments (see table 2 in section 4.4).

6. **Approved Counterparties and limits**, (amounts and maturity), for each type of counterparty will be set through applying the matrix table 1 in section 4.4.

7. **Investment limits** are set for each type of investment in table 3 in section 4.5.

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 4.6.

9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see section 4.4 – 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 2019/20 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 commencing from 1.4.18.)

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 4.7). Regular monitoring of investment performance will be carried out during the year.

Changes in risk management policy from last year.
The above criteria are unchanged from last year.

4.2 Investment strategy

Context: The Council holds invested funds representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's investment balance has ranged between £55m and £104m. For liquidity purposes investment balances are expected to be maintained above £30m in the forthcoming year.

Objectives: Both the CIPFA Code and the MHCLG 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.

Strategy: Investments will be made with reference to the core balance and 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. 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.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

4.3 Investment returns expectations

On the assumption that the UK and EU agree a Brexit deal including the terms of trade by the end of 2020 or soon after, then Bank Rate is forecast to increase only slowly over the next few years to reach 1.25% by quarter 1 2023. Bank Rate forecasts for financial year ends (March) are:

- Q1 2021 0.75%
- Q1 2022 1.00%
- Q1 2023 1.25%

- The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.

In the event that a Brexit deal is agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

4.4 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.

Table 1: Approved Investment Counterparties and Limits			
Credit Rating	**Banks Unsecured**	**Banks Secured**	**Government**
UK Govt	n/a	n/a	£ Unlimited 50 years
AAA	£10m 5 years	£10m 20 years	£10m 50 years
AA+	£10m 2 years	£10m 10 years	£10m 25 years
AA	£10m 2 years	£10m 5 years	£10m 15 years
AA-	£10m 2 years	£10m 4 years	£10m 10 years
A+	£10m 2 years	£10m 3 years	£10m 5 years
A	£10m 13 months	£10m 2 years	£10m 5 years
A-	£10m 6 months	£10m 13 months	£10m 5 years
None	n/a	n/a	£10m 5 years
Pooled funds	£10m per fund		

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

Lloyds Bank: The Council's own bank, 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 never 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: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Pooled Funds: Shares in diversified investment vehicles consisting of the any of the above investment types, plus corporate bonds, commercial paper, equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee.
Short-term Money Market Funds that offer same-day liquidity and very low or no volatility (CNAV/LVNAV funds) will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices (VNAV funds) and/or have a notice period will be used for longer investment periods.

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 MHCLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- 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 12 months or longer from the date of arrangement. The limits for non-specified investments is shown in **table 2** below.

Table 2: Non-Specified Investment Limit	
	Cash limit
Unsecured Bank Investments > 365 days *	£10m
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.

4.5 Investment Limits

The Council's revenue reserves available to cover investment losses are forecast to be c.£91 million on 31st March 2020. 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) will be £10 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 3: Investment Limits	
	Cash limit
Any single organisation, except the UK Central Government	£10m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£10m per group
Any group of pooled funds under the same management	£20m per manager
Negotiable instruments held in a broker's nominee account	£50m per broker
Foreign countries	£20m per country
Money Market Funds (CNAV/LVNAV)	£75m in total
Other Pooled Funds (VNAV)	£20m in total

4.6 Investment treasury indicator and limit

Total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end including the flexibility to accelerate borrowing to manage interest rate risk as detailed in section 3.4.

Table 4: Upper limit for principal sums invested for longer than 365 days			
£m	**2020/21**	**2021/22**	**2022/23**
Principal sums invested for longer than 365 days	£100m	£100m	£100m
Current investments as at 31.12.19 in excess of 1 year maturing in each year	£0m	£10m	£0m

4.7 Investment risk benchmarking

These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Benchmarks will be reported against, in the mid-year or Annual Report.

Liquidity – in respect of this area the Council seeks to maintain:

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

Yield - local measures of yield benchmarks are:

- Investments – returns above the 7 day LIBID rate

4.8 Other Items

There are a number of additional items that the Council is obliged by CIPFA or MHCLG to include in its Treasury Management Strategy.

4.8.1 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.

4.8.2 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.

4.8.3 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 3 month UK Government Treasury Bill interest rate to reflect a credit risk free return.

4.8.4 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.

4.8.5 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.

5 APPENDICES

5.1 THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist councillors' overview and confirm capital expenditure plans.

5.1.1 Capital expenditure & the Capital Financing Requirement

See paragraphs 2.1 & 2.2

5.1.2 The Authorised limit for external debt and the operational boundary

See section 3.2

5.1.3 Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

a. Ratio of financing costs to net revenue stream

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

%	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
General Fund	17.31%	17.72%	17.97%	18.15%	17.93%
HRA	12.41%	13.66%	14.43%	15.35%	15.83%

The estimates of financing costs include current commitments and the proposals in this report. The net revenue stream is shown as 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 ring-fenced NET (tram) government grant and revenue raised from the Workplace Parking Levy.

b. HRA ratios

The first of two local HRA indicators below shows the ratio debt to revenue showing the sustainability of the debt load over the forecast period.

	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
HRA debt £m	294.811	296.981	312.755	325.394	332.406
HRA debt cap £m	319.784	319.784	319.784	319.784	319.784
HRA revenues £m	106.821	104.533	107.693	108.660	109.867
Ratio of debt to revenues %	**2.8**	**2.8**	**2.9**	**3.0**	**3.0**

The second indicator shows the HRA debt per dwelling based on the forecast debt level.

	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
HRA debt £m	294.811	296.981	312.755	325.394	332.406
Number of HRA dwellings	25,808	25,535	25,365	25,195	25,008
Debt per dwelling £'s	**11,423**	**11,630**	**12,330**	**12,915**	**13,292**

5.1.4 Maturity structure of borrowing

Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

Maturity structure of fixed interest rate borrowing 2020/21		
	Lower	**Upper**
Under 12 months	0%	25%
12 months to 2 years	0%	25%
2 years to 5 years	0%	25%
5 years to 10 years	0%	25%
10 years to 25 years	0%	50%
25 years to 40 years	0%	50%
40 years and above	0%	50%

Please note that the maturity date is deemed to be the next call date.

5.1.5 Control of interest rate exposure

Please see paragraphs 3.2.

5.2 Annual Minimum Revenue Provision Statement 2020/21

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

MHCLG regulations have been issued which require the full Council to approve an MRP Statement in advance of each year.

The following statement only incorporates options recommended in the Guidance as well as locally determined prudent methods.

- For capital expenditure incurred before 2007/08, and for supported capital expenditure incurred on or after that date, the MRP policy will be to charge an amount per Schedule A below. This charge is based on the principle of repaying the outstanding balance as 31 March 2016 over a 50 year period (2066/67) as per profile approved in 2017/18.

- For unsupported capital expenditure incurred after 2007/08, MRP will be determined by charging the expenditure over the expected useful life of the relevant assets in equal instalments *or* as the principal repayment on an annuity, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years. *(Option 3 in the guidance)*

- For assets acquired by finance leases or the Private Finance Initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

- Where loans are made to other bodies for their capital expenditure, MRP will be charged to reduce the outstanding debt in line with the principal repayment profile in the 3rd party agreement.

- No MRP will be charged in respect of assets held within the Housing Revenue Account.

- Voluntary MRP may be made at the discretion of the Director of Finance.

- Capital receipts maybe voluntarily set-aside to clear debt and replaced with future prudential borrowing to temporarily reduce the MRP charge. This use of capital receipts will be at the discretion of the Director of Finance.

- MRP Overpayments - A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31 March 2020 the total VRP overpayments are expected to be £1.952m.

Capital expenditure incurred during 2020/21 will not be subject to a MRP charge until 2021/22.

Schedule A - MRP profile for outstanding Supported Borrowing

Supported Borrowing is capital expenditure incurred before 2007/08, and for supported capital expenditure incurred on or after that date.

	Year	MRP Payment	Supported Borrowing Balance
4	2020/21	76,894	204,733,455
5	2021/22	76,894	204,656,561
6	2022/23	76,894	204,579,667
7	2023/24	76,893	204,502,774
8	2024/25	4,755,878	199,746,895
9	2025/26	4,755,878	194,991,017
10	2026/27	4,755,878	190,235,138
11	2027/28	4,755,878	185,479,260
12	2028/29	4,755,878	180,723,381
13	2029/30	4,755,878	175,967,503
14	2030/31	4,755,878	171,211,624
15	2031/32	4,755,878	166,455,746
16	2032/33	4,755,878	161,699,867
17	2033/34	4,755,878	156,943,989
18	2034/35	4,755,878	152,188,111
19	2035/36	4,755,878	147,432,232
20	2036/37	4,755,878	142,676,354
21	2037/38	4,755,878	137,920,475
22	2038/39	4,755,878	133,164,597
23	2039/40	4,755,878	128,408,718
24	2040/41	4,755,878	123,652,840
25	2041/42	4,755,878	118,896,961
26	2042/43	4,755,878	114,141,083
27	2043/44	4,755,878	109,385,204
28	2044/45	4,755,878	104,629,326
29	2045/46	4,755,878	99,873,448
30	2046/47	4,755,878	95,117,569
31	2047/48	4,755,878	90,361,691
32	2048/49	4,755,878	85,605,812
33	2049/50	4,755,878	80,849,934
34	2050/51	4,755,878	76,094,055
35	2051/52	4,755,878	71,338,177
36	2052/53	4,755,878	66,582,298
37	2053/54	4,755,878	61,826,420
38	2054/55	4,755,878	57,070,541
39	2055/56	4,755,878	52,314,663
40	2056/57	4,755,878	47,558,785
41	2057/58	4,755,878	42,802,906
42	2058/59	4,755,878	38,047,028
43	2059/60	4,755,878	33,291,149
44	2060/61	4,755,878	28,535,271
45	2061/62	4,755,878	23,779,392
46	2062/63	4,755,878	19,023,514
47	2063/64	4,755,878	14,267,635
48	2064/65	4,755,878	9,511,757
49	2065/66	4,755,878	4,755,878
50	2066/67	4,755,878	-

5.3 NOTTINGHAM CITY COUNCIL TREASURY MANAGEMENT POLICY STATEMENT

The following treasury management policy statement is required to be adopted annually by Full Council as part Treasury Management Strategy.

1 INTRODUCTION AND BACKGROUND

1.1 The Council adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code), as described in Section 5 of the Code.

1.2 Accordingly, the Council will create and maintain, as the cornerstones for effective treasury management:-

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
- Suitable treasury management practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

1.3 The Council (i.e. full Council) will receive reports on its treasury management policies, practices, activities and the annual treasury management strategy in advance of the year in the form prescribed in its TMPs.

1.4 The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Executive Board. Executive Board will receive reports as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs. The Council delegates responsibility for the execution and administration of treasury management decisions to the Chief Financial Officer, who will act in accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

1.5 The Council nominates Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

2 POLICIES AND OBJECTIVES OF TREASURY MANAGEMENT ACTIVITIES

2.1 The Council defines its treasury management activities as:

"The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control

of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

2.2 This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

2.3 This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

2.4 The Council's borrowing will be affordable, sustainable, prudent and proportionate with its financial resources and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.

2.5 The Council's primary objective in relation to financial investments remains the security of capital. The liquidity or accessibility of the Council's financial investments followed by the yield earned on these investments remain important but are secondary considerations.

5.4 ECONOMIC BACKGROUND AND FORECAST COMMENTARY

UK. Brexit. 2019 was a year of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on 31 October 2019, with or without a deal. However, MPs blocked leaving on that date and the EU agreed an extension to 31 January 2020. In late October, MPs approved an outline of a Brexit deal to enable the UK to leave the EU on 31 January.

The Conservative Government gained a large overall majority in the **general election** on 12 December; this ensured that the UK left the EU on 31 January. However, there will still be much uncertainty as the detail of a comprehensive trade deal will need to be negotiated by the current end of the transition period in December 2020, which the Prime Minister has pledged he will not extend. This could prove to be an unrealistically short timetable for such major negotiations that leaves open three possibilities; a partial agreement on many areas of agreement and then continuing negotiations to deal with the residual areas, the need for the target date to be put back, probably two years, or, a no deal Brexit in December 2020.

GDP growth took a big hit from both political and Brexit uncertainty during 2019; quarter three 2019 surprised on the upside by coming in at +0.4% q/q, +1.1% y/y. However, the peak of Brexit uncertainty during the final quarter appears to have suppressed quarterly growth to probably around zero. The forward-looking surveys in January have indicated that there could be a significant recovery of growth now that much uncertainty has gone. Nevertheless, economic growth may only come in at about 1% in 2020, pending the outcome of negotiations on a trade deal. Provided there is a satisfactory resolution of those negotiations, which are in both the EU's and UK's interest, then growth should strengthen further in 2021.

At its 30 January meeting, the Monetary Policy Committee held Bank Rate unchanged at 0.75%. The vote was again split 7-2, with two votes for a cut to 0.50%. The financial markets had been predicting a 50:50 chance of a rate cut at the time of the meeting. Admittedly, there had been plenty of downbeat UK economic news in December and January which showed that all the political uncertainty leading up to the general election, together with uncertainty over where Brexit would be going after the election, had depressed economic growth in quarter 4. In addition, three members of the MPC had made speeches in January which were distinctly on the dovish side, flagging up their concerns over weak growth and low inflation; as there were two other members of the MPC who voted for a rate cut in November, five would be a majority at the January MPC meeting if those three followed through on their concerns.

However, that downbeat news was backward looking; more recent economic statistics and forward-looking business surveys, have all pointed in the direction of a robust bounce in economic activity and a recovery of confidence after the decisive result of the general election removed political and immediate Brexit uncertainty. In addition, the September spending round increases in expenditure will start kicking in from April 2020, while the Budget in March is widely expected to include a substantial fiscal boost by further increases in expenditure, especially on infrastructure.

The Bank of England cut its forecasts for growth from 1.2% to 0.8% for 2020, and from 1.8% to 1.4% for 2021. However, these forecasts could not include any allowance for the predicted fiscal boost in the March Budget. Overall, the MPC clearly decided to focus on the more recent forward-looking news than the earlier downbeat news.

The quarterly Monetary Policy Report did, though, flag up that there was still a risk of a Bank Rate cut; "Policy may need to reinforce the expected recovery in UK GDP growth should the more positive signals from recent indicators of global and domestic activity not be sustained or should indicators of domestic prices remain relatively weak." Obviously, if trade negotiations with the EU failed to make satisfactory progress, this could dampen confidence and growth. On the other hand, there was also a warning in the other direction, that if growth were to pick up strongly, as suggested by recent business surveys, then "some modest tightening" of policy might be needed further ahead.

It was therefore notable that the Bank had dropped its phrase that tightening would be "limited and gradual", a long-standing piece of forward guidance; this gives the MPC more room to raise Bank Rate more quickly if growth was to surge and, in turn, lead to a surge in inflation above the 2% target rate.

As for **inflation** itself, CPI has been hovering around the Bank of England's target of 2% during 2019, but fell again in both October and November to a three-year low of 1.5% and then even further to 1.3% in December. It is likely to remain close to or under 2% over the next two years and so, it does not pose any immediate concern to the MPC at the current time. However, if there was a hard or no deal Brexit, inflation could rise towards 4%, primarily because of imported inflation on the back of a weakening pound.

With regard to the **labour market,** growth in numbers employed has been quite resilient through 2019 until the three months to September, where it fell by 58,000. However, there was an encouraging pick up again in the three months to October to growth of 24,000 and then a stunning increase of 208,000 in the three months to November. The unemployment rate held steady at a 44-year low of 3.8% on the Independent Labour Organisation measure.

Wage inflation has been steadily falling from a high point of 3.9% in July to 3.4% in November (3-month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 2.1%. As the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. The other message from the fall in wage growth is that employers are beginning to find it easier to hire suitable staff, indicating that supply pressure in the labour market is easing.

Coronavirus. The recent Coronavirus outbreak could cause disruption to the economies of affected nations. The Chinese economy is now very much bigger than it was at the time of the SARS outbreak in 2003 and far more integrated into world supply chains. However, a temporary dip in Chinese growth could lead to a catch up of lost production in following quarters with minimal net overall effect over a period of a year. However, no one knows quite how big an impact this virus will have around the world; hopefully, the efforts of the WHO and the Chinese authorities will ensure that the current level of infection does not multiply greatly.

USA. After growth of 2.9% y/y in 2018 fuelled by President Trump's massive easing of fiscal policy, growth has weakened in 2019. After a strong start in quarter 1 at 3.1%, (annualised rate), it fell to 2.0% in quarter 2 and then 2.1% in quarters 3 and 4. This left the rate for 2019 as a whole at 2.3%, a slowdown from 2018 but not the precursor of a recession which financial markets had been fearing earlier in the year. Forward indicators are currently indicating that growth is likely to strengthen somewhat moving forward into 2020.

The Fed finished its series of increases in rates to 2.25 – 2.50% in December 2018. In July 2019, it cut rates by 0.25% as a 'midterm adjustment'. It also ended its programme of quantitative tightening in August 2019, (reducing its holdings of treasuries etc.). It then cut rates by 0.25% again in September and by another 0.25% in its October meeting to 1.50 – 1.75%. It left rates unchanged at its December meeting. Rates were again left unchanged at its end of January meeting although it had been thought that as the yield curve on Treasuries had been close to inverting again, (with 10 year yields nearly falling below 2 year yields - this is often viewed as being a potential indicator of impending recession), that the Fed could have cut rates, especially in view of the threat posed by the coronavirus. However, it acknowledged that coronavirus was a threat of economic disruption but was not serious at the current time for the USA.

In addition, the phase 1 trade deal with China is supportive of growth. The Fed though, does have an issue that despite reasonably strong growth rates, its inflation rate has stubbornly refused to rise to its preferred core inflation target of 2%; it came in at 1.6% in December. It is therefore unlikely to be raising rates in the near term. It is also committed to reviewing its approach to monetary policy by midyear 2020; this may include a move to inflation targeting becoming an average figure of 2% so as to allow more flexibility for inflation to under and over shoot.

"The NEW NORMAL." The Fed chairman has given an overview of the current big picture of the economy by summing it up as **A NEW NORMAL OF LOW INTEREST RATES, LOW INFLATION AND PROBABLY LOWER GROWTH.** This is indeed an affliction that has mired Japan for the last two decades despite strenuous efforts to stimulate growth and inflation by copious amounts of fiscal stimulus and cutting rates to zero.

China and the EU are currently facing the same difficulty to trying to get inflation and growth up. Our own MPC may well have growing concerns and one MPC member specifically warned on the potential for a low inflation trap in January.
It is also worth noting that no less than a quarter of total world sovereign debt is now yielding negative returns.

EUROZONE. Growth has been slowing from +1.8 % during 2018 to nearly half of that in 2019. Growth was +0.4% q/q in quarter 1, +0.2% q/q in quarters 2 and 3; it then fell to +0.1% in quarter 4 for a total overall growth rate of only 1.0% in 2019. Recovery from quarter 4 is expected to be slow and gradual. German GDP growth has been struggling to stay in positive territory in 2019 and grew by only 0.6% in 2019, with quarter 4 potentially being a negative number. Germany would be particularly vulnerable to a no deal Brexit depressing exports further and if President Trump imposes tariffs on EU produced cars.

The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which then meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by quantitative easing purchases of debt.

However, the downturn in EZ growth in the second half of 2018 and in 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), has prompted the ECB to take new measures to stimulate growth. At its March 2019 meeting, it said that it expected to leave interest rates at their present levels "at least through to the end of 2019", but that was of little help to boosting growth in the near term.

Consequently, it announced a **third round of TLTROs**; this provides banks with cheap borrowing every three months from September 2019 until March 2021 that means that, although they would have only a two-year maturity, the Bank was making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank's eligible loans. However, since then, the downturn in EZ and world growth has gathered momentum; at its meeting on 12 September, it cut its deposit rate further into negative territory, from -0.4% to -0.5%, and announced a **resumption of quantitative easing purchases of debt for an unlimited period.** At its October meeting it said these purchases would start in November at €20bn per month - a relatively small amount compared to the previous buying programme. It also increased the maturity of the third round of TLTROs from two to three years. However, it is doubtful whether this loosening of monetary policy will have much impact on growth and, unsurprisingly, the ECB stated that governments would need to help stimulate growth by 'growth friendly' fiscal policy. There have been no changes in rates or monetary policy since October. In January, the ECB warned that the economic outlook was 'tilted to the downside' and repeated previous requests for governments to do more to stimulate growth by increasing national spending.

The new President of the ECB, Christine Lagarde who took over in December, also stated that a year long review of monetary policy, including the price stability target, would be conducted by the ECB
On the political front, Austria, Spain and Italy have been in the throes of **forming coalition governments** with some unlikely combinations of parties i.e. this raises questions around their likely endurance. The most recent results of German state elections has put further pressure on the frail German CDU/SDP coalition government and on the current leadership of the CDU.

CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and shadow banking systems. In addition, there still needs to be a greater switch from investment in industrial capacity, property construction and infrastructure to consumer goods production.

WORLD GROWTH. Until recent years, world growth has been boosted by increasing **globalisation** i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy.

The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high tech areas and production of rare earth minerals used in high tech products. It is achieving this by massive financial support, (i.e. subsidies), to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business.

It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a **reversal of world globalisation and a decoupling of western countries** from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation.

Central banks are, therefore, likely to come under more pressure to support growth by looser monetary policy measures and this will militate against central banks increasing interest rates.

The trade war between the US and China is a major concern to **financial markets** due to the synchronised general weakening of growth in the major economies of the world, compounded by fears that there could even be a recession looming up in the US, though this is probably overblown.

These concerns resulted in **government bond yields** in the developed world falling significantly during 2019. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited ammunition available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US). There are also concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks and the use of negative central bank rates in some countries.

INTEREST RATE FORECASTS

The interest rate forecasts provided by Link Asset Services in paragraph 3.3 are **predicated on an assumption of an agreement being reached on Brexit between the UK and the EU.**

Link Asset Services Interest Rate View	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.80	0.80	0.90	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.90	1.00	1.00	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	0.90	0.90	1.00	1.10	1.20	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.30	2.40	2.40	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.00	3.10
10yr PWLB Rate	2.50	2.50	2.60	2.60	2.70	2.80	2.90	3.00	3.10	3.10	3.20	3.20	3.30
25yr PWLB Rate	3.00	3.00	3.10	3.20	3.30	3.40	3.50	3.60	3.70	3.80	3.80	3.90	3.90
50yr PWLB Rate	2.90	2.90	3.00	3.10	3.20	3.30	3.40	3.50	3.60	3.70	3.70	3.80	3.80

On this basis, while GDP growth is likely to be subdued in 2019 and 2020 due to all the uncertainties around Brexit depressing consumer and business confidence, an agreement on the detailed terms of a trade deal is likely to lead to a boost to the rate of growth in subsequent years. This could, in turn, increase inflationary pressures in the economy and so cause the Bank of England to resume a series of gentle increases in Bank Rate. Just how fast, and how far, those increases will occur and rise to, will be data dependent. The forecasts in this report assume a modest recovery in the rate and timing of stronger growth and in the corresponding response by the Bank in raising rates.

- In the event of an **orderly non-agreement exit in December 2020**, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall.
- If there were a **disorderly Brexit**, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. Quantitative easing could also be restarted by the Bank of England. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably relatively even due to the weight of all the uncertainties over post-Brexit trade arrangements and the impact of an expansionary government spending policy (as expected in the Budget on 11th March).
- The balance of risks to increases or decreases in Bank Rate and shorter term PWLB rates are also broadly even.

One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over or under do increases in central interest rates.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- **Post Brexit trade negotiations** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis.** In 2018, Italy was a major concern due to having a populist coalition government which made a lot of anti-austerity and anti-EU noise. However, in September 2019 there was a major change in the coalition governing Italy which has brought to power a much more EU friendly government; this has eased the pressure on Italian bonds. Only time will tell whether this new coalition based on an unlikely alliance of two very different parties will endure.
- Weak capitalisation of some **European banks**, particularly Italian banks.
- **German minority government.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The CDU has done badly in recent state elections but the SPD has done particularly badly and this has raised a major question mark over continuing to support the CDU. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until 2021.
- **Other minority EU governments.** Austria, Finland, Sweden, Spain, Portugal, Netherlands and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- **Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU. There has also been rising anti-immigration sentiment in Germany and France.
- In October 2019, the IMF issued a report on the World Economic Outlook which flagged up a synchronised slowdown in world growth. However, it also flagged up that there was **potential for a rerun of the 2008 financial crisis**, but his time centred on the huge debt binge accumulated by corporations during the decade of low interest rates. This now means that there are corporates who would be unable to cover basic interest costs on **some $19trn of corporate debt in major western economies,** if world growth was to dip further than just a minor cooling. This debt is mainly held by the shadow banking sector i.e. pension funds, insurers, hedge funds, asset managers etc., who, when there is $15trn of corporate and government debt now yielding negative interest rates, have been searching for higher returns in riskier assets. Much of this debt is only marginally above investment grade so any rating downgrade could force some holders into a fire sale, which would then depress prices further and so set off a spiral down. The IMF's answer is to suggest imposing higher capital charges on lending to corporates and for central banks to regulate the investment operations of the shadow banking sector. In October 2019, the deputy Governor of the Bank of England also flagged up the dangers of banks and the shadow banking sector lending to corporates, especially highly leveraged corporates, which had risen back up to near pre-2008 levels.
- **Geopolitical risks,** for example in North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- **Brexit** – if a comprehensive agreement on a trade deal was reached that removed all threats of economic and political disruption between the EU and the UK.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.

UK inflation, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

5.5 THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to councillors of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that councillors are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following *: -*
    - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*
    - *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;*
    - *Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and*

arrangements to ensure that appropriate professional due diligence is carried out to support decision making;

- *Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;*

- *Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*

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Nottingham City Council Capital & Investment Strategy

Nottingham City Council Capital and Investment Strategy 2020/21 – 2024/25

Contents

Section One – Introduction

Aims of the Capital and Investment Strategy and its links to the Council Plan

The Capital Strategy forms a key part of the City Council's overall Corporate Planning Framework by which capital and investment decisions will be made.

The overarching aim of the 2020/21 to 2024/25 Capital Strategy is to provide a framework within which the Council's capital investment and financing decisions can be aligned with the Council's corporate priorities and objectives over the medium term. The Strategy recognises uncertainties, especially in relation to funding in later years.

In order to reflect the Council's corporate priorities the Capital Strategy is driven by the Council Plan 2019-2023, which is founded on five key objectives:

- Build or buy 1,000 Council or social homes for rent
- Create 15,000 new jobs for Nottingham people
- Build a new Central Library, making it the best children's library in the UK
- Cut crime, and reduce anti-social behaviour by a quarter
- Ensure Nottingham is the cleanest big city in England and keep neighbourhoods as clean as the city centre

These objectives reflect an on-going commitment to the City Council's core aim to "put citizens at the heart of everything we do". This is central to the Council's priorities, decision making and service delivery.

Alongside the Council Plan the Council has also made a commitment to become the first carbon neutral city in the country, reaching this target by 2028, this has involved the creation of Nottingham's 2028 Carbon Neutral Charter.

Further details regarding how the Council Plan has influenced the capital projects include regeneration and transport priorities. Further details can be found in Section 2 (Council's Priority Areas for Capital Investment).

This strategy sets the framework for all aspects of the Council's capital and investment expenditure including planning, prioritisation, management, funding and monitoring. This strategy forms a key part of the Council's Medium Term Financial Strategy.

Section Two – Capital Strategy Aims, Objectives, Principals and Priorities

Aims & Objectives of the Capital and Investment Strategy

The Capital and Investment Strategy aims to:

- Provide a clear set of objectives and a framework, compliant with the CIPFA guidance and legislation, by which new projects are evaluated.

- Ensure projects meet the Council's priorities and are fully funded by means of whole life project costing.

- Prioritise projects that meet the following criteria:
  - Deliver Council Plan / Council Objectives
  - Invest to Save – assist the delivery of budget decisions
  - Commercialism – projects that generate a revenue surplus
  - Attract significant third party or match funding to the City
  - Deliver wider economic or service objectives e.g. regeneration / job growth

- Set out how the City Council identifies, programmes and prioritises funding requirements and proposals arising from a project gateway process. This involves a Full Financial Appraisal, Full Business Case and a review by the Project Assurance Group. The Council's capital prioritisation process is currently under review, due to limitations on available funding and in order to identify synergies within proposed schemes. Outcomes from the review and any recommendations will be reported as part of the capital monitoring presented to Executive Board.

- Aid decision making regarding use of funding, resource availability and how these might be maximised to deliver the Council's priorities.

- Ensure the capital programme maintains an overall balance of risk over the strategy period and provides insight into the funding envelopes and rates of return.

- Establish effective arrangements for the management of expenditure including the assessment of project spend, budget forecasting, contractual commitments, revenue impact (in year and projected over the Medium Term Financial Outlook (MTFO), value for money, opportunity cost and debt exposure.

Capital Investment Principles and Priorities

Principles

The Council's capital strategy ensures that all the projects are accounted for in the allocation of any available resources. The principles of the strategy are as follows:

- Current approved (or contractually committed) schemes will be supported and sufficient resources will be provided to enable them to proceed or complete up to the approved level of expenditure.

- Capital Project Sponsors and Managers must demonstrate that a rigorous process of options appraisal has been followed, requiring assessment of Council priorities, cost, risk, project deliverables and methods of financing. The Project Assurance Group has a clear role in ensuring all key questions have been asked prior to the scheme receiving formal approval.

- Any costs incurred on options not progressed will be abortive costs that do not meet the criteria for capitalisation.

- All capital investments are required to make reference to Council objectives and will only be considered for resource allocation once this has been demonstrated.

- There will be no ring-fencing of capital receipts to specific projects, with the exception of:
    - School Sites ring-fenced by the Secretary of State for education purposes
    - Sites identified as part of the Loxley House Acquisition
    - Property Trading Assets: Sites whose sale generates a revenue pressure will be assessed to identify how much the Council needs to reinvest to cover lost income

- The Council will consider the removal of ring-fencing from certain grant allocations to assist in the achievement of the Council's priorities and objectives. All uncommitted non ring-fenced capital funding will be reviewed.

  Non ring-fenced grants received in support of the three areas below will be earmarked to fund these initiatives.

    - Transport grant funding
    - Basic Needs Government funding, due to the current pressure on school places
    - Disabled Facilities Grant

- It is assumed that all resources that were not applied during the previous financial year remain fully committed and carried forward into the current year, as they are required to meet commitments within the Capital Programme.

- Future funding opportunities may arise for which the Council may wish to submit bids. The Council will respond in a manner it considers appropriate to bidding opportunities, ensuring that bids are submitted which align with its objectives and capital investment priorities. Match funding requirements are considered on a scheme-by-scheme basis with resourcing requirements prioritised accordingly.

- Business Cases and Financial Assessments (Section 3), adopt the prudent principle regarding the asset value at the end of the financial model, the normal assumption is the asset has £nil realisable value, although this will be considered on a case by case basis.

- In accordance with CIPFA guidance the Council defines Capital Expenditure as:

  ‘Expenditure on the acquisition or enhancement of property, plant and equipment that has a long-term value to the Council. This includes grants or advances paid to third parties to assist them in acquiring or enhancing their own property, plant and equipment.’
  Nottingham City Council Statement of Accounts 2017/18

  Any expenditure that does not meet the above definition is charged directly to revenue, for example:
  - Routine repairs and maintenance of fixed assets
  - Feasibility and Development costs of options and schemes not progressed
  - Communications and Marketing
  - Expenditure not necessary to bring the asset into use

- Due to the level of risk contained within the Capital Programme approved projects are encouraged to value engineer / reduce costs where possible, especially when a reduction of costs can be achieved without significantly affected the project deliverables.

- The Council has established a Capital Risk Reserve from savings identified within the current capital programme. This Risk Reserve is to cover current risks within the capital programme, such as schemes with unsecured grants at the time of approval. Any savings or underspend within the Capital

Programme will be transferred to this reserve to offset an element of the Council's capital risk.

- All projects that are considered live projects but have not incurred any capital expenditure within the last two financial years will be automatically closed with any available funding transferred to the Capital Risk Reserve. Should late retention payment be required they can be funded from the Risk Reserve up to level of contribution.

- If the financial models for approved schemes move adversely during the pre-contract stage by the lower of £1.000m or 20% (either cash or NPV), further approval will be required including a revised business case.

- Due to the Council's current debt levels, the overall finance context and the level of risk to which the Council is exposed, the capital prioritisation process is being reviewed as detailed above. The outcome of this review may include the capping of future borrowing to enable the reduction of the Council's overall debt level.

Prioritisation
Under the current process each project or programme is subject to a gateway review / approval process that includes a full business case.

Projects / programmes that do not have a full funding package and require Council Resources (including schemes which have deficits in early years i.e. Medium Term Financial Plan (MTFP) Deficit), will be appraised using the following criteria should funding become available:

- Alignment to the Council Plan;
- Consequences of Exclusion (i.e. not providing Corporate Resource);
- Project Funding Package;
- Whether Project generates an income / reduces costs (including Invest to Save);
- Any pre-conditions;
- Impact on the environment and the Council's commitment to net zero;
- Effect on regeneration.

Council's Priority Areas for Capital Investment

The Capital and Investment Strategy recognises the constraints imposed by a significant reduction in financial resources. Nottingham City Council must therefore rely on both internal and external capital resources and evaluate projects to ensure all investment decisions can be no less than financially self-sustaining whilst still meeting priorities.

As well as the Council prioritising projects individually, the Council also considers the

Capital Programme collectively in terms of how associated risk is managed, the cash flow implications and the impact of future financial sustainability.

The Corporate Asset Management Plan (CAMP) confirms the Council's commitment to provide good quality, sustainable and accessible accommodation for staff and citizens. However, the Council still owns Operational Assets that do not meet modern standards and the aim is to dispose of these sites, providing more effective accommodation for colleagues and an improved experience for citizens (i.e. Operational Property Rationalisation). To ensure resources are available for maintaining operational assets, all financial models will include whole life costing that is sufficent to fund future repair liabilities. The CAMP also provides the framework for which non-operational assets are managed.

As part of the Asset Rationalisation Programme (ARP) the Council is reviewing its Operational and Non-operational assets to identify assets for potential disposal. Any available capital receipt generated from the ARP will be used to offset the Council's current **£70.528m** commitment, further details can be found in section 4.

In addition to the ARP process, the Council is reviewing the resources set aside for fund maintenance of Council assets and IT infrastructure. With the aim to identify an affordable way to maintain its assets over the medium to long term.

The Council's capital investment priorities for the period 2019/20-2024/25 are covered below. These projects will be progressed subject to the availability of resources and the approval of a full business case.

Existing Projects:
There is a commitment to continued funding for the following priority areas:

- District Heating / Incinerator Works
- Nottingham Castle Transformation
- Southern Gateway Improvements
- Royal Centre Modernisation
- Council-wide IT Schemes
- Vehicle Replacement Programme
- Low Carbon and Energy Efficiency Initiatives
- Parks and Open Spaces Improvements
- City Regeneration Schemes
- Housing Initiatives
- Property Repairs and Investments
- Transport Repairs and Improvements
- School Condition Works
- Invest to Save or Commercialisation
- Property Rationalisation
- Delivery of key regeneration priorities

- Delivery of Local Transport Plan projects and infrastructure to support economic development
- Supporting Local Plan housing delivery
- Fit-out and operation of the new Central Library

New and Emerging Projects (i.e. Planned and Potential Schemes)
In addition to the projects specifically referred to above, the following is a list of priority projects that have not had the full business case approved:

- School Investment / Pupil Pressures
- Other Regeneration Schemes
- Further Southern Gateway Investments

Non-Treasury Investments

Nottingham City Council invests in other financial assets (i.e. loans and investment properties), which are not part of treasury management activity. These other investments fall within two areas:

- **Service Investments** – investments held clearly and explicitly for the provision of operational services, including regeneration
- **Commercial Investment** – investments undertaken primarily for financial reasons

Appendix A contains service and commercial investments split between capital and revenue. The commercial investments are summarised in **Table 1**.

Non-Treasury investments are analysed periodically to ensure that the fair value / carrying value of each investment is appropriate as required under the relevant Accounting Standard (Service Investments – IFRS9, Commercial Investments – IAS40).

Service Investments

Service investments made by the Council are largely loans to third parties ranging from short-term to longer-term loans linked to assets or investments in group organisations. Following a detailed assessment, each loan will have an interest rate applied which reflects any appropriate legislation (e.g. State Aid). Scrutiny for Service Investments is undertaken by officers within the Council giving due regard to the relevant formal approval. This scrutiny will include a due diligence assessment to ensure that the Council has the appropriate level of:

- Security – due diligence is carried out on the loan counterparty to assess their credit strength and ability to make loan repayments. Security is also achieved by obtaining charges on assets, but could also include guarantees (e.g. Parent Company Guarantee)
- Liquidity – third party business cases to be critically assessed to identify financial performance including if the scheme has early year deficits
- Yield – reflecting market risk / return and the opportunity cost to the Council of not being able to use those funds elsewhere

Commercial Investment

Commercial Investments that the Council has undertaken to date are property investment acquisitions. **Table 1** below detail the Council's Commercial Investment at the 31st March 2019, how it was funded and the net effect on the General Fund:

Table 1: Commercial Investments and contribution to Budget at 31st March 2019

	£m
Gross Commercial Investment Minimum Revenue Provision incurred	251.488 (1.945)
Net Commercial Investments	**249.543**
Funding Council Resources Unsupported Borrowing (net of MRP paid to 31st March 2019)	 (5.736) (243.807)
Total Funding	**(249.543)**
Forecast Net income to the General Fund 2019/20 (*)	**(6.140)**

(*) Net of financing costs, operating costs and contribution to a sinking fund.

The average yield generated from the Commercial Investments included in **Table 1** is 2.52% (based on net income and unsupported borrowing net of MRP).

All Commercial Investments are reviewed on an on-going basis. These reviews support good estate management principles and ensure that the Council's risk and returns are appropriately managed. The investments are managed on an ongoing basis, reviewing the actual performance to the original financial model, paying particular attention to key events such as rent reviews.

The gross commercial investment made by the Council of £249.543m (excluding MRP payments to 31st March 19), leaves the Council open to the following risks:

- Voids due to economic downturn / tenant lease breaks
- Property Market downturn
- Inaccurate assumptions or changes in environment or management of asset causes lower final valuation or delays in disposal leading to unforeseen costs.

These risks have been mitigated by investing in a diverse property portfolio and the properties are transferred as a going concern by having a tenant with a strong covenant in occupation. A sinking fund is also set aside for the commercial investments based on rental level received. This reserve is available to smooth out void periods (in-year deficits) if they cannot be absorbed elsewhere within Property Services.

The Council continues to operate in a challenging financial environment of reduced levels of Government funding due to austerity policies. This level of commercial investment has been undertaken as part of the council's commercialisation policy, which seeks to address the funding gap and protect key services.

Capitalisation Flexibilities

In December 2017 the Secretary of State announced that the capital receipt flexibility programme will be extended until 31st March 2022. This flexibility gives the Council the freedom to use non-Public Sector Housing capital receipts to fund the revenue costs of transformation projects and release savings.

As detailed within Section 3 the Council is not intending to use this flexibility due to all forecast receipts from property disposal (secured and unsecured) in the medium term being earmarked to fund the Council's ambitious capital programme. Receipts from principal loan repayments are earmarked to repayment of underlying debt.

Section Three – Capital Programme Structure, Resourcing Strategy

Capital Programme Structure

The Council's Capital Programme is split into three sections:

- Approved Projects – Projects that have been formally approved and have a funding package that is deemed affordable
- Planned Projects – Projects that have been agreed in principal and the Council is undergoing project feasibility and development to identify if the project's objectives can be achieved within an affordable funding envelope
- Potential Projects – Projects that are at the beginning of the scoping and development process and therefore are not included in the Council's borrowing forecasts

As projects progress through the above stages they will go through a gateway process to challenge the project team and provide assurance that the project is best use of public funds and will assist the Council in meeting its priorities.

Each of the three Capital Programme areas include a variety of capital projects, with each section divided into sub-sections as follows:

- Council Priorities / Service Delivery (including Regeneration Schemes)
- Asset Investments
- Third Party Loans
- Revenue Generating Investments (Invest to Save or Commercialism)
- Grants
- Revenue Expenditure Financed by Capital Under Statute (REFCUS)

Capital Programme – General Fund
Table 2 below is a snapshot of the Capital Programme at 31st December 2019.

The funding is showing a balanced budget within **Table 2** assuming all forecast grants are received as expected and the pressure on the unsecured capital receipts as highlighted within **Table 5** is resolved.

Table 2: General Fund - Capital Programme and Resources							
2019/20 £m	**Scheme**	**2020/21 £m**	**2021/22 £m**	**2022/23 £m**	**2023/24 £m**	**2024/25 £m**	**Total £m**
	Approved Schemes						
30.217	Transport Schemes	9.853	1.420	0.000	0.000	0.000	**41.490**
5.167	Education	3.092	0.000	0.000	0.000	0.000	**8.259**
143.979	Other Services	119.853	30.602	10.812	8.840	9.794	**323.880**
2.050	**Category 2 - Planned Schemes**	26.070	16.820	5.682	5.900	0.000	**56.522**
181.413	**Total Programme**	**158.868**	**48.842**	**16.494**	**14.740**	**9.794**	**430.151**
	Resources Available						
(99.757)	Prudential Borrowing	(98.227)	(36.339)	(7.845)	(6.377)	(7.398)	**(255.943)**
(68.201)	Grants & Contributions	(40.025)	(6.818)	(8.394)	(8.114)	(2.206)	**(133.758)**
(3.683)	Internal Funds / Revenue	(8.295)	(1.645)	(0.255)	(0.249)	(0.190)	**(14.317)**
(4.996)	Secured Capital Receipts	0.000	0.000	0.000	0.000	0.000	**(4.996)**
(4.776)	Unsecured Capital Receipts	(12.321)	(4.040)	0.000	0.000	0.000	**(21.137)**
(181.413)	**Total Resources**	**(158.868)**	**(48.842)**	**(16.494)**	**(14.740)**	**(9.794)**	**(430.151)**

(*) Traditionally the Local Transport Plan is set for three years, however due to the Spending Review outcome unknown, no Local Transport funding is programmed beyond 2020/21. Once the outcome of the spending review has been completed the Transport Programme will be reviewed to ensure it is able to respond to any new requirements or priorities.

Capital Programme – Public Sector Housing

Table 3 is a snapshot of the Public Sector Housing Programme. The programme currently shows a resourcing shortfall due to additional capital projects being required following the Grenfell incident. If external grant cannot be identified, savings will need to be made elsewhere within the Public Sector Housing Programme to offset the forecast funding shortfall.

Table 3: Public Sector Housing - Capital Programme and Resources							
2019/20 £m	**Scheme**	**2020/21 £m**	**2021/22 £m**	**2022/23 £m**	**2023/24 £m**	**2024/25 £m**	**Total £m**
54.568	Category 1 - Approved Schemes	50.553	56.108	41.724	33.375	27.916	**264.244**
0.010	Category 2 - Planned Schemes	8.922	2.450	0.000	0.000	0.000	**11.382**
54.578	**Total Programme**	**59.645**	**58.648**	**41.724**	**33.469**	**27.926**	**275.626**
	Resources Available						
(12.415)	Prudential Borrowing	(18.444)	(15.309)	(9.682)	(3.572)	0.000	**(59.422)**
(3.694)	Grants & Contributions	(3.830)	(3.191)	0.000	0.000	0.000	**(10.715)**
(29.945)	Major Repairs Reserve	(29.415)	(31.746)	(24.955)	(25.335)	(24.839)	**(166.235)**
(8.524)	Secured Capital Receipts	(4.731)	(4.010)	(4.010)	(3.355)	0.000	**(24.630)**
0.000	Unsecured Capital Receipts	(3.055)	(4.302)	(3.077)	(1.113)	(3.077)	**(14.624)**
(54.578)	**Total Resources**	**(59.475)**	**(58.558)**	**(41.724)**	**(33.375)**	**(27.916)**	**(275.626)**

Capital Resourcing Approach

The Council's capital investment is governed by the 'Prudential Code for Capital Finance in Local Authorities' (Prudential Code). The Prudential Code provides the Council with a regulatory framework within which the Council has discretion over the funding of capital expenditure and the level of borrowing the Council wishes to undertake to deliver capital plans and programmes.

The strategy is intended to maximise the financial resources available for investment in service provision and improvement within the MTFO. At the same time it seeks to ensure that each business case has a robust self-sustainable financial model that delivers the Council's objectives.

The funding available to Nottingham City Council is split into five main categories:

1. Government grants and non-government grant and contributions
2. Unsupported borrowing
3. Capital Receipts
4. Internal Funds / Revenue
5. Leasing / Private Finance Initiatives (PFI)

1. Government Grants and Non-Government Grant and Contributions

These can be split into three sub categories:

- Ring-fenced grants and contributions (Reserved for a particular purpose and have a restricted use);
- Non-ring-fenced grants and contributions (Grant given with conditions which Projects are required to meet);
- Section 106 agreements (Planning obligations generally subject to conditions of use).

Where there is a requirement to make an application to an external body for funding and commit Council resources as match funding for any part of any bid, a business case and paper needs to be approved per the Council's current approval procedures (e.g. DDM, Leaders Key Decision, or Executive Board Report).

2. Unsupported Borrowing (Prudential Borrowing)

As detailed above the Council has the discretion to undertake borrowing on capital schemes (General Fund and Public Sector Housing) if the borrowing is deemed Value for Money and meets the following criteria as set out in the Prudential Code:

- **Affordable**
- **Sustainable**
- **Prudent**
- **Proportionate for the size of the authority**.

For any borrowing undertaken a full appraisal will take place to ensure that sufficient revenue returns are generated to cover the cost of borrowing, for example 'invest to save' or schemes which meet the Council's 'commercialisation agenda'.

To be deemed affordable, sustainable and prudent a full business case is carried out and schemes have to provide a surplus Net Present Value (NPV) to the Council over the life of the project.

Prudential Borrowing Loan repayments are spread over an asset's useful life, this means that for the longer term Capital Schemes (i.e. Land and Buildings) the borrowing term can be significant.

Where it is considered that prudential borrowing is the appropriate method of funding, the additional revenue costs related to debt repayment will be built into the service budget. When projects are approved, details of how any potential revenue impact will be managed must be included (e.g. early year deficits).

Housing Revenue Account (HRA)

The HRA has no statutory requirement to make Minimum Revenue Provision (MRP) contributions unlike unsupported borrowing within the General Fund. The Council uses the HRA 30 year business plan as a way of managing its debt position by making voluntary provisions / voluntary set aside as appropriate. Prudential Borrowing for Housing Revenue Account Projects is required to meet the same Prudential Code criteria as set out above (e.g. full financial appraisal, debt repaid over asset life, early year deficit impact).

Forecast Borrowing General Fund and Housing Revenue Account

The Council is forecasting to borrow **£315.365m** over the period 2019/20-2024/25, **Table 4** below breaks this forecast borrowing into financial years:

Table 4: Unsupported Borrowing Forecast Period 8

Area and Category	Forecast Borrowing Requirement					
	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
General Fund						
Category 1 - Approved Schemes	(97.166)	(76.067)	(21.224)	(7.845)	(6.377)	(7.398)
Category 2 - Planned Projects	(2.591)	(22.160)	(15.115)	0.000	0.000	0.000
TOTAL General Fund	**(99.757)**	**(98.227)**	**(36.339)**	**(7.845)**	**(6.377)**	**(7.398)**
Public Sector Housing						
Category 1 - Approved Schemes	(12.405)	(9.842)	(15.309)	(9.682)	(3.572)	0.000
Category 2 - Planned Projects	(0.010)	(8.602)	0.000	0.000	0.000	0.000
TOTAL Public Sector Housing	**(12.415)**	**(18.444)**	**(15.309)**	**(9.682)**	**(3.572)**	**0.000**
TOTAL Forecast Borrowing Requirement	**(112.172)**	**(116.671)**	**(51.648)**	**(17.527)**	**(9.949)**	**(7.398)**

The HRA considers projects on a programme approach, further details can be found within the Financial Appraisal section.

3. Capital Receipts

The Council's land and property estate is managed through the CAMP, which identifies the Council's property requirements. Where appropriate, properties are declared surplus to requirements and the Council will look to dispose of the asset.

Capital receipts generated from disposal of Council assets represent a finite funding source, therefore the Council is required to plan disposals to support its priorities.

Capital receipts will also be a key source of capital funding for projects that meet the Council's strategic aims / objectives but make insufficient financial return to cover the costs of borrowing.

Nottingham City Council has a strategy of not ring-fencing the use of specific Corporate Capital Receipts to fund specific schemes or service areas unless a suitable business case is created and approved.

All receipts are reviewed to see if there are any restrictions on the receipt (e.g. Secretary of State), or whether the asset had any clawback provision or debt outstanding as these have first call on the capital receipt. The remaining balance of general fund capital receipts is allocated between reinvestment in Property Income Generation and Corporate Capital Receipts:

The Council is establishing an Asset Rationalisation Programme, therefore at present the forecast receipts over the 2019/20-2024/25 period cannot be estimated until the Programme is in operation.

As detailed in **Table 2**, the General Fund Capital Programme is predicated on securing **£26.133m** receipts to March 2022. At Quarter 3 2020 the Council has committed to applying **£70.528m** of capital receipts. Further detail is shown in the table below:

Table 5: General Fund Capital Receipt Commitment

	Commitment £m
General Fund Capital Programme	26.133
Past commitments from prior Capital Programme	18.999
Other commitments outside the Capital Programme (*)	25.396
TOTAL Capital Receipt Commitment	**70.528**

(*) Examples are sinking fund for Broadmarsh Shopping Centre and replenishment of Council SAM Resources

Housing Revenue Account (HRA) – Capital Receipts
The HRA capital receipts are sub-categorised as follows:

- Non Right-to-Buy Receipts – The receipt is ring-fenced for reinvestment within the Capital Programme for Housing and Regeneration.
- Right-to-Buy (RTB) Receipts – Are accounted for as stipulated in the Local Government Act, with elements of the receipt net of transaction costs:
    - Repaid to Central Government
    - Capital spend for either allowable debt (i.e. Voluntary Set-aside) or to fund capital expenditure within the Capital Programme
    - Retained for reinvestment in Housing Stock (RTB Replacement Receipts), or returned to Central Government if unspent within timeframe

4. Internal Funds / Revenue

Capital Expenditure can be funded directly from revenue resources. The sources of revenue funding can be split into two clear categories:

- Funds and Reserves – specific reserves set aside for Capital purposes
- Direct Revenue Funding (DRF) – using revenue budget surpluses for capital purposes if it can be demonstrated that the funding is unfettered.

However, in the current economic climate and with increasing revenue pressure within Council finances, the extent to which this may be used to fund capital expenditure is significantly reduced.

Housing Revenue Account (HRA)
The HRA has a Major Repairs Reserve which is a specific reserve ring fenced for repairs and maintenance of the Council's housing stock.

5. Leasing / Private Finance Initiatives (PFI)

The Council does have the option to lease assets, however with the advent of Unsupported Borrowing this source of financing is becoming less attractive and the Council's Vehicle Replacement Scheme demonstrates this development. There may however be instances where leasing could offer value for money and it will remain a consideration when options are being appraised.

PFI schemes are not shown within the Capital Programme due to not being financed by capital resources.

However, the long-term affordability of the PFI schemes at the Council is being closely managed. The current situation is that one scheme is forecasting a temporary deficit in 2033/34, and there are certain schemes where the Council has an option to purchase at the end of the agreement but no monies have been set aside. Therefore, a business case will need to be established to identify

whether or not acquiring the site at agreement termination is value for money.

When the Council identifies a service requirement all financing options are considered as part of the business case / feasibility. Where appropriate this will include the potential creation of a liability via a leasing or similar arrangement (e.g. PFI). Prior to entering into these agreements, a formal decision will need to follow the Council's standard approval process.

Leases and contracts entered into by the Council are periodically reviewed to identify all lease and embedded lease arrangements entered into that may create a potential liability for the Council.

Resourcing Allocation Strategy and Procedures

Resources Allocation Strategy

As detailed in Section Two, the Council is reviewing its prioritisation process which involves the Resource Allocation Strategy. The current proposal considers the following:

- Capital Receipts - no further capital receipt can be committed until the pressure identified in Table 5 has been resolved.
- Prudential Borrowing will be capped annually at a level under the Council's MRP budget, enabling the Council to reduce its debt position.

Once the current review is complete, potential schemes can be prioritised and any secured / available funding can be allocated as required.

Internal Guidance / Business Case Considerations / Gateway Reviews

Internal Guidance

Project Management Handbook

The Project Management Handbook is a best practice document for project delivery. This section of the intranet also includes standardised templates that accompany the Project Management Handbook.

The link to the handbook is set out below:

http://intranet.nottinghamcity.gov.uk/major-projects/project-management/project-management-handbook/

Accounting Handbook

The Accounting Handbook has a section regarding fixed assets and capital investment, this section includes information about:

- Fixed Assets
- Capital Expenditure Coding
- Capital Accruals
- Capital Funding
- Revenue Expenditure Funded from Capital Under Statute (REFCUS)
- Lease Accounting

As part of the capital monitoring process project managers are also sent guidance regarding expenditure capitalisation rules to assist them in their understanding of the revenue / capital split.

The link to the handbook is set out below:

http://intranet.nottinghamcity.gov.uk/finance/statutory-information/

Gateway Review

The Council has introduced a Gateway Zero process which requires all new proposals for significant projects to go to the Corporate Leadership Team for sign-off prior to Council resources being committed.

Following a Gateway Zero, the business case and financial assessment are evaluated at a Project Assurance Group (PAG). The PAG is a panel who are not involved in the project's development and are tasked with reviewing and challenging the project and the decisions made.

Business Case

A business case is a formal document, which explains the case for the investment in a project or programme of work. The areas covered by a business case vary depending on whether it is an outline or full business case. An outline business case is used at the start of the planning process to obtain 'approval in principle' to proceed. A full business case is prepared after 'approval in principle' and is expected to cover the following areas:

1) The background to the business case - i.e. the reason for the project being put forward – in order to give context to the project;
2) Objectives
   a. The overall objectives of the project, and
   b. How the project will contribute to the achievement of corporate priorities, including the impact on the Council's commitment to become the first carbon neutral city in the country, reaching this target by 2028;
3) Overview of options considered with a brief summary of why options were rejected;
4) Detailed explanation of the option accepted and why it was accepted;
5) Procurement details, including (but not limited to);
   a. details of tender process (when applicable)
   b. analysis of shortlisted tenders
   c. preferred supplier with explanation for decision
6) Financial appraisal of the scheme, including;
   a. profile of capital expenditure
   b. profile of funding broken down by funding source
   c. revenue implications (including the impact on the MTFO and any early year deficit)
7) Other advice required (as appropriate) per the standard approvals process;
   a. Legal
   b. Human Resources
   c. Procurement
   d. Property
8) Business Cases contain an inherent risk regarding the assumptions, in particular the likelihood of the revenue assumptions being achieved. This risk is amplified on the longer term business cases due to the uncertainty of predicting future cash flows / behaviours. This should be addressed through sensitivity and risk analysis.

Financial Appraisal

The purpose of any financial appraisal is to evaluate the viability of a project by assessing the net cash flows that result from financial models, how it meets the requirements of the Prudential Code and provides an assessment of Value for Money.

All capital projects are required to undertake a financial appraisal if they have either:

- An element of borrowing within the project's funding envelope, or
- A revenue impact on service delivery

The Technical Accounting Team coordinates the financial appraisal.

Principles of the financial appraisal are:

- Full life project costing – For projects that are expected to create an asset with a long useful life the financial appraisal has an inherent risk due to uncertainty of cash flows in the longer term. A provision for a sinking fund to protect the Council from future liabilities should be included
- Revenue assumptions are required to have assumption owners who are either appropriately qualified Council officers or are specialist external advisors
- Revenue assumptions will be assessed to determine whether they should be subject to inflation at an appropriate rate
- Inclusion of a risk register including financial implications for both internal and external risks
- Optimism Bias is considered within all financial models by evaluating financial and service delivery inputs and including contingencies as appropriate, reducing the risk of over-optimistic assumptions locking the Council into undeliverable targets
- All financial models have the same prudent assumption that the residual value of assets at the end of the financial model is £nil, unless a strong case can be made for doing otherwise. The final decision would be made by the Strategic Director of Finance
- A Financial Assessment which will include:
    - Cash flow assessment - identifying any early years deficit and impact on the MTFO
    - Net Present Value (NPV) assessment - the cash flow being discounted using the rates recommended as a base in the Treasury Green Book plus additional percentage points for interest and project risk. The affordability requirement is that the project has to produce a surplus NPV
    - Payback Period - this is the year in which the project forecasts a cumulative surplus position

- Sensitivity Analysis - testing the key assumptions in the model to identify the financial impact if the approved base financial assumptions were not achieved
- Opportunity Cost - if the Council is using non ring-fenced grant / capital receipts or a revenue source of funding there is an opportunity cost to the Council of not being able to use those funds elsewhere.
- Tax Risk / Impact – management of Council's tax risk in accordance with the Council's Tax Strategy.

Housing Revenue Account (HRA) – Financial Appraisal

HRA schemes are typically subject to the following affordability criteria and minimum financial parameters required for the scheme to progress to construction contract:

- An overall surplus NPV within the financial models by the year the debt has been fully repaid that has undergone due diligence
- An assessment of the Early Year Deficit's both the schemes individually and across the wider Public Sector Housing Capital Programme, ensuring deficits are affordable and funded
- Model includes full lifecycle costs
- Financial model pays back within 40 years
- Right to Buys are assumed to be used to reduce the in-year Voluntary Revenue Provision (i.e. repayment of debt through revenue)

However, where schemes fall outside of the above criteria they need to be considered in the context of the overall affordability of the HRA, the need to provide additional social housing and the wider BABN programme. The HRA business plan will need to be refreshed following the approval of HRA schemes that have a revenue impact.

Section Four – Monitoring and Measuring the Performance of the Council's Debt Position and the Capital Programme

Monitoring and Measuring the Council's Debt Position

The Council will receive reports on its treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its Treasury Management Practices document (TMP).

Within the report, the Council defines its treasury management activities as: "The management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

Nottingham City Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

The annual Treasury Management Strategy is approved by Full Council. This includes details regarding the Council's operational boundary and Prudential Indicators as prescribed by the CIPFA Treasury Management Code of Practice. These include a projection of external debt and use of internal borrowing to support capital expenditure and the council's overall borrowing requirement, which is known as the Capital Financing Requirement (CFR). The Prudential Indicators include the operational boundary and the authorised limit for external debt which is the statutory limit determined under Section 3(1) of the Local Government Act 2003: "A local authority shall determine and keep under review how much money it can afford to borrow".

An appendix to the Treasury Management Strategy is the Treasury Policy. This policy document sets out the parameters under which the Treasury function operates, including the key delegations. The Treasury Policy also stipulates that the Audit Committee is responsible for the scrutiny of the Treasury Management function.

The annual Treasury Management Strategy includes the policy for the repayment of debt known as Minimum Revenue Provision (MRP). The Council adopts the principle of making revenue provision for the repayment of debt over the life of the underlying debt by making reference to the useful life of the assets being created/purchased that were financed by borrowing.

Annual Assessment of Non-Financial Investments

As stipulated in CIPFA's Practitioners' Guide and International Financial Reporting Standards (IFRS), all investments that satisfy the non-financial investment criteria require an annual Fair Value assessment. Where the Fair Value of a non-financial investment is insufficient to provide the required security for the outstanding debt, then as part of the Capital Outturn Report a paper will be presented to Executive Board proposing mitigating actions to protect the capital invested and any revenue consequences.

Monitoring the Capital Programme

Corporate Leadership Team are provided with a Capital Programme Report on a quarterly basis. This report breaks down the programme into the following areas:

- Approved Schemes (Split between General Fund, Local Transport Plan, Other Transport Schemes and Public Sector Housing)
- Planned Schemes
- Potential Schemes

Each scheme (or group of schemes) are then reported on the following basis:

- Full Project Cost
- Forecast Costs – current financial year plus 4 years
- Uncommitted Expenditure – current financial year plus 4 years
- Funding Breakdown
- Financing Costs
- Opportunity Cost
- Current Year Cash Impact
- MTFO Impact

Detailed Programme

Project managers must provide an update for every live project detailing the following:

- Forecasting of expenditure (including overspend or slippage)
- Scheme status and whether it has reached completion
- Amount contractually committed

Any variance, change in funding or slippage will be reported to the Executive Board as part of the quarterly monitoring / capital outturn.

It is important to manage significant slippage against the planned Capital Programme as it may be possible to re-prioritise capital funding streams to the advantage of the Council. Advance notice of slippage also assists the Council's Treasury Management function by supporting improved cash flow management and funding decisions.

If an approved Capital Project underspends on its current approval, the funding is released back into the Capital Programme to fund other capital commitments. Should the Project Sponsor of an underspending project wish to change the project via either enhancement or amended specification, further approval is required.

The funding of Capital Projects is monitored to ensure that:

- Grants and contributions are received in a timely manner and any receipt is consistent with the approval
- Capital Receipts are monitored to ensure the Council has enough resources to fund the capital programme
- Revenue Funding / Resources are transferred to either capital reserves or drawn down direct to capital in-year

Live / Completed Projects

The actual financial performance of projects is monitored against the original and latest business case and material variance is reported to the CLT.

The Capital Programme is also measured by the Prudential Indicators, which are reported to Council as part of the Treasury Management Strategy, and by the post year-end review.

Review and Evaluation

Once a scheme is complete it is necessary to undertake an evaluation to compare the financial outturn against the approved financial appraisal and to assess the outcomes of the scheme against the deliverables in the full business case.

The extent of this evaluation process depends on the size and complexity of the project.

Knowledge and Skills

The training needs of the Council's Capital and Treasury Management teams are assessed as part of the staff appraisal process. These staff periodically attend training courses, seminars and conferences provided by external advisors and CIPFA. Staff are also encouraged to study appropriate professional qualifications.

The CIPFA Code requires the responsible officer to ensure that councillors with responsibility for treasury management receive adequate training. This especially applies to Councillors responsible for scrutiny. Appropriate training is provided periodically to Councillors and other relevant staff that are charged with governance.

External advisers

As detailed within Section Three (Financial Model), external advisors are engaged where appropriate by the Council to support staff regarding the financial assumptions and modelling.

The Council uses Link Asset Services as treasury management advisers and receives specific advice on investment, debt and capital finance issues.

These Capital and Treasury external advisers are engaged so that the Council can access specialist skills and resources whilst the responsibility for every decision remains with the Council at all times, ensuring that undue reliance is not placed upon our external advisers.

See exempt appendix A

See exempt appendix A

See exempt appendix A

Capital Programme – Risk Register (independent of Project Risk Registers and Non Treasury Investments) **Appendix B**

Ref	Risk	Detail	Mitigation
A) Approval & Expenditure			
A1	Expenditure classification	Revenue expenditure is incorrectly allocated to capital	Project managers are instructed to review transactions during the capital monitoring process The Technical Team also periodically review items charged to capital and challenge project managers with transactions that are considered revenue
A2	Project Overspend	Capital project spends more than its approval and there may be no additional funding forthcoming leading to a pressure within Capital resourcing	Project managers receive regular forecast information to enable budget management. Should a scheme overspend and no additional funding is identified, the Technical Team will close the project to mitigate the overspend pending further authorisation
B) Funding			
B1	Proposed grants are not awarded	When capital projects are approved it can include an element of grant that is not yet approved, therefore within that approval there is a risk that the grant is not awarded	Project should not incur costs prior to grants being awarded. The project manager will then be required to amend the scheme accordingly
B2	Awarded grant is less than anticipated	Risk of awarded grant being less than the approval	Where a funding shortfall is identified, the project manager is advised to find alternative funding or reduce the capital project accordingly
B3	Interest Rates increase	A number of capital schemes contain assumptions around interest rates (current year and future years). If the interest rate increases unexpectedly this could affect scheme affordability	The interest rate used within financial models includes a risk element to protect the Council from rate increases External advice is used to forecast potential increases and all projects being planned or

			proposed have the interest rate updated as per external advice
B4	Revenue resources shortfall	Due to increasing revenue pressures resources are not available when required to fund the Capital Programme	When new approvals are identified as per section A3, all revenue funds are immediately committed / drawn down to ensure resources are available for the Capital Programme as detailed in the approvals
B5	Capital receipt shortfall	Unsecured capital receipts may be realised at a value less than anticipated, or in year receipts may slip into following financial years, leading to a capital funding shortfall. As detailed in Table 5 the Council has committed to applying a significant amount of Capital Receipts **(£70.528m)**. If assets are not realised in line with the Council's requirements this will lead to increased or continuation of revenue pressures.	Unsecured capital receipts are closely monitored by Finance and Property Services and Finance have representation on the Asset Rationalisation project team. All forecast receipts are subject to a risk factor which discounts the forecast receipt, this discount is to mitigate against slippage and receipt shortfall. If during the monitoring cycle a capital receipt shortfall is anticipated at year end then alternative temporary funding options are considered to enable the programme to be fully funded.
C) Project Specific			
C1	Revenue assumptions not achieved	Capital projects include revenue assumptions for the construction period and as an operational asset. There are financial implications if the revenue assumptions may not be achieved	Financial models include assumptions which are prudent and agreed by Senior Officers. The projects are regularly monitored and if a revenue pressure is generated the Project Sponsor and Budget Manager are required to manage any pressure within the budget process.
C2	Project dependencies do not progress as desired	The Capital Programme consists of a number of projects that have interdependencies, the	Where a specific project has key interdependencies the approval of that project

		financial implications of the chain breaking require identification	should detail the links and make the approver aware of the financial and non-financial impact should the chain break. This may include an alternative financing option.
C3	Project manager not engaged in Capital monitoring	Project manager does not engage in capital monitoring therefore lack of visibility / project oversight	If a project manager does not respond to consecutive capital monitoring they are contacted by Technical Finance to identify the reason for lack of engagement and if Technical Finance can further support the project manager.
C4	Capital / Final asset valuation not achieved	If assets are realised at a value less than the anticipated value or it takes longer to dispose of the assets then the Council has the following risks: • Negative equity • Pressure generated within the capital programme Holding costs of surplus assets	Business cases need to consider: • That costs incurred by the Council will generate an asset of equivalent or greater value • Models include whole life costing During the disposal process, the asset will be closely monitored to ensure holding costs are kept to a minimum and the asset is disposed in a timely manner.

Glossary of Financial Terms

Appendix C

Capital Expenditure
Expenditure on the acquisition or enhancement of property, plant and equipment that has a long-term value to the Council. This includes grants or advances paid to third parties to assist them in acquiring or enhancing their own property, plant and equipment.

Capital Receipt
Money received from the disposal of land and other **assets**, and from the repayment of capital grants and loans made by the Council.

Corporate Asset Management Plan (CAMP)
Is a plan that ensures that the land and buildings, or the asset base of the Council is optimally structured.

Debt Exposure
The cost of the debt and interest on the project / programme.

Embedded Leases
An embedded lease exists if there is an explicit or implicit identified asset within a contract and the recipient obtains control of the assets via the contracted terms.

Fair Value
The fair value of an asset is the price at which assets or liabilities could be exchanged between market participants at the measurement date under current market conditions.

Housing Revenue Account (HRA)
Sets out the expenditure and income arising from the provision of social housing by the local authority as landlord.

Medium Term Financial Outlook (MTFO)
A plan detailing projected expenditure and available resources over a period of more than one year. The Council's MTFO currently covers three years.

Minimum Revenue Provision (MRP)
The minimum amount that the Council must charge to the income and expenditure account to provide for the repayment of debt.

Operational Assets
Assets held by the Council for the purpose of the direct delivery of services for which the Council has either a statutory or a discretionary responsibility.

Optimism Bias
Officers involved in appraising projects have a tendency to be over optimistic. Which may lead to assumptions (both financial and non-financial) proving to be unachievable.

Private Finance Initiative (PFI)

A long-term contractual public private partnership under which the private sector takes on the risks associated with the delivery of public services in exchange for payments tied to standards of performance.

Project Assurance Group (PAG)
A group of senior officers at the Council (larger projects can include external representatives), who are tasked with reviewing and challenging the project and the decisions made.

Prudential Code
The Prudential Code ensures, within a clear framework, that the capital investment plans of the Council are affordable, prudent and sustainable.

Revenue Expenditure Financed by Capital Under Statute (REFCUS)
This is expenditure that legislation allows to be funded from capital resources that does not result in an asset to the Council (e.g. Housing improvement grants). This expenditure is written off to the Income and Expenditure Account in the year it is incurred.

State Aid
An advantage granted by public authorities through state resources on a selective basis to any organisation that could distort competition and trade.

Audit Committee – 28 February 2020

Title of paper:	Annual Governance Statement – Progress made to date on Issues Reported 2018/19 and Process for Producing 2019/20 Statement	
Director(s)/ Corporate Director(s):	Candida Brudenell, Corporate Director of Strategy & Resources	**Wards affected:**
Report author(s) and contact details:	Director of Strategic Finance laura.pattman@nottinghamcity.gov.uk	
Other colleagues who have provided input:	Corporate Directors, Statutory Officers and Specialists	

Recommendation(s):	
1	Note the progress made to date in addressing the issues reported in the 2018/19 Annual Governance Statement, as detailed in this report.
2	Note the process and timetable for compiling and completing the 2019/20 Annual Governance Statement, as detailed in **Appendix 1**.

1 Reasons for recommendations

1.1. This report supports main purposes of the Audit Committee as set out in its terms of reference which include to:

3. Provide independent review of the Council's governance, risk management and control frameworks.
4. Oversee the financial reporting and annual governance processes.
7. Oversee proposed and actual changes to the council's policies and procedures pertaining to governance.

The associated functions are to

1. Review the council's corporate governance arrangements against the good governance framework, including the ethical framework and consider the local code of governance.
19. Approve the Council's Statement of Accounts and associated governance and accounting policy documents

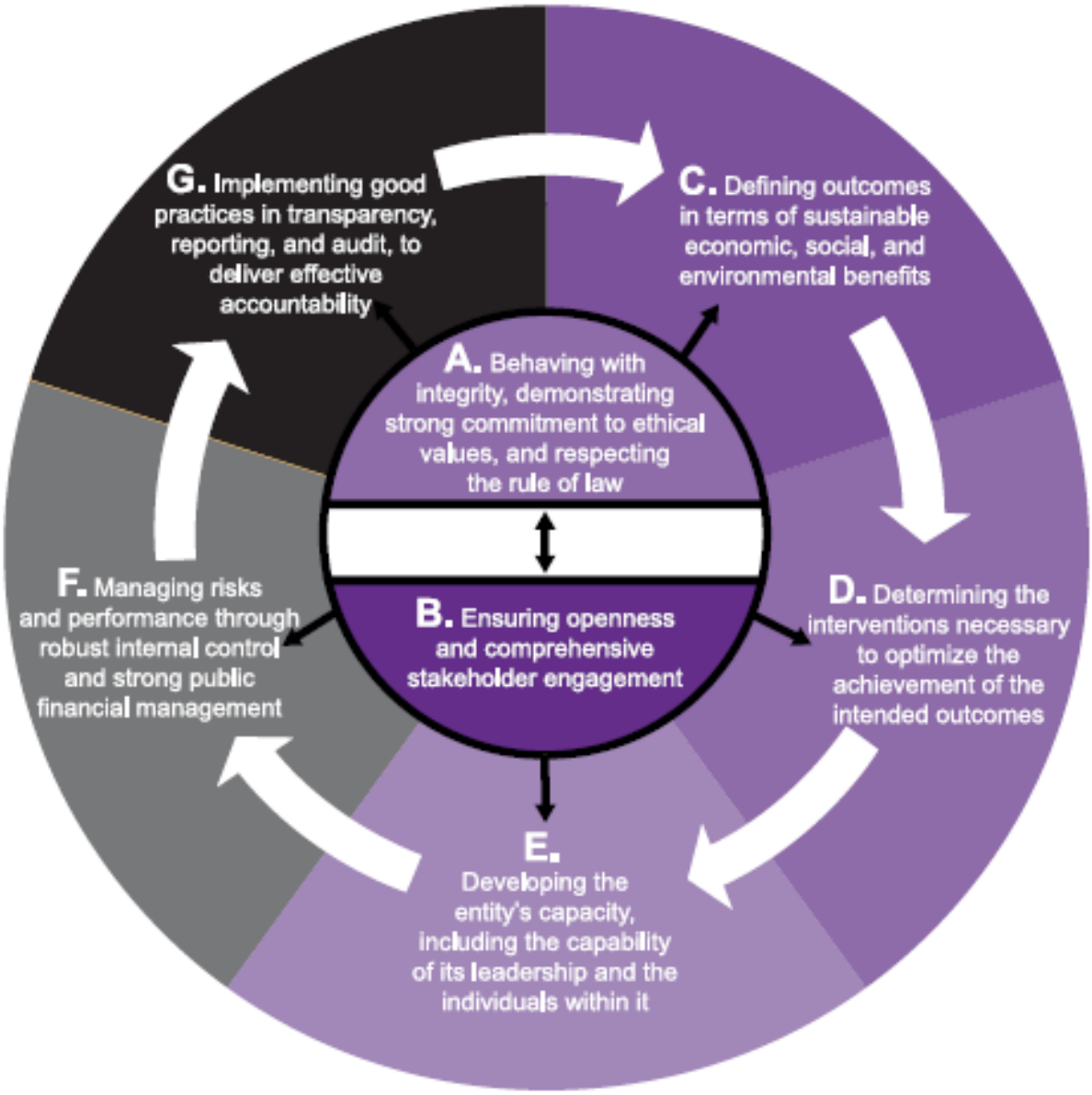
1.2. This report sets out the current position in respect of those issues reported in the 2018/19 Annual Governance Statement (AGS), and the process for compiling the 2019/20 AGS.

1.3. The National Audit Office's 2019 report on Local Authority Governance notes 3 key challenges:

- Risk profiles have increased in many local authorities as they have reduced spending and sought to generate new income in response to funding and demand pressures.
- Local checks and balances need to be effective in a more complex and less well-resourced context for local decision-making.
- Effective governance arrangements are an important aspect of ensuring financial control at a time of financial pressure.

1.4. The council's local corporate governance code was updated in February 2017. The diagram below, taken from the International Framework, illustrates the various principles of good governance incorporated in the local code.

Achieving the Intended Outcomes While Acting in the Public Interest at all Times



2 Update of Issues Reported

2.1 Issues worthy of note identified in the 2017/18 AGS have been revisited and an update of the latest position established and summarised below. We expect to receive an update to Fit for the Future shortly. The following items are subject to the budget report to Executive Board, in February, and an update will be provided at the meeting:

- Central Government Review of Local Government Funding and Balancing the Councils Budget (2.7 – 2.12)
- Addressing Risk and Future Challenges (2.13 – 2.21)
- Capital and Capitalisation (2.25)

(the previous position for these items is shown below)

EMSS

2.2. The Partners (Nottingham City Council and Leicestershire County Council) created 'East Midlands Shared Services' (EMSS) to deliver back office services in 2011 and invested in Oracle e-business suite (EBS) as the enabling technology platform for both EMSS and the Partner's retained corporate functions. The Partners make use of a wholly owned shared service centre, EMSS, which provides Finance, Procurement, HR and payroll services.

2.3. The Council has a positive relationship with EMSS and continues to work with them to identify system and process efficiencies. Nottingham City Council are working in partnership with EMSS to implement the new Enterprise Resource Planning (ERP) system which will require significant business changes and deliver enhanced functionality which will lead to further efficiencies for the partnership.

Fit for the Future

2.4. Currently Leicestershire County Council and Nottingham City Council share an Oracle e-business platform to support a range of functions. These include procurement and payments to suppliers, billing and income from customers, financial budgeting and reporting, general ledger, HR processes, employee contract management, payroll and a range of statutory and business reporting capabilities.

2.5. It is well recognised across both Councils and within EMSS that the current Oracle system has a number of deficiencies which, if addressed, would be likely to deliver efficiency and effectiveness benefits to the Councils. The implementation of the Oracle Cloud solution is ongoing and it is expected that part of the system will be operational no later than April 2020.

2.6. The expected key benefits are:

- A New Chart of Accounts – better clarity of finances to inform decision making
- No Purchase Order, No Pay – better control over budgets
- Mobile Access – Oracle Fusion on the go
- iexpenses – simpler way to claim expenses
- Contract Purchase Agreements and Categories – better visibility of where money is spent
- New tools for chasing and collecting debt
- Streamlined process for raising invoices and payments, cleansed customer data
- Increased visibility of budgets within the system
- Improvements in people management actions, including changes to hours, line manager, locations and even additional pay/ hours being directly in system and not having to use to or more systems
- Single Sign On – easier for colleagues
- Less E-Forms – more data input directly into system
- Intuitive system – input data only once

Central Government Review of Local Government Funding and Balancing the Council's Budget

2.7. The Council, in line with all other local authorities across the country, is continuing to operate in a challenging financial environment of reduced levels of Government funding.

2.8. Whilst the Government's Spending Round published on 4th September 2019 provided extra grant and flexibility to raise council tax precept for Social Care, the additional funding to Nottingham was insufficient to meet the increased local demand for a number of services, primarily Adult Social Care and Children in Care.

2.9. These increasing care pressures will have a significant impact on the Council's ability to fund other local services. It is expected that this continuing trend will mean that local taxpayers will increasingly need to fund local services.

2.10. The Government has only confirmed one-year funding with future levels dependent on the outcome of their next Spending Review in 2020 and the delayed changes to the financial settlement system. The introduction of these Fair Funding Review / 75% Business Rates changes is now expected to be in 2021/22. The Government has not yet provided detailed exemplifications of the likely impact of these significant policy changes on individual authorities

Balancing the Councils Budget

2.11. In order to respond to the insufficient funding and manage the increasing pressures the construction of the Medium Term Financial Plan (MTFP) has followed the following principles:

- address demographic and service pressures;
- reflect the longer term reductions in external funding since 2010/11 by reducing expenditure on certain activities;
- support the City Council's determination to be efficient, improve performance and modernise the organisation;
- minimise the impact of service reductions and changes on vulnerable citizens by protecting frontline services;
- pursue commercialisation opportunities to generate income for the City Council.

2.12. In response to the current financial climate, the Council continues to work with council networks including the Local Government Association (LGA), Core Cities and the Special Interest Group of Municipal Authorities (SIGOMA) to campaign for a fairer funding settlement from central government for cities like Nottingham and other core cities

Addressing Risk and Future Challenges

Three-Year Medium Term Outlook

2.13. Given the challenging environment that the Council continues to operate in, the budget assumptions are subject to ongoing review in light of changing circumstances.

2.14. These issues have been brought together to produce a 3 year Medium Financial Outlook (MTFO) that is summarised in the 18th January 2020 report to the Executive Board.

2.15. This MTFO projects that, with the latest assumptions, the need for on-going significant cost reductions in the short to medium term will continue. While the budget for 2020/21 is balanced there are projected outstanding gaps of c£25m in 2021/22 and c£30m in 2022/23

Particular issues are as follows:

Insufficient Funding

2.16. The MTFP was updated in February 2020 and reflects the fact that despite continued insufficient Government funding, the Council expects demand for services to increase, particularly those which support children and the older population.

National Non-Domestic Rates (NNDR)

2.17. Localisation of NNDR has significant risks for the Council. Under the retention scheme, there are risks in calculating the share of the yield due to the level of unknowns including:

- The number of successful rating appeals that could be made in the year.
- The number of bankruptcies and business going into administration.
- The number of empty and new properties etc.

2.18. In mitigation, the Council works with Analyse LOCAL, which is a system developed to help local authorities to make sound and prudent estimates of its business rate income for the year ahead. It uses a wide range of historic rating information to provide the most reliable base possible on which to base decisions.

Brexit

2.19. There is a high level of uncertainty about the implications of leaving the European Union. Nottingham has benefitted from European funding in the past and it is unclear whether or what other similar sources of funds will be available. The UK's future trading arrangements are still as yet undecided but our assumption at the current time is that there will be no significant impairment on the value of the Council's assets due to the possible economic implications. This will be reviewed in light of any economic developments.

Commercial Income

2.20. Investments in commercial property have been made to raise income to offset reductions in funding. Given the uncertainties over the future performance of the economy as a result of Brexit, it is difficult to predict whether investments will be adversely affected. This is mitigated by making sound business cases at the outset, which are checked and challenged, and robust and rigorous monthly monitoring.

General Data Protection Regulation (GDPR)

2.21. This bill came into effect on 25 May 2018. This has a huge impact on all local authorities and carries fines of up to 4% of annual turnover for serious breaches of compliance. In mitigation, the Council has appointed a Data Protection Officer who will update all policies and privacy notices. Annual training sessions are delivered across the authority in addition to mandatory refresher e-learning. Further details are set out at 6.39 below.

Universal Credit

2.22. Universal Credit in Nottingham commenced in October 2018. As the Council needs to recover Council Tax and rents directly from residents, this gives rise to a potential increase in the level of bad debts and an increase in the cost of collection.

Housing Revenue Account – HRA

2.23. The HRA is balanced in medium term but there is a long-term gap on capital investment requirement. The Welfare Reform and Work Act 2016 required that social rents are reduced by 1% per annum for four years from 2016, with 2019 being the fourth year the Council has had to reduce rents.

2.24. 2020 is the first year of the increase in rents of CPI +1% which is more financially beneficial to the HRA and has enabled additional funding to be released to support the capital programme. There is an ambitious new build / acquisition programme which will provide 1000 new homes over the next 4 years. This will utilise capital receipts and prudential borrowing. Many of the programme schemes have long paybacks and early years deficit. The 30 year business plan is currently being refreshed.

Group Governance Arrangements

2.25. The Shareholder Board, now titled the Shareholder Advisory Panel and comprising solely of Council officers, has met on a number of occasions over the last year. In December 2019 the Leader of the Council established the Companies Governance Executive Sub-Committee and this was reported to, and endorsed by, Executive Board on 17 December 2019. That Sub-Committee will now provide an oversight of the Council's wholly owned companies and those in which the Council has a controlling or significant interest. In particular it will be responsible for approving and overseeing the Council's strategic objectives across the Nottingham City Council group of companies and to support the development of the Group in line with the Council's policies and ambitions. The Sub-Committee itself met for the first time on 21 January 2020 and will meet bi-monthly or at such other frequency as may be required. The next meeting is on 17 March 2020.

Capital and Capitalisation

2.26. In July 2018 KPMG reported to NCC that:

- "The Authority should develop and appropriately approve a capital investment strategy document as soon as possible, given the growth of its investment property portfolio and associated borrowing costs." – This has been developed

and approved during 2018-19. The Council initially implemented a capital strategy which was approved February 2019, this strategy is annual reviewed and during 2019-20 it was reapproved alongside the Council's Taxation Strategy February 2020.

- "The Authority should:
  - review its process for capturing and accounting for capital accruals, to ensure costs are capitalised in the correct period, notably in regards to internally delivered schemes; and
  - review how it calculates its capitalised project management costs, notably the 8% add-on cost; and – review the basis of the "surplus recovery fee" capitalised cost for internally managed capital projects and why it is appropriate to capitalise this cost."

2.27 For 2018-19 a review of the mechanism for internal charging to the capital programme has been undertaken to ensure compliance with the CIPFA Code of Practice and has resulted in costs being reallocated to revenue and a resulting reduction in capital spend. A further review for continuing arrangements is in progress and is due to be reported shortly.

2.28 Following the 2018-19 review and resulting cost reallocation, a new CIPFA compliant process was implemented for all capital charges from April 2019. This new process has given rise to an increase in revenue costs, the resulting revenue pressure has been mitigated in the Council's MTFO. Transactions are periodically reviewed to ensure that the new process is being adhered to and once implemented Oracle Fusion has the controls in place to ensure costs which are charged to capital meet the CIPFA's capitalisation criteria.

Climate Change Emergency

2.29. The Council has declared a Climate Emergency at Full Council on the 13th January 2020 whilst also adopting the Carbon Neutral Charter (developed in conjunction with the Green Theme Partnership) and launching a consultation on our draft action plan for achieving carbon neutrality by 2028. Energy Services are leading on this work for the authority and it is planned to adopt a final version of the Carbon Neutral Action Plan at Full Council in May 2020.

Children In Care

2.30. We are continuing to work creatively to enable children and young people to remain with their family wherever this can be managed safely. In addition to the exiting mechanisms we have worked with colleagues to secure national funding to pilot a Multi-systemic Therapy team to specialise in working with children who are at risk of criminal exploitation. At the end of December 2019 there were 628 children in care, 32 of whom were unaccompanied asylum seeking young people and five were in secure placements. Nationally the DfE reported a 4% increase in the numbers of children in care in 2019.

2.31. There has been an ongoing focus on improving fostering recruitment in Nottingham. At the end of December 2019 there were 451 children in foster care. Of this number 255 (56%) were placed with Nottingham City Council foster carers. The number of children in internal foster placements was higher than those placed with independent fostering agencies throughout the whole of 2019

Workplace Parking Levy (WPL)

2.32. The overall NET/WPL financial model is regularly updated to reflect the actual WPL income received each financial year together with the latest projections of future income. It is proposed that the financial model be extended to 2037/38, four years after the end of the Concession Agreement, to include continued WPL income and re-profiling of the Prudential Borrowing repayments.

Information & Communications Technology

Increase In Targeted Threats

2.33. The number of advanced cyber attacks continues to increase, however at a reduced rate to 12 months ago. We continue to be successful in preventing / detecting issues to date, but the elevated threat level continues.

2.34. The Council has adopted advanced threat protection to improve email security and Web Application Firewalls to improve protection for internally hosted services.

2.35. The IT Security team have undertaken and continue to undertake training and development activities to improve our capabilities to counter and manage any threats. Mandated IT Security Awareness Training is also promoted across the Council.

Security Accreditation and Best Practice

2.36. The Council has maintained its accreditation with Cyber Security Essentials Plus, HSCN and PSN. Many of these require external scrutiny and testing as a condition of accreditation and therefore provide a level of assurance.

Information Governance

2.37. The role and responsibilities of the Senior Information Risk Owner (SIRO) have been expanded to include; overall ownership of information risk management across the council, acting as champion for information compliance activities in order to mitigate against potential risks, and realising greater operational efficiencies and improved customer services.

2.38. The Information Compliance Board (ICB), chaired by the SIRO, meets on a quarterly basis to develop and provide governance and oversight of the Information Compliance Assurance Framework.

2.39. The Data Protection Officer advises on all data protection matters across the Council and reports directly to the Information Compliance Board.

2.40. The number of requests processed under Freedom of Information and Environmental Information Regulations continue to be dealt with above the statutory target of 90%.

2.41. Challenges associated with managing and processing personal information requests under the Data Protection Act (DPA) remain due to the volume and complexity and performance has dropped below statutory expectations. Steps have been taken to address this issue with a view to achieving the standard as soon as possible.

2.42. The Council is compliant with the Department of Communities and Local Government's Transparency Code 2015. We publish information in accordance with

the Code and recognise that maintaining and updating these data sets is an ongoing commitment. Work continues across the Council to ensure that departments are aware of their responsibilities and Data sets are up to date and made available for reuse via the Open Data Nottingham portal.

2.43. The new section 45 Freedom of Information Code of practice was published in July 2018. It includes further recommendations regarding the council's publication scheme. The council is in the process of collating the datasets recommended for publication, with an aim to publish them in 2020/2021.

2.44. In May 2018, the EU General Data Protection Regulation (GDPR) replaced the Data Protection Act 1998. On 1 February 2020 the UK GDPR comes into force. This imposes important requirements for the handling of personal data. Procedures are in place to deal with the provisions of the GDPR associated with transparency and individuals' rights. The UK GDPR places greater emphasis on the explicit design of organisational and technical measures to secure compliance with its principles (privacy by default and design). This will have significant associated budgetary, I.T., personnel, governance and communications implications.

2.45. The Information Compliance Team continue to work alongside Internal Audit and IT Services to action the recommendations made following the Internal Audits of the Information Compliance and Information Security services. An Information Compliance Assurance Framework is now in place to guide the work of the Information Compliance Team, an Information Compliance Risk Register has been approved by the ICB and feeds in to the Strategy and Resources Risk Register. The Register is updated and reported to the ICB on a quarterly basis.

2.46. An Information Compliance Assurance Report is reported to Audit Committee on an annual basis.

Robin Hood Energy

2.47. The Council wholly own this private limited company licensed to supply gas and electricity to domestic and non-domestic customers in England, Scotland and Wales. It is a not-for-profit company and began offering credit tariffs in May 2015 followed by prepayment tariffs and commercial tariffs. Governance arrangements are established including weekly management meetings and monthly Board meetings.

2.48. The Board comprises 5 Directors, of which all are councillors. The Company is part-way through a strategic review which will be concluded by end March 2020. Through this period, the City Council's scrutiny of the Company is robust and the relationship is managed through fortnightly Steering Group meetings with the Company's management, Executive Members and Senior Management.

Enviroenergy

2.49. The company continues to work with the shareholder to seek solutions to its long term investment requirements, recognising the complexity of interdependencies with the Council's requirements for waste disposal and continuing negotiations regarding expansion of Eastcroft Energy from Waste plant. It is a priority for the company and the shareholder to resolve this challenge as soon as possible to provide financial stability. This will enable the company to plan with certainty for the medium and longer

term, taking advantage of the significant development taking place within the city to expand its customer base.

2.50. Operational stability remains good and is continually improving, with successful external audits regarding EU ETS, CHPQA, ISO14001 completed, a new Environmental Permit issued and an internal audit follow up audit of Health and Safety providing significant assurance on Health and Safety controls and identifying an improving direction of travel with all previous recommendations delivered and no new recommendations.

2.51. For Enviroenergy, the focus remains on continual improvement regarding health and safety culture, asset management (both on the network and within the heat station), and modernisation of its customer billing function.

3 Process for the Production of the AGS 2019/20

3.1 It is intended that the production of the AGS 2019/20 will closely follow the process of previous years noted by this committee, and the timetable is given at **Appendix 1**. The process will be managed by the Corporate Governance Steering Group (CGSG) as endorsed by the Executive Board on 20 May 2008 and which consists of senior colleagues representing Council services. A set of assurances will be obtained from the Leader of the Council, key colleagues including Corporate Directors, individuals with statutory roles, significant groups and significant partnerships

3.2 The assurance will come from a self-assessment based on customised questionnaires targeted at the appropriate assurance givers, together with other information provided in support of the AGS. The questionnaires will be based on the Council's Code of Corporate Governance and will be based on the relevant best practice developed produced by CIPFA/SOLACE.

3.3 Completed questionnaires will be supplemented by other governance related information extracted from Council policies and strategies, internal and external assurance providers, Council, Board and committee minutes, and the annual review of governance arrangements in significant partnerships.

3.4 The final AGS will be an account of the Council's governance arrangements in a format addressing the principle embodied in the Local Code of Corporate Governance. It will reflect the failings identified and note actions put in place to address them. This will be discussed by members of the CGSG and will be presented to the Audit Committee for approval, and the document when approved will be published with the City Council's Statement of Accounts.

4 Background

4.1. The Council's governance arrangements aim to ensure that objectives and responsibilities are set out and met in a timely, open, inclusive, and honest manner. The governance framework comprises the systems, processes, cultures and values by which it is directed and controlled, and through which it engages with and leads the community to which it is accountable. Every council and large organisation operates within a similar framework, which brings together an underlying set of legislative requirements, good practice principles and management processes.

4.2. The publication of an AGS is required by the Accounts & Audit Regulations 2015. The Council is required to conduct a review, at least annually, of the effectiveness of its internal control and prepare a statement in accordance with proper practices. The 2007 CIPFA/SOLACE (updated 2016 - effective for 2017/18 statement) publication "Delivering Good Governance in Local Government Framework" provided the principles by which good governance should be measured. This was adopted as the Council's Local Code of Corporate Governance at the Executive Board meeting of 20 May 2008.

4.3. In 2016 CIPFA/SOLACE produced an updated guidance note covering the delivery of good governance in local government and how an authority's arrangements can be reflected in the AGS. The City Council has incorporated this guidance in both the evaluation of its governance arrangements and in the production of its AGS

4.4. Included in this Committee's terms of reference is the core function that it should be "satisfied that the Authority's assurance statements, including the AGS, properly reflect the risk environment and any actions required to improve it."

4.5. In order to produce the AGS an annual timetable is required to ensure key tasks are undertaken in time to deliver it alongside the Council's Statement of Accounts. The timetable (Appendix 1) will be used to monitor the progress of the AGS.

4.6. The Committee has delegated authority for the formal approval of the AGS and approved the AGS for 2018/19 on 29th July 2019. It was signed by the Leader of the Council and Chief Executive and was published alongside the Statement of Accounts.

4.7. The AGS reflects the governance framework operating within the Council and its significant partnerships. The issues identified and the consequent plans for their mitigation are used to direct corporate resources, including those of Internal Audit.

4.8. Part of the 2018/19 AGS reported on significant control issues affecting the Council and the action plans put in place to address them. In ascertaining the significance of the control issues, CIPFA defines a series of factors to be considered, as follows:

- The issue has seriously prejudiced or prevented achievement of a principal objective
- The issue has resulted in a need to seek additional funding to allow it to be resolved, or has resulted in significant diversion of resources from another aspect of the business
- The issue has led to a material impact on the accounts.
- The Audit Committee, or equivalent, has advised that it should be considered significant for this purpose.
- The Head of Internal Audit has reported on it as significant, for this purpose, in the annual opinion on the internal control environment.
- The issue, or its impact, has attracted significant public interest or has seriously damaged the reputation of the organisation.
- The issue has resulted in formal action being taken by the Chief Financial Officer and/or the Monitoring Officer.
- The 2018/19 AGS also reported on issues of note which do not merit categorising as significant but require attention and monitoring to maintain and improve the system of internal control. As with significant issues these may have been brought forward from previous statements if the issues have not been finally resolved.

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

None

6 Published documents referred to in compiling this report

6.1 Accounts & Audit Regulations 2015
CIPFA/SOLACE - Delivering Good Governance in Local Government Framework, 2016

6.2 Executive Board 20 May 2008 - Local Code of Corporate Governance
Nottingham City Council - Statement of Accounts 2018/19
Annual Governance Statement 2018/19
NAO – Local Authority Governance (15th January 2019)

AGS 2019 / 2020 Process

Appendix 1

Action	Jan 2020	Feb 2020	Mar 2020	Apr 2020	May 2020	Jun 2020	Jul 2020		Jan 2021	Feb 2021	Mar 2021
Meet Directors, Departmental Management Teams and Company Representatives											
Plan the process for obtaining assurances from Corporate Directors and other significant partners											
Review 2018/19 AGS and take update to Audit Committee											
Update to Corporate Governance Steering Group											
Confirm significant partners and groups											
Revise and circulate questionnaires to obtain assurance											
Produce Internal Audit Annual Report with Head of Audit opinion											
Review extent to which the Council complies with the Local Code											
Review of Assurance sources available • Partnership arrangements • Corporate Director Assurance Statements • Statutory Officers - S151 Officer, Monitoring Officer, Head of Paid Service • Other sources of assurance including: o Key officers, including those with responsibility for Internal Audit, Performance, Risk and HR o External Assurances including external inspections											
Draft AGS, outlining the governance environment and any significant governance issues that need to be disclosed											
Take report to Audit Committee as the committee responsible for monitoring compliance with the Local Code											
Consider Issues from External Audit Annual Letter											
Report Final AGS to Audit Committee with Statement of Accounts											
Prepare / follow-up mid year report to Audit Committee for the February meeting of the new year											

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Audit Committee – 28 February 2020

Title of paper:	Internal Audit Progress Report Q1-Q3 2019/20	
Director(s)/ Corporate Director(s):	Laura Pattman, Strategic Director of Finance	**Wards affected:** All
Report author(s) and contact details:	Shail Shah Head of Audit and Risk 0115 8764245 shail.shah@nottinghamcity.gov.uk	
Other colleagues who have provided input:		
Recommendation(s):		
1	To note the performance of Internal Audit during the period.	

1 Reasons for recommendations

1.1 This report outlines the work of the Internal Audit service (IA) for quarters 1 to 3 of 2019/20.

- Appendix 1 – Executive Summaries from all Final Audit Reports issued in the period
- Appendix 2 - List of Final Audit Reports and Follow Up Reports issued in the period with analysis of recommendations and level of assurance
- Appendix 3 - Summary of position against updated Internal Audit Plan 2019/20
- Appendix 4 – Summary of position against local performance indicators

2 Background

2.1 The report supports the Audit Committee in fulfilling purpose and function elements of its terms of reference including Public Sector Internal Audit Standard (PSIAS).

Standards

2.2 The Internal Audit service works to a Charter endorsed by the Audit Committee. This Charter governs the work undertaken by the service, the standards it adopts and the way it interfaces with the Council. IA colleagues are required to adhere to the code of ethics, standards and guidelines of their relevant professional institutes and the relevant professional auditing standards.

2.3 In the last external assessment of NCC Internal Audit in March 2017, the service was found to substantially comply with the principles contained in the Public Sector Internal Audit Standards (PSIAS), which is a requirement of the Account and Audit Regulations 2015, and associated regulations, in respect of the provision of an IA service. The service continues to ensure that it adheres to the requirements of the PSIAS.

2.4 It is envisaged that the resources available to the Internal Audit Section for 20/21 onwards will be reduced due to members of the team retiring and the continuing freeze on recruitment. This will affect our ability to provide the same level of coverage as has been experienced over the last few years. We will be reporting to a

future meeting of this committee with details of our audit plan for 20/21 and our view on the resources available to us.

Activity

2.5 The Internal Audit Plan is produced annually and allocates audit resources throughout the year to review risks to the Council's vision, values and strategic priorities, by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. The construction of the plan is informed by consideration of a range of factors including the Council Plan, the Council's Risk Register, previous internal and external audit activity, emerging themes and priorities, professional networks, the Council's transformation and improvement activity, and changes to national, local and regional policy. It is also informed by consultation with stakeholders. The Plan is regularly reviewed and adapted as risks and priorities change and develop through the year. Minor adjustments to the plan have been made which do not require further approval.

2.6 Appendix 3 summarises the progress made against the overall internal audit plan for 2019/20, which includes all time spent on audits for NCC and other organisations.

2.7 Appendix 4 indicates the performance of the section against its local performance indicators. We would expect these all to be achieved by the end of the fourth quarter.

2.8 Table 1 shows that actual days achieved to date are on track and we would expect to be close to achieving the planned days at the end of the financial year.

Table 1: Actual V Planned Audit Days		
Total Planned Days	**Actual to date**	**Comments**
2529	2012	On track

2.9 Table 2 shows that in the year to date, acceptance of audit recommendations is above the target of 95% for all recommendations and is meeting the 100% target for high recommendations.

Table 2: Recommendations Accepted				
	To Date		**Period**	
	All	**High**	**All**	**High**
Total new recommendations made	197	69	197	69
Rejected	1	0	1	0
Total recommendations accepted	196	69	196	69
% accepted	99%	100%	99%	100%

Summary of Activity

2.10 The executive summaries from all Final Audit Reports issued in the year are included in Appendix 1. A summary of recommendations within the reports issued to NCC within the last 9 months is included in Appendix 2. The following sections highlight any key issues and outcomes from these audits:

Key Financial Systems

2.11 Work on the 2019/20 key financial systems commenced during quarter 2 and will continue through to the end of quarter 4.Typically this work is planned to commence at a point in the year where there is sufficient data available to test. External auditors typically consider the reports IA have issued in planning the annual audit of the statement of accounts. To date, the work that has been completed on the key systems has not provided any significant areas of concern that need to be reported to this committee.

Schools

2.12 This year we are undertaking themed audits across City schools as an alternative to individual schools audits. The themes include procurement and the Schools Financial Value Standard. We have been requested to undertake audits at 4 City schools, the results of which are included in our report to this committee. We also perform the responsible officer role at two academies.

Compliance and Risk-Based Audits

2.13 We complete compliance and risk based audits across the organisation and have completed a series of grants audits during the early part of the year. Our comments on those audits completed during 2019-20, that feature significant findings are as follows:

Fleet Management

2.14 This review covered the management of employees, jobs and stores and highlighted the need for improved controls over staff time-keeping, monitoring of productivity, overtime claims, the recording and monitoring of stock usage, training records, staff appraisals plus improvement to the workshop management systems in place.

Foster Care, Adoption and Placements

2.15 This audit covered the process for making payments plus a follow-up of actions raised in previous reports. This audit raised a number of issues around record keeping / completeness of data

Royal Centre

2.16 This review covered payroll, overtime and expenses, box office / income and procurement. We highlighted concerns regarding adherence to corporate purchasing rules, segregation of duties within the procurement process, systems access control, existence of Business Continuity Plan, control of complementary tickets and oversight of promoter settlements and advanced payments.

Traffic & Safety Follow Up

2.17 We have reported upon the implementation of a high number of recommendations previously made in respect of the management of capital projects. We reported some positive progress made but there are still further improvements in respect of planning, monitoring and reporting.

Investment Property and Land Disposals

2.18 Our review identified the need to standardise the recording of valuations, the need for a Disposals Policy and the requirement to demonstrate that valuations are clearly compliant with the Council’s existing asset valuation guidelines.

Governance and Ethics

2.19 We have undertaken a process to update the Annual Governance Statement for 2018/19. We provide advice to departmental colleagues, which supports them in making good decisions and setting up procedures, which comply with the organisation's values, policies and processes.

2.20 Over the last year we have been identifying best practice in governance of companies and supporting the Section 151 Officer and Monitoring Officer in bringing forward proposals for improvements in the Council's company oversight and shareholder activities.

2.21 Over the last year we have been supporting the Section 151 Officer in regards to assurance obligations for accountable bodies.

2.22 We have undertaken work across a number of audits in the last 2 years to ensure that appropriate assurance reporting exists, and as a result assurance reports have and will continue to be brought to Audit Committee, including new areas of assurance.

2.23 We have also fed comments into the Council's response to the independent review into the arrangements in place to support the transparency and quality of local authority financial reporting and external audit in England (Redmond Review).

2.24 We have provided support to Policy & Performance for Partnership Health Checks. We intend to review Councillor Allowances and Colleague Expenses during quarter 4.

2.25 We were requested to undertake a review of the Nottingham Schools Trust, including governance arrangements and assurance frameworks. This highlighted findings in respect of the grant agreement/funding, governance structure, frequency of schools SIA visits and evaluation of performance.

2.26 Our follow up review of the council's risk management arrangements indicated an improved direction of travel which includes all departmental risk registers in place with scheduled monitoring and continuing work within departments to embed risk management at all levels of the organisation.

2.27 Where necessary we will update the committee in respect of any legislative and other changes to the Council's Counter Fraud Strategy in a later report.

Organisation

2.28 Our Audit Plan provides for a number of reviews across the City Council or allocations of time to provide support.

2.29 We have undertaken a follow up to a previous review that consider the City's response to the Casey Report. This review showed continued improvement in implementing recommendations made during our initial review.

Health and Safety

2.30 Over the last few years we have reviewed the Council's arrangements with regard to Health and Safety risks. This year we have reported on the arrangements in place to manage the risks associated with Council's commercial property portfolios. We have highlighted the need for an assurance reporting framework, greater clarity with regards to responsibilities for managing these risks, consistency/improvement of the content of leases, resourcing of properties inspections and utilisation of expert advice.

Supreme Court Ruling – Increments

2.31 During 2019 we have continued to work with colleagues within HR to discuss and agree the methodology used to identify and calculate all relevant pay elements in respect of employees affected by this ruling.

Procurement

2.32 This review raised a number of concerns including off-contract spending, unapproved spending, non-compliance with UK Public Contract Regulations and failure to comply with the Local Government Transparency Code.

2.33 Our review also provided an opportunity to conduct some data analytics to allow us to review the potential for internal fraud. This review provided one case that required further investigation and action by management. We have just completed a review of contract compliance, the results of which will be included within the next update report.

Fraud and Investigations

2.34 The Internal Audit Section includes the Corporate Counter Fraud Team (CCFT) which is currently tasked with identifying additional income and savings for the Council.

2.35 The CCFT are the Council's key contact for the National Fraud Initiative (NFI) data match which involves organising and submitting the required datasets from numerous service areas and coordinating the review and reporting to the NFI of the matching data. Where necessary we will pursue any concerns raised by this exercise.

2.36 During 2019-20, CCFT have been carrying out proactive and reactive work to support the teams in Local Taxation, Right to Buy and also Nottingham City Homes, with a view to increasing income or identifying savings. The results from their work includes:

- NNDR v GIS Matching - £100k
- NNDR Listed Buildings Review - £63k
- NNDR – Reactive / Proactive - £1.2m
- CTax – SPD vs Electoral Roll - £78k
- CTax – SPD Referrals - £57k
- RTB Vetting / Investigation - £75k

The annual income target of £400,000 for the team has been exceeded and currently stands at in excess of £1.5m.

2.37 The team assists with or investigates reported instances of fraud including identifying and investigating fraud within Right to Buy applications and tenancies and working with colleagues within Nottingham City Homes.

Whistleblowing

2.38 We support the Monitoring Officer in respect of whistleblowing allegations, most of which are received by Internal Audit. We advise on, monitor or carry out investigations as agreed with the Monitoring Officer. During 2019/20 we have so far recorded 3 instances of whistle blowing, which is somewhat lower than would normally be expected. These investigations have not evidenced any instances of fraud against the council but we have made procedural recommendations in respect of these complaints where appropriate.

Other / Consultancy

2.39 We have responded to management requests to conduct specific pieces of work throughout the year.

Information and Technology

2.40 We carry out a range of information and technology audits during the year that supports management in understanding and addressing the related governance, risk and control issues. In this period we have reported, on PCI Compliance, the ContrOCC Provider Portal, which allows care providers to record the actual amount of care delivered to each citizen, Business Continuity and Disaster Recovery and Data Protection. We continue to review and provide assurance regarding the Fit for the Future project.

Waste Manager

2.41 We undertook a review of the waste management application, the scope of which included software and hardware asset management, access control, backup and system restoration, disaster recovery, change control and cyber security. This review highlighted some concerns in respect of procurement, contract management and access for this cloud-based system. We have shared our concerns around cloud-based systems with key officer groups.

Reporting

2.42 With effect from January 2020, we have introduced revised levels of assurance; which feature as a measure of assessment in our audit reports. We now have 4 levels of assurance, the change being the addition of Moderate Assurance. Examples of our reports with this change will be contained within our next quarterly report and Annual Report, along with some analysis of the opinions attached to all reports issued in the year.

3 Background

3.1 The Audit Committee's terms of reference include responsibility for receiving reports on the work undertaken by IA and for monitoring its performance. The Public Sector Internal Audit Standards (PSIAS) set the responsibility for the management of Internal Audit with the Board. In practical terms, this Board responsibility is vested in the Audit Committee and Section 151 Officer who exercise their Board responsibility

via the Constitution and the associated policies and procedures of the City Council. This report is one of the regular updates on work planned and undertaken by the service.

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

4.1 None

5 Published documents referred to in compiling this report

5.1 Accounts and Audit Regulations 2015

5.2 Audit Plan 2019/20

5.3 Public Sector Internal Audit Standards (2017 update)

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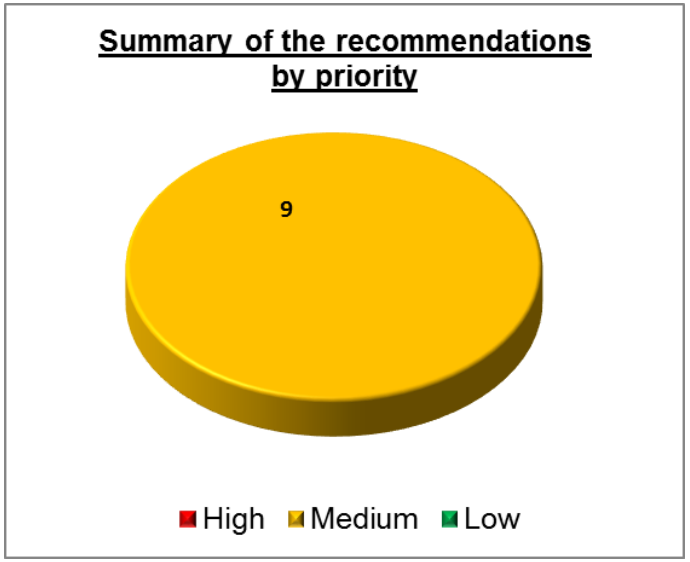
Children & Adult Liquidlogic and ContrOCC System Administration

Executive Summary

Department: Children and Adults Previous review:	Overall Opinion: **Limited Assurance**	Direction of Travel: This is the first time that this area has been reviewed.
	Scope and Approach: This review considered the following aspects of Liquidlogic and ContrOCC systems administration: • Governance arrangements • Access control, including separation of duties • Backup and system restoration • Disaster recovery • Change control, including implementation of software upgrades and regular security changes.	

High Priority Recommendations

There are no high priority recommendations



Crabtree Primary School

Executive Summary

Department: Children & Adults	Overall Opinion: **Limited Assurance**	Direction of Travel: (School Audit Review 2015)
Previous reviews: School audit complete 2015 – significant assurance Themed audit review (purchasing) 2018 – recommendations raised	Scope and Approach: This review considered the following aspects of Crabtree Farm Primary School: • Governance structure, policies and procedures to ensure the school have adequate arrangements • Responsibilities and accountabilities to ensure the responsibilities of the governing body, its committees, the Headteacher and staff are clearly defined and limits of delegated authority established • Recruitment of school governors and their induction process • Recruitment of staff and safeguarding processes to ensure they operate as intended • School budget to ensure it is approved, monitored and appropriate action is taken when required • School purchasing process to ensure that the school's purchasing, tendering and contracting arrangements achieve value for money • School expenditure to ensure it is justified, approved and value for money is obtained	

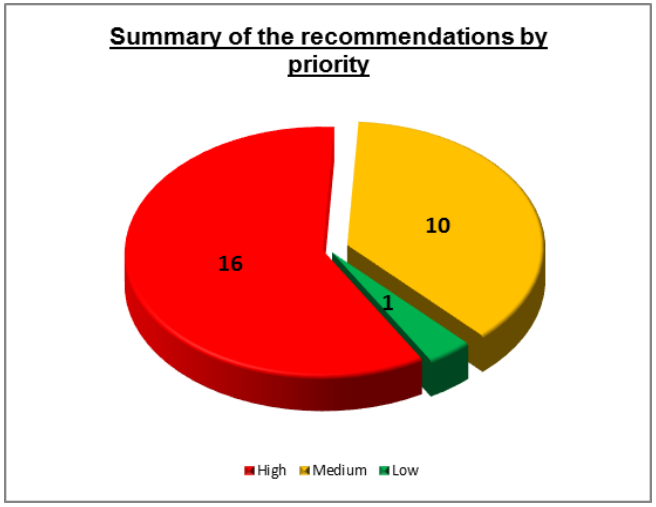
High Priority Recommendations

R4 - The governing body should appoint an experienced clerk who will help to ensure that the school's governance requirements are effective and compliant.

R5 - The school should ensure that detailed minutes are taken at each of the governor's meetings. This should include:-

- The name of the Committee
- Names of governors and clerk in attendance and apologies for absence
- The approval of policies and key decisions made by the governors should be clearly recorded in the relevant meeting minutes.

R6a - Governor's meetings should only be held where there is sufficient (50%) governors to allow for decisions to be approved.



Continued

R6b - All Governors should be encouraged to actively contribute/challenge within the meetings, evidence of this should be recorded within the minutes.

Continued

R10 - The governing body should ensure that:

- Educational and financial performance of the school is analysed and understood
- The governors should be encouraged to ask questions on the information being presented in order to hold the Headteacher and senior leaders to account.

R11a - The Chair of Governors should remove themselves from the operational day-to-day business of the school. In order to avoid a conflict of interest.

R11b - The governing body should ensure that governors are there to challenge and provide a strategic role within the school, rather an operational role.

R13a - The school should ensure that the recruitment file is securely retained for 12 months from the end of the process.

R13b - Evidence of the decision-making process should be retained within the recruitment file.

R14 - General principles of the recruitment process should be followed on every occasion to ensure transparency and equal opportunities for all. Where a post is to be filled internally, all staff should be given the opportunity to apply.

R15 - A Selection Panel should be representative, ideally this should be three people. Interviews should not be carried out on a one-to-one basis as this increases the scope for bias.

R16 - All candidate application forms should be assessed by individual panel members against the criteria in the person specification.

R18 - All panel members should independently record their decisions for each candidate as to the degree to which requirement has been met.

Panel members should then discuss and agree their findings, and draw up the final shortlist.

Official order forms, signed by the Headteacher or other authorised member of staff, should be issued to suppliers for all goods and services being purchased by the school.

Continued

R19 - For all purchases over £5,000, the school should obtain at least 3 alternative quotations. These should be considered by a quorate Governors Committee before deciding which supplier to award the contract to. This should be documented in the governor's minutes.

R20a - The following checks should be made on all requests for the reimbursement of costs incurred by individuals:-

- A valid VAT invoice is provided
- All payments should be approved by an appropriate person before being processed for payment

R20b - All relevant documents should be retained in line with Financial Regulations

Crabtree Primary School – Follow-up

Executive Summary

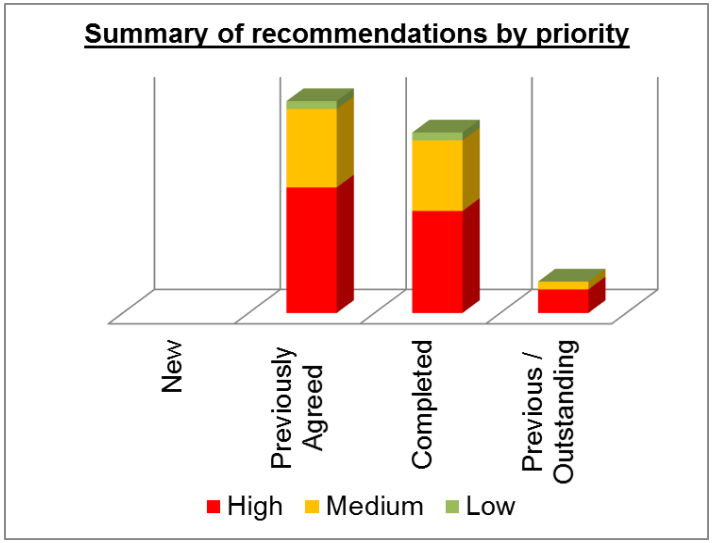
Department: Children & Adults	Overall Opinion: **Significant Assurance**	Direction of Travel: (School Audit Review 2015)
Previous reviews: School audit complete 2015 – significant assurance Themed audit review (purchasing) 2018 – recommendations raised	Scope and Approach: The scope was limited to a review of recommendations from the previous report	

High Priority Recommendations

R13a - The school should ensure that the recruitment file is securely retained for 12 months from the end of the process.

R18 - Official order forms, signed by the Headteacher or other authorised member of staff, should be issued to suppliers for all goods and services being purchased by the school.

R19 - For all purchases over £5,000, the school should obtain at least 3 alternative quotations. These should be considered by a quorate Governors Committee before deciding which supplier to award the contract to. This should be documented in the governor's minutes.



Casey Report – NCC Action Plan 2016-17 – Follow-up

Executive Summary

Department: Children & Families	Overall Opinion: **Significant Assurance**	Direction of Travel: Improving
Previous review: Casey Report – NCC Action Plan 24-10-17	Scope and Approach: Review of outstanding recommendations from the previous report	

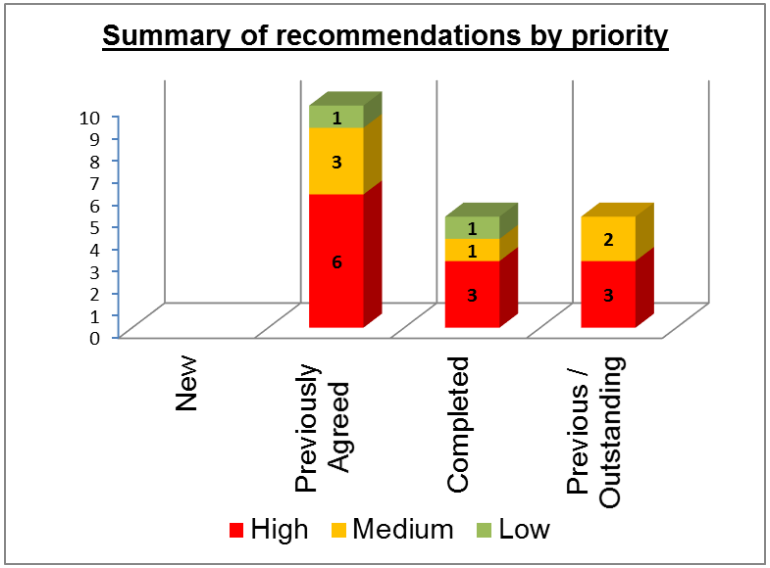
High Priority Recommendations

Schools Action Plan

2016/17 R2. A robust monitoring system and database of trained DSLs needs to be implemented to ensure an inclusive and fully effective DSL network with a more prominent link to the DSL page on the Nottingham Schools website's home page.

2016/17 R3. The arrangements for regulation of DSL certification through Continuous Personal Development needs to be established and outlined to all Head Teachers and existing DSLs

2016/17 R8. A form of access to Liquid Logic and associated training needs to be provided to schools.



Dovecote Primary & Nursery School

Executive Summary

Department: Children & Adults	Overall Opinion: **Limited Assurance**	Direction of Travel:
Previous reviews: August 2013 – Limited Assurance (16 recommendations) July 2016 – Limited Assurance (18 recommendations)	Scope and Approach: this review considered the following aspects of Dovecote Primary School:- • Leadership and Governance structure, policies and procedures to ensure the school have adequate arrangements • Responsibilities and accountabilities to ensure the responsibilities of the Governing Body, its committees, the Head teacher and staff are clearly defined and limits of delegated authority established • School budget to ensure it is approved, monitored and appropriate action is taken when required • School purchasing process to ensure that the school's purchasing, tendering and contracting arrangements achieve value for money • School income to ensure that it is banked promptly and recorded on the financial system • School meals to ensure the correct fees are charged, monies due are pursued and regular reconciliations take place between the number of meals ordered and the payments received	

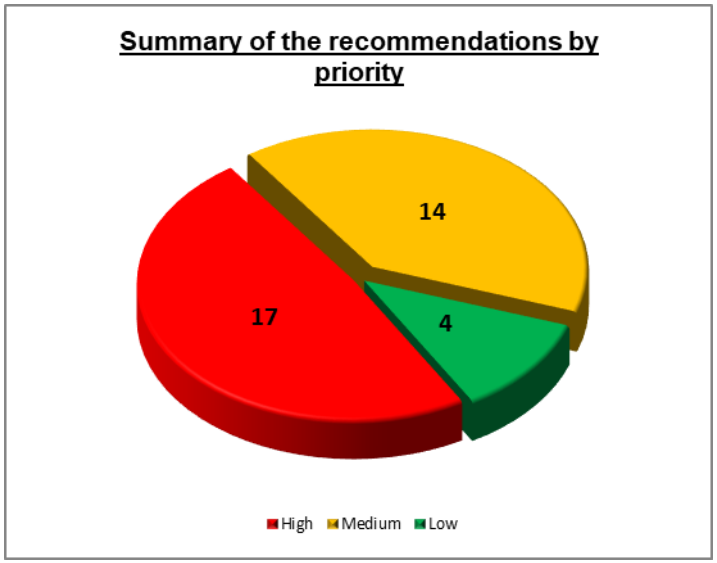
High Priority Recommendations

R01 – The Financial Administration and Control Policy should be updated and presented to Governors to be reaffirmed on an annual basis and this should be recorded in the minutes of the Governors meeting.

R02 – The school should ensure that their Finance Policy meets the requirements of The Scheme for Financing. Any changes should be highlighted to the Governors for approval. This should be recorded in the minutes of the Governors meeting.

R03 - The remit for each Governing Body committee should be presented to the Governors to be reaffirmed on an annual basis and this should be recorded in the minutes of the Governing Body.

R08 – Although the budget has now been fixed, this should be completed at the time the agreed budget is entered into FMS6.



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R13 – Alternative quotations should be obtained for all purchases between £1,000 and £10,000 and a record should be retained of all such quotations as evidence that value for money has been obtained. If alternative quotations cannot be obtained, the school should provide details of the firms they have tried to contact.

R14 – For all purchases over £10,000, the school should obtain at least 3 alternative quotations. These should be considered by the Finance and General Purposes Committee before deciding which supplier to award the contract to. This should be documented in the Governors minutes.

R15 – Official order forms, signed by the Head Teacher or other authorised member of staff, should be issued to suppliers for all goods and services being purchased by the school. Staff should be reminded that before placing a telephone order, an official order should first be raised.

R16 – Invoices should be checked prior to the remittances being raised.

R17 – All invoices should be checked and authorised by an appropriate person before payment is made.

R20 – As per Financial Regulations, income should be paid without delay into the school's bank account. Income transactions should be identified and FMS6 records should be updated on a timely basis.

R24 – The school fund should be reconciled to the bank statement on a periodic basis. All reconciliations should be signed and dated by the person undertaking the reconciliation and reviewed by someone independent of the operation of the fund

R25 – The School Administrator's on-line access to the school fund should be revoked. All payments should be signed by two signatories

R28 – The school should ensure that registration with the ICO is undertaken on an annual basis.

R29 – The school should maintain GDPR training records for all staff. This will reduce the possibility of breaching GDPR legislation.

R31 – Regular reconciliations should be completed to ensure that the correct number of meals are paid for.

R32 – Regular reconciliations should be completed to ensure that the correct income is banked promptly

Continued

R33 – The school needs to investigate the current outstanding debt. All debts should be actively pursued or a decision made to write unrecoverable debts off. There needs to be a clearly defined, robust process to pursue outstanding school meal monies.

Fernwood Primary & Nursery School

Executive Summary

School : Fernwood Primary & Nursery School

Date of Review: 24th June 2019

Summary: We consider that the financial procedures in place at the school represent good practice and provide sound systems of internal control.

Overall Opinion

Significant Assurance

Direction of Travel:

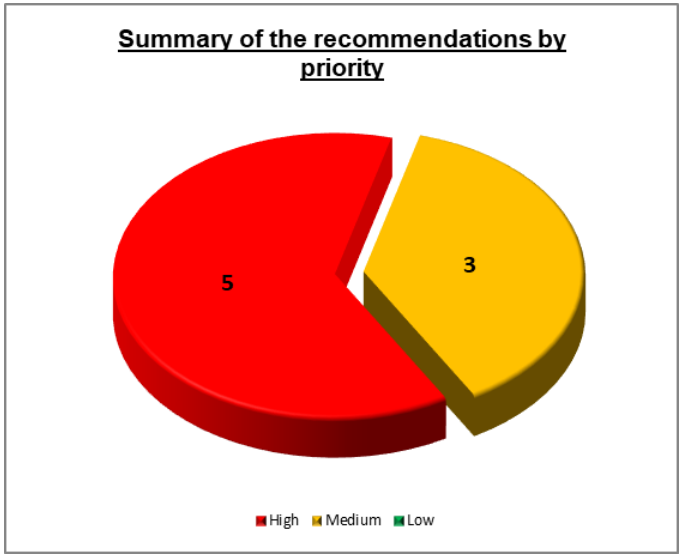
Previous Audit Report 12 April 2016
Significant Assurance

Scope and Approach: The scope of this review was limited to;

Leadership & Governance, People Management, Budget Management, Payroll & Single Status, Purchase to Pay (including Purchase Card), Income & Banking, School Fund, Asset Register, GDPR & Data Security and School Meals

High Priority Recommendations

There are no high recommendations to report



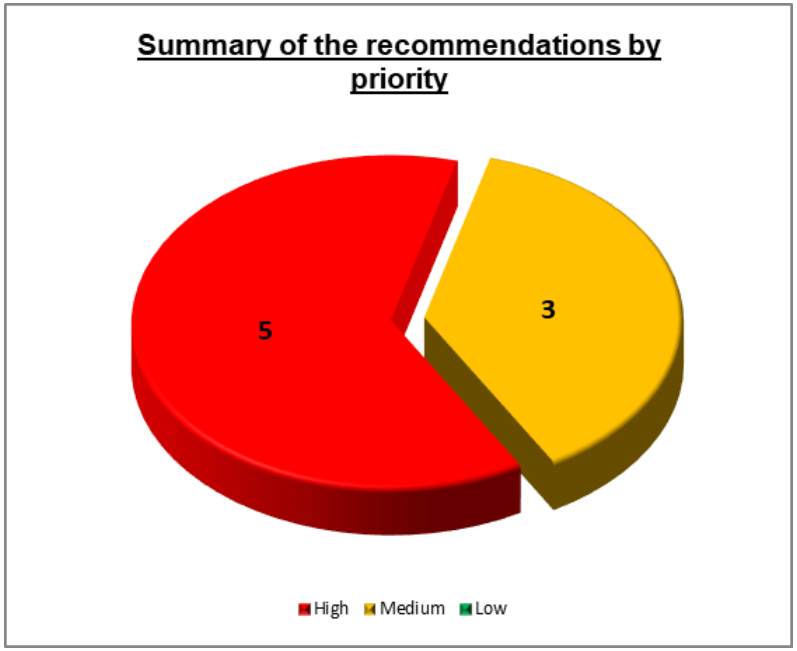
Fleet Management 2019/20

Executive Summary

Department: Fleet Services	Overall Opinion: **Limited Assurance**	Direction of Travel:
Previous review: Fleet Management 2017/18 8 December 2017	Scope and Approach: • Management of staffing • Jobs management • Stores • Training	

High Priority Recommendations

2019/20 R1	Management should ensure that standard controls for leave, signing in/out and workshop calendar are implemented consistently across sites and colleagues and that compliance is enforced.
2019/20 R3	Productivity should be calculated and reported weekly with regard to productive hours against hours worked.
2019/20 R4	Control of overtime should be improved
2019/20 R5	Management should ensure that agreed processes for selection, issue and recording of parts are complied with and that stock reports are reviewed and any discrepancies followed up.
2019/20 R8	Management should ensure that, when the new system is introduced, streamlined processes, controls and reporting are available to provide robust, key management information. Compliance with processes should also be monitored and enforced and reported to senior management to provide assurance.



Waste Management – Application review

Executive Summary

Department: Commercial and Operations	Overall Opinion: **Limited Assurance**	Direction of Travel: This area has not been subjected a previous review.
Previous review: None	<u>Scope and Approach:</u> This review considered the following IT security aspects of the system and processes: • Software and hardware asset management • Access control, including separation of duties • Backup and system restoration • Disaster recovery • Change control, including implementation of software upgrades and regular security changes. • Cyber security • Feeder file processes	

High Priority Recommendations

2018-19 R1 Due diligence checks should be undertaken, in conjunction with Procurement, Legal Services and IT and Data Protection as a matter of priority to ensure that:

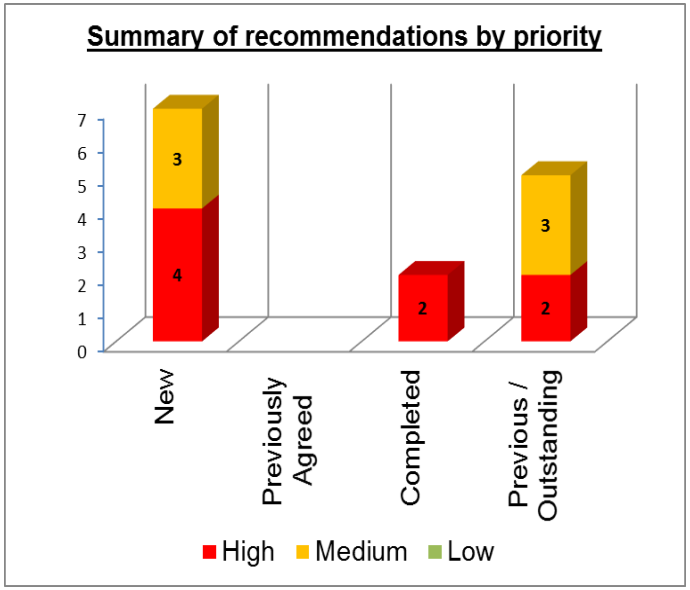
- Risks to the City Council are mitigated,
- Customer and citizen data is secure

2018-19 R2 Vendor claimed accreditations should be verified in conjunction with IT, as part of the due diligence process, in order that the City Council has confidence and assurance that its data is being appropriately managed.

2018-19 R3 Commercial and Operations in conjunction with Procurement, IT and Data Protection should develop an appropriate assurance framework.

The framework could be based on contract performance reviews and a review of any accreditations held to ensure that they remain valid and applicable

2018-19 R5 Appropriate levels of access should be implemented in line with job roles to enforce the separation of duties.



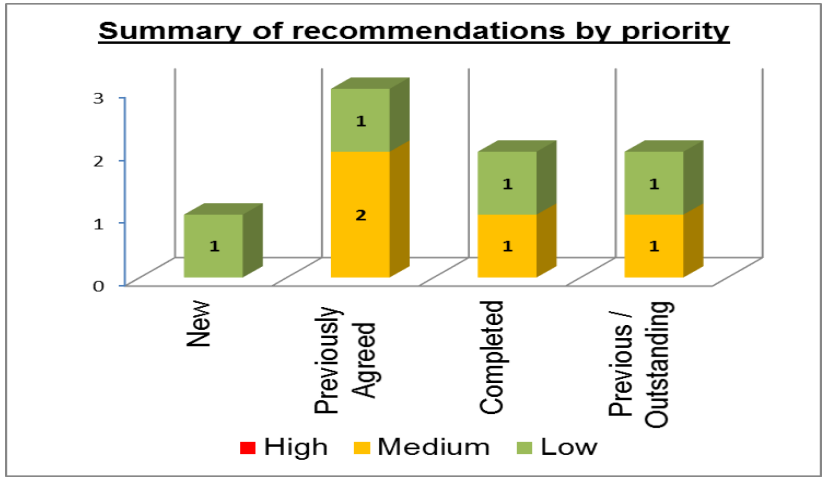
Housing Rents 2018/19

Executive Summary

Department: Development and Growth	Overall Opinion: **Significant Assurance**	Direction of Travel: Assurance level maintained
Previous review - Housing Rents 2017/18	Scope and Approach: This review considered the following aspects of the rents system: • Annual rents are approved as part of the financial planning process • Housing stock is reconciled on an annual basis • Rent income collected through the Radius system and posted onto the general ledger is reconciled to rent income received on the housing rents module of the Housing system. • There is a weekly reconciliation between HB system, Housing Rents iWorld and General Ledger. • Low or nil rent properties on the HRA are reviewed on at least an annual basis for appropriateness. • Annual rent increases have been applied to the system correctly. • There is adequate performance management of void properties. • There are appropriate access controls to the Northgate Housing System • Follow up of previous audit recommendations.	

High Priority Recommendations

There are no high priority recommendations.



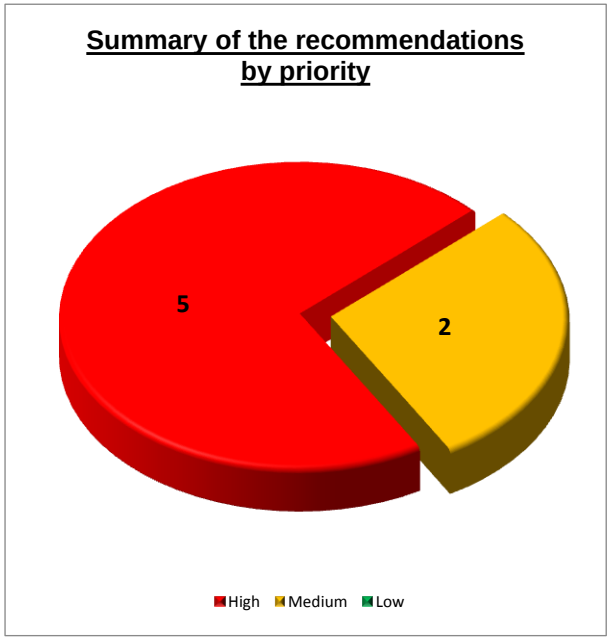
Health and Safety – Commercial Property 2018/19

Executive Summary

Department: Property	Overall Opinion: **Limited Assurance**	Direction of Travel: **N/A**
Previous review: No previous review	Scope and Approach: This review considered the following aspects: • Assurance framework • Responsibilities and roles • Agreements in place with tenants, agents and internal services • Health and safety processes at a sample of NCC owned buildings	

High Priority Recommendations

2018/19 R1	An assurance framework should be established with a network of reporting from all H&S functions for commercial properties.
2018/19 R2	Responsible Person, Duty Holder and Deputy roles should be clarified and communicated to staff.
2018/19 R4	A review of tenant leases and Managing Agent contracts should take place to ensure risks are understood and mitigated.
2018/19 R5	The resourcing of the surveyor and premises manager roles should be reviewed to ensure there is capacity to fulfil H&S responsibilities.
2018/19 R7	Corporate H&S and Insurance & Risk advice should be acted upon promptly.



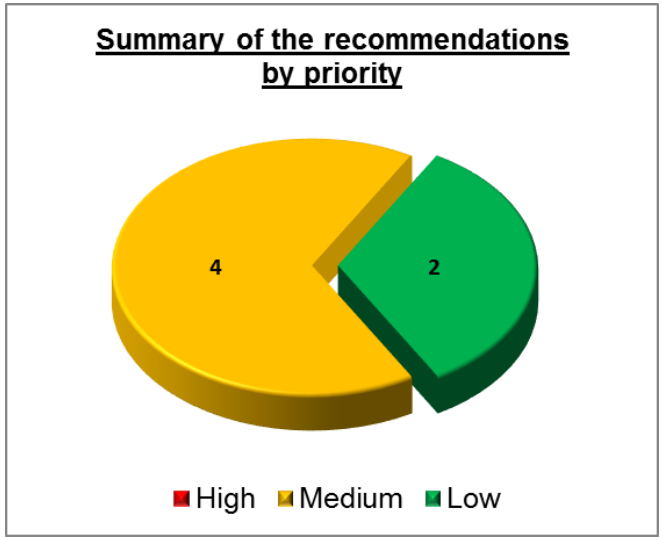
Estate Rents 2019/20

Executive Summary

Department: Development & Growth - Strategic Asset and Property	Overall Opinion: **Significant Assurance**	Direction of Travel:
Previous review: 2014-15	Scope and Approach: This review considered the following aspects of Estate Rents: • Raising of invoices • Arrears recovery • Reconciliations • Write offs • Suspense account • Access and back up of the system. • Evidence of written procedures/documentation.	

High Priority Recommendations:

There are no high priority recommendations



Traffic Capital Projects 2018/19 – Follow-up

Executive Summary

Organisation: Nottingham City Council Directorate: Development & Growth	Overall Opinion: **Limited Assurance**	Direction of Travel: Improving
Previous reviews: December 2017	Scope and Approach: to gain assurance that a more robust and accountable project management system is now in place.	

High Priority Recommendations

2017/18 R3 The level of service and the price of a project should be defined and agreed by all parties at the feasibility stage. All parties should be held accountable to the SLA.

2017/18 R6 A more effective way of monitoring and reporting of risk management should be established.

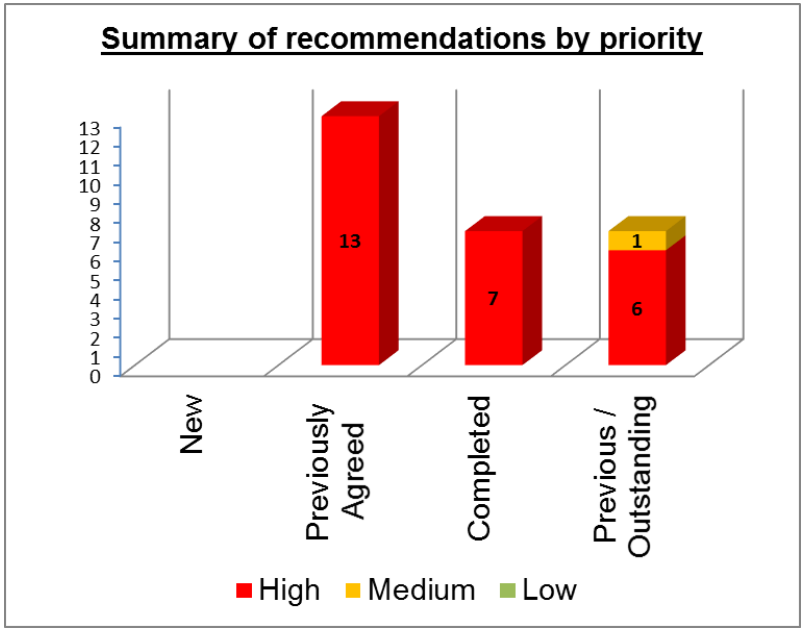
2018/18 R7 Reporting requirements and responsibilities should be determined and followed to ensure project oversight

2017/18 R8 A process of quality checks should be embedded into the Traffic project management.

2017/18 R9a Budget monitoring processes should be established and followed by all Project Managers.

2017/18 R13 An agreed approach across all Finance Teams should be adopted to ensure that monthly budget monitoring reports are issued to Project Managers for all capital projects. Project Managers should follow an agreed approach as outlined within the Capital & Investment Strategy.

(Please note: 1 previous high recommendation has now been reclassified as a Medium)



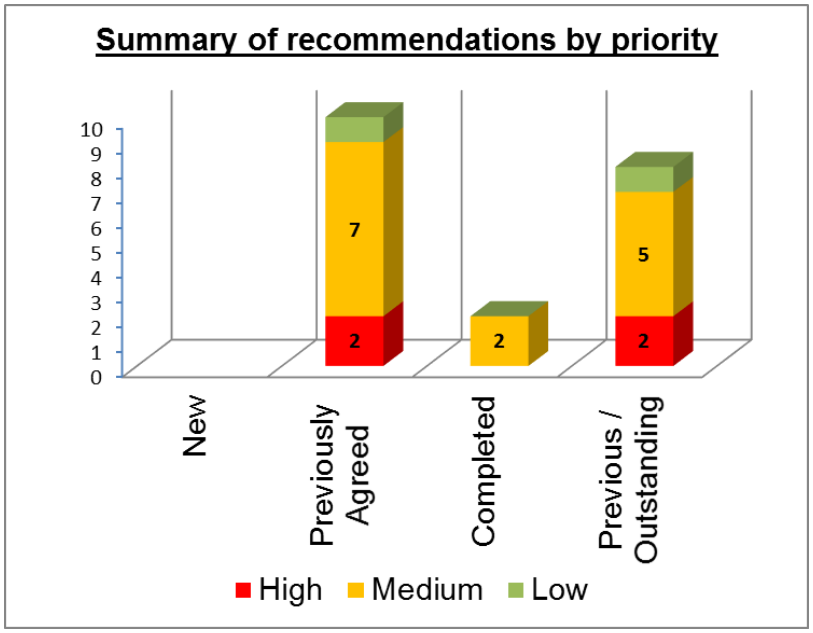
Recruitment & Retention – Follow-up

Executive Summary

Organisation: Nottingham City Council Directorate: Human Resources & Transformation	Overall Opinion: **Significant Assurance**	Direction of Travel:
Previous reviews: March 2018	Scope and Approach: The scope was limited to a review of outstanding recommendations from the 2017/18 report.	

High Priority Recommendations

2017/18 R5	HR should seek assurance that decision making is evidenced and retained and that the process is being followed.
2017/18 R9	HR should seek assurance on the completion of the required training for new starters



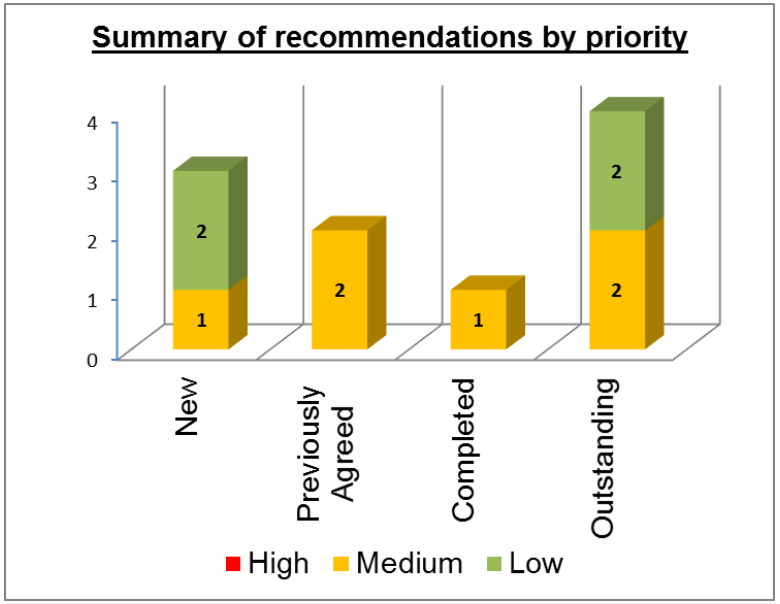
Councillor Allowances 2018/19

Executive Summary

Department:	Overall Opinion:	Direction of Travel:
Legal and Governance	**Significant Assurance**	No Change
Previous review:	Scope and Approach: This review considered the following aspects:	
Councillor Allowances 2017-18	• Allowances/expense payments are publicised • Payments are in accordance with policies adopted by NCC • Expenses are supported by valid receipt/invoice • Evidence to ensure allowances are monitored	

High Priority Recommendations

No High Priority Recommendations



Procurement 2019/20

Executive Summary

Department: Contracting and Procurement Previous review: 2017-18	Overall Opinion: **Limited Assurance**	Direction of Travel: No material changes in the level of control since our last review

Scope and Approach: This review considered the following aspects of Procurement:

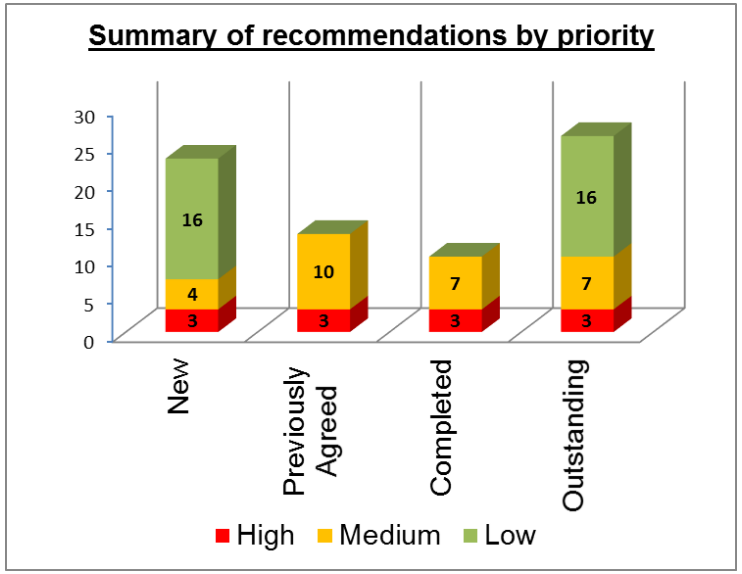
- Analysis of Oracle expenditure with the aim of ensuring that all appropriate contracts have been correctly published as per UK / EU regulations, such as requirements under;
- EU Public Contracts Directive 2014
- UK Public Contracts Regulations 2015
- Local Government Transparency Code 2015.
- Analysis and review of expenditure with the aim of identifying where council guidelines on spend approval requirements, procurement route requirements and contract requirements have not been followed or have been purposefully circumvented.
- Analysis and review of expenditure on contracts in place with the aim of identifying where spend has been made off-contract.
- Follow-up of the 2017-18 Procurement Audit is reported within the appendices of this report.

High Priority Recommendations

2019-20 R6 - C&O, District Heating & Waste Strategy should ensure approval is sought for all expenditure in line with the thresholds outlined in the Council's Financial Regulations and Contract Procedure Rules. NCC Spend Approval Requirements (Appendix A) set out these requirements

2019-20 R8 - C&O, District Heating & Waste Strategy should ensure compliant procurement exercises are undertaken in line with the Council's Financial Regulations and Contract Procedure Rules. NCC Procurement Route Requirements (Appendix B) and NCC Contract Requirements (Appendix C) set out these requirements… continued within Appendix C – Action Plan, C&O District Heating & Waste Strategy

2019-20 R13 - C&O, Parking, Fleet & Transport Operations should ensure approval is sought for all expenditure in line with the thresholds outlined in the Council's Financial Regulations and Contract Procedure Rules. NCC Spend Approval Requirements (Appendix A) set out these requirements



Capital Programme 2018/19

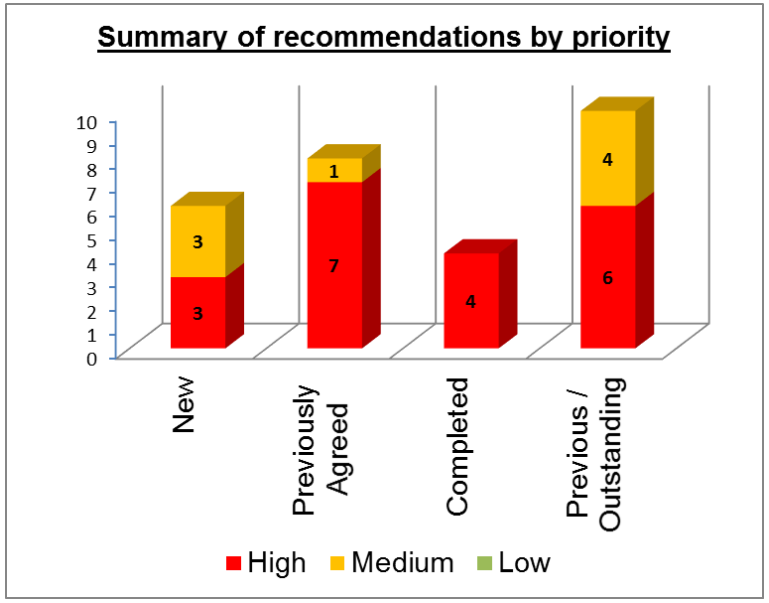
Executive Summary

Department: Strategy & Resources	Overall Opinion: **Limited Assurance**	Direction of Travel: Improving
Previous review: July 2018	The scope covered the review of the following:- • Follow up on the previously raised recommendations • Capital Programme as a whole and capital approvals • Capital additions • Capital Strategy • Capital Programme Risk Register • Capital Programme monitoring	

High Priority Recommendations

2018/19 R1 The Council should establish through the Capital Strategy a clear and transparent mechanism by which it will match and prioritise its investment needs against available funding over time. The mechanism should incorporate an assessment of

- Viability of the project
- Level and type of risk within the project
- The project's affordability within the programme (an existing requirement is to identify the revenue impact on MTFP)



2018/19 R3 The Chief Finance Officer should ensure that an appropriate 'project assessment process' is in place for all capital projects to strengthen project management and assist in assessing value for money. The following should be considered:

- Adherence to the Capital Management Framework should be mandatory for all capital projects
- The Council should continue to develop, support and promote the Portfolio Management Office (PMO) approach that has been implemented to ensure that all projects are developed in a consistent, robust and well documented manner.
- Each service area/department within the capital monitoring framework should have a programme board to manage performance of their schemes within the capital programme
- There should be a close link between the programme boards and Finance
- Capital Gateway process should be designed to help more closely track the delivery of capital projects and ensure appropriate capital project management

Continued

2018/19 R4	The level of scrutiny that a project should receive should be determined at the project concept stage. Every Project Manager should complete the Project Assessment Matrix (PAM). This should be sent to the PMO which will confirm the governance tier.
2017/18 R2	Project Managers should regularly review their transactions and the total spend on the projects they manage. The Capital Team should review the process for reporting on capital spend against the programme at project level financial status and scheme progress. Failure to forecast or monitor should be highlighted to the relevant Corporate Director who under Financial Regulations (A15) has a responsibility for managing the approved schemes in accordance with the Capital Strategy. Continued failure should be highlighted to Executive Board.
2017/18 R4	The process of disposing of Council assets should be outlined to ensure consistency and compliance. A Disposal Policy should be created and approved. (Reviewed as part of Property & Land Disposals audit)
2017/18 R6	Any valuations made should be clearly compliant with the Council's existing asset valuation guidelines. Reasons for alternative treatments should be clearly stated and supported by independent advice. (Reviewed as part of Property & Land Disposals audit)

Housing Benefits 2018/19

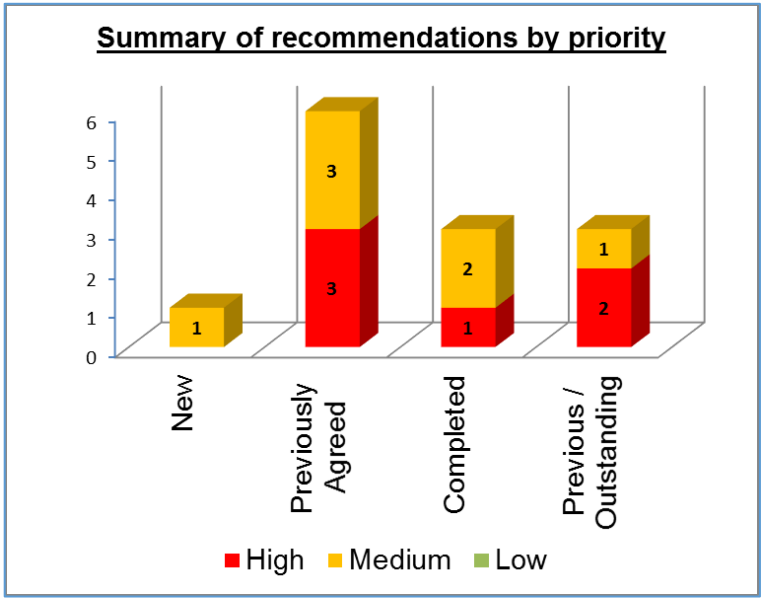
Executive Summary

Department: Strategy and Resources	Overall Opinion: **Limited Assurance**	Direction of Travel: Deteriorating
Previous reviews: • This is an annual audit	Scope and Approach: This review considered the following aspects of the Benefits service: • Subsidy outturn, workload balance and quality control • Reconciliations and payments processes • Parameter control process • Review of Previous Recommendations	

High Priority Recommendations

2017/18 R3 Ensure that an additional NCC client team member has access and training to upload ATLAS files to improve resilience for this key activity.

2017/18 R5 The Finance Team Leader – Contract Management should identify parameters which indicate cost benefit in deploying additional resources, and obtain authority to make those resources available where indicated so as not to lose subsidy (of a greater value).



NCC Accounts Payable 2018/19

Executive Summary

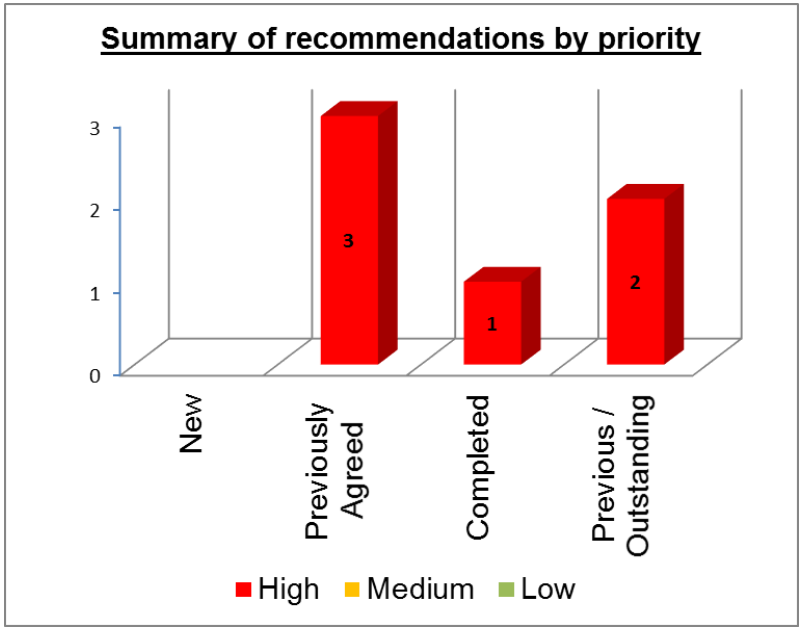
Organisation: Nottingham City Council Directorate: Resources Previous reviews: May 2017	Overall Opinion: **Significant Assurance**	Direction of Travel: Improving
	The scope of this review has covered the following aspects of the system: • Authorisation of payments • Invoices paid via CHAPS / BACS • Invoices on Hold	

High Priority Recommendations

2014/15 R1 Colleagues should be reminded that all RFPs should be appropriately authorised before being submitted to EMSS for payment.

2017/18 R1 A review should be undertaken to establish the need for making payments through the CHAPS/BASC process.

From this review, a process should be developed that reflects the additional banking and administrative cost and mitigates the risk of potential duplicate payments.



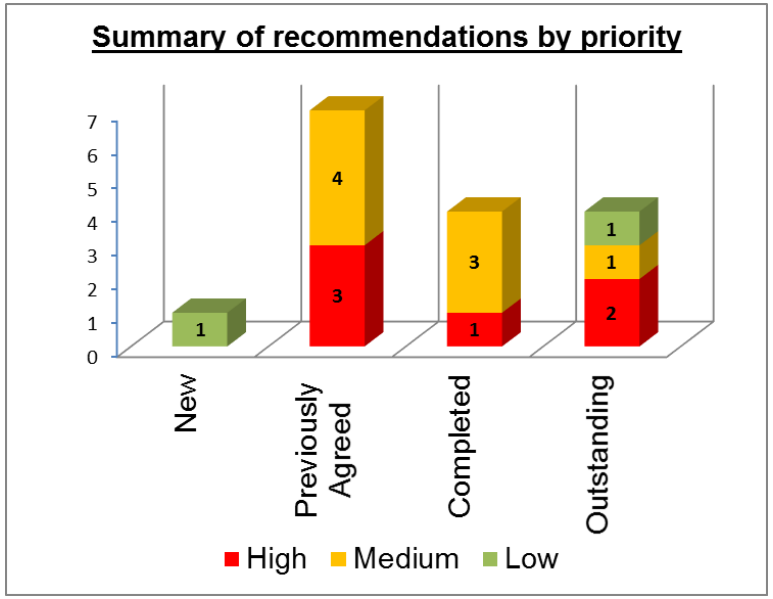
NCC Accounts Receivable 2018/19

Executive Summary

Department: Strategy & Resources	Overall Opinion: **Limited Assurance**	Direction of Travel: Some improvement in resolution of outstanding recommendations
Previous review: Accounts Receivable 2017-18	<u>Scope and Approach:</u> This review considered the following aspects: • Documentation supporting the raising of invoices and credit notes • Review of receipts unapplied / unallocated in suspense • Review of sales to general ledger reconciliation • Review of the level of accounts receivable debt • Review of the write-off of unrecoverable debt • Follow-up of outstanding recommendations from previous audit reviews	

High Priority Recommendations

2016/17 R2	Review usage of the Consolidated Debt system and if appropriate, decommission the system to ensure the council remains compliant with the Data Protection Act [now GDPR].
2014/15 R1	Financial Regulations should be re-drafted to take account of third parties being involved within the debt collection process.



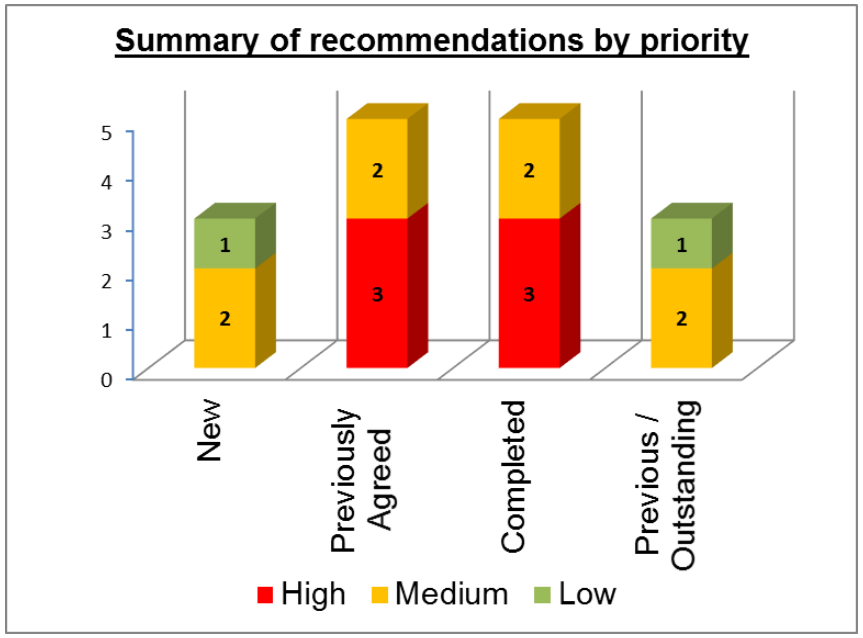
Corporate Performance

Executive Summary

Department: Strategy and Resources Previous review: November 2017	Overall Opinion: **Significant Assurance**	Direction of Travel:
	<u>Scope and Approach:</u> This review considered the following proposed procedures with particular regard to the Council Plan 2019-24: • Formal approval for the Council Plan • Setting up of the Performance Framework • Routine review of performance • Suitable reporting of performance • IT controls	

High Priority Recommendations

There are no new high priority recommendations



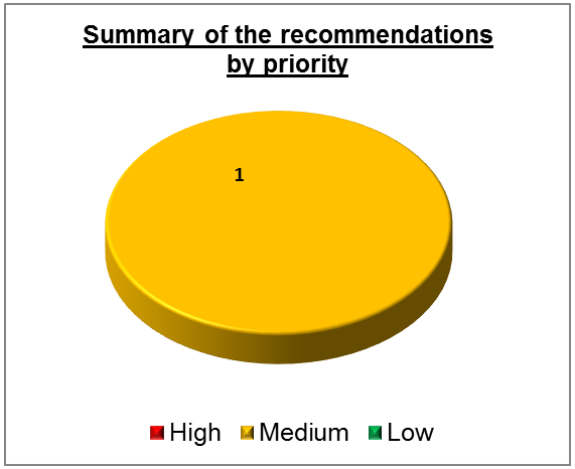
ContrOCC Provider Portal

Executive Summary

Department: Children and Adults – Adult Social Care	Overall Opinion: **Significant Assurance**	Direction of Travel: This is the first review in this area.
Previous review: None – new system.	Scope and Approach: This review considered the following aspects of the ASC Provider Portal: ❖ To document the system ❖ Review a sample of contracts to ensure that they set out roles and responsibilities as far as accessing the portal is concerned ❖ Review the access controls to ensure that they are appropriate ❖ Ascertain the level of training and support available to providers ❖ Ascertain if any business contingency plans have been developed should the software fail to be available ❖ Review the level of monitoring that is taking place.	

High Priority Recommendations

There are no high priority recommendations in this report.



Fostering, Adoption and Placements Review

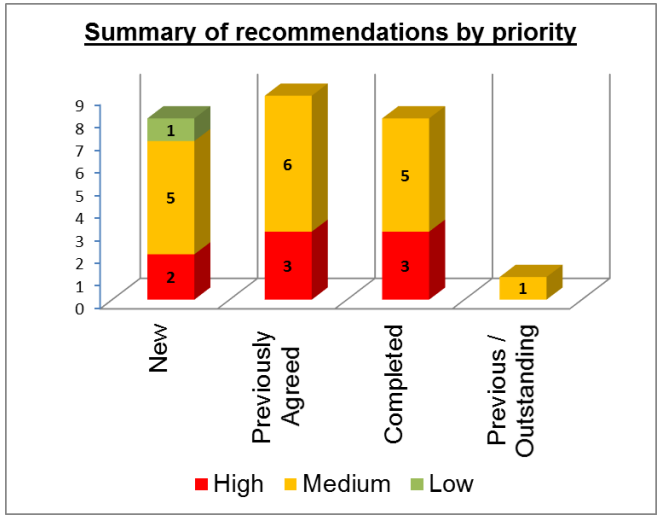
Executive Summary

Department: Children and Adults – Children's Integrated Services	Overall Opinion: **Limited Assurance**	Direction of Travel: There have been some improvements but there are a number of procedural issues which need to be addressed.
Previous review: January 2016 Fostering and Adoption. January 2019 ContrOCC Feeder Processes.	Scope and Approach: The scope of the audit will involve the reviewing the payments process to ensure that the payments are valid and to undertake a follow-up of outstanding actions that were raised as part of the 2015/16 Placements and Fostering and Adoption Reports and the 2017/18 ContrOCC feeder report	

High Priority Recommendations

2019-20 R6 All records and decisions should be recorded on Liquidlogic to ensure that overpayments are not created.

2019-20 R8 All future IPAs should be signed and dated by both parties and NCC should chase up to obtain a signature from the IFA in all cases.



Henry Whipple Primary School

Executive Summary

School : Henry Whipple Primary School

Date of Review: 5th November 2019

Summary: We consider that the financial procedures in place at the school represent good practice and provide sound systems of internal control.

Previous Audit Report 15 June 2015 Significant Assurance

Overall Opinion:

Significant Assurance

Direction of Travel:

N/A

Scope and Approach: The scope of this review was limited to;

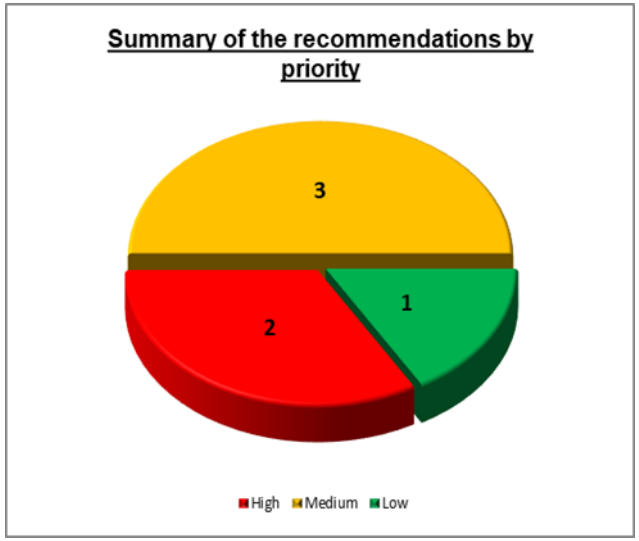
Leadership & Governance, People Management, Budget Management, Payroll & Single Status, Purchase to Pay (including Purchase Card), Income & Banking, School Fund, Asset Register and GDPR & Data Security

High Priority Recommendations

There are two high recommendations to report:-

R02 - Official order forms, signed by the Head Teacher or other authorised member of staff, should be issued to suppliers for all goods and services being purchased by the school.

R05 - All bank transfer payments should be subjected to similar financial controls as BACS payments

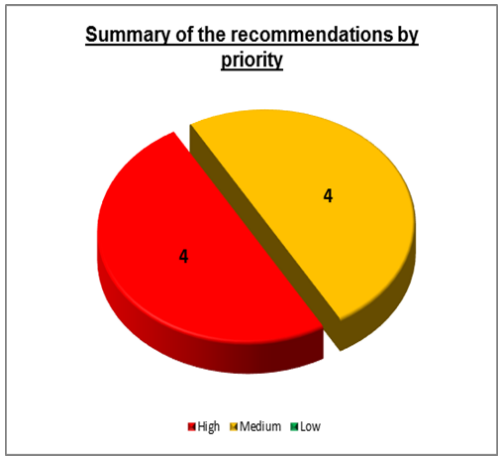


Nottingham Schools Trust

Executive Summary

Department: Children & Adults	Overall Opinion: **Limited Assurance**	Direction of Travel: N/A
Previous review: This is the first audit	Scope and Approach: Scope and Approach: This review considered the following aspects: • governance structure and arrangements • appointments, roles, responsibilities and accountabilities • risk management • vision for the Trust to ensure that progress is being made against the strategic aims • Trust assurance framework- performance monitoring and reporting • Schools assurance framework-performance monitoring and reporting • Effectiveness of the Trust	

High Priority Recommendations



R1
- The grant agreement should be officially signed on behalf of NCC
- An annual review of the funding agreement should take place to ensure that conditions are being met, and that NST is delivering its aims and objectives.
- Clarification should be obtained regarding the number of days schools receive SIA visits.

R2
- A funding decision should be made to allow NST to plan for their future and to ensure that NST has allocated resources to achieve its objectives.

R7
- The Trust should ensure that each school member is in receipt of at least five SIA visits a year.
- SIAs visits/ improvement advisory programme should be planned and executed by the Trust to ensure that this requirement is being met.
- SIAs performance and effectiveness should be regularly assessed by the CEO and the Board of Trustees. Evidence of this assessment should be retained.

R8 – Board of Trustees should
- ensure that NST is operating in line with the grant agreement.
- the self-evaluation should be documented and retained periodically.
- A report detailing the use of the grant and the delivery of projects should be undertaken every quarter.

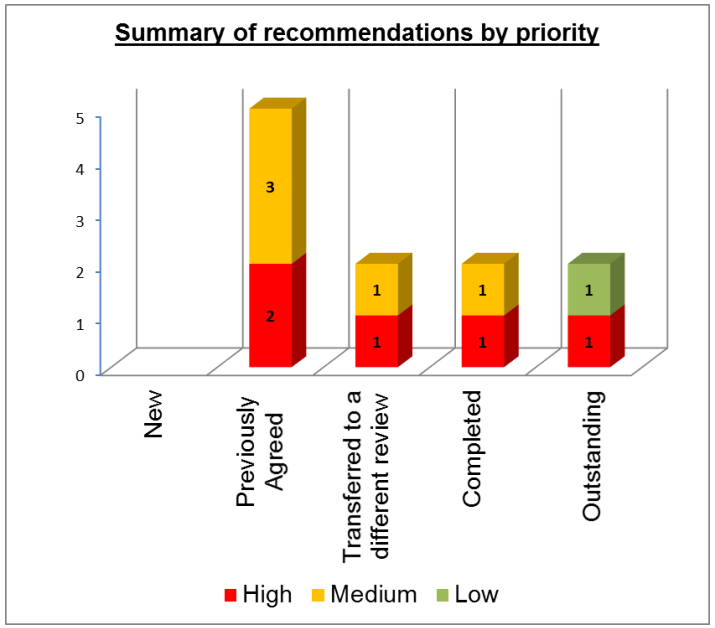
Waste Manager - Application review - Follow-up

Executive Summary

Department: Commercial and Operations	Overall Opinion: **Limited Assurance**	Direction of Travel: There has been a slight improvement in the level of controls in place.
Previous review: AMCS Application Review – April 2019	Scope and Approach: We have reviewed the outstanding recommendations to ascertain the effectiveness of their implementation.	

High Priority Recommendations

2018-19 R5 Appropriate levels of access should be implemented in line with job roles to enforce the separation of duties.



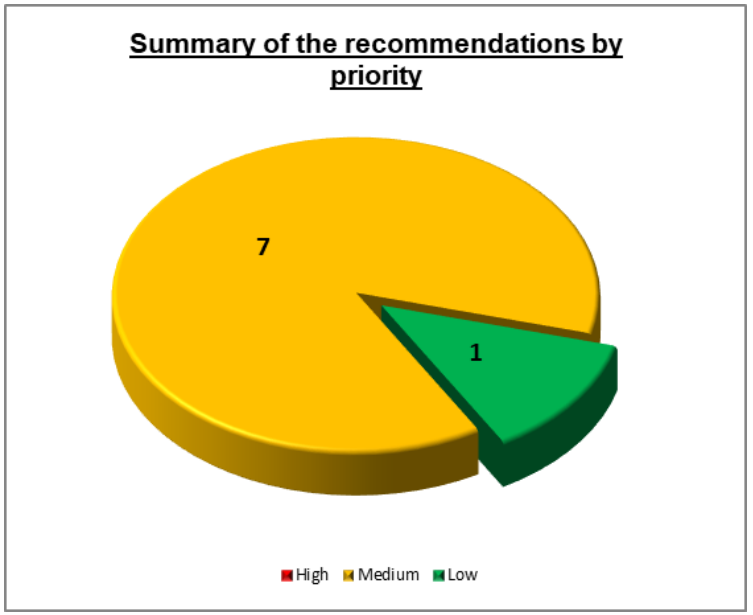
Commercial Waste Contracts

Executive Summary

Department:	Overall Opinion:	Direction of Travel:
Commercial and Operations	**Significant Assurance**	N/A
Previous review: No previous review	Scope and Approach: This review considered the following: • Business objectives/ commercial strategy. • Legislative requirements. • Risk management and assurance. • Profitability and contract monitoring • Focussing on the Derby City Council delegation	

High Priority Recommendations

There are no high priority recommendations.



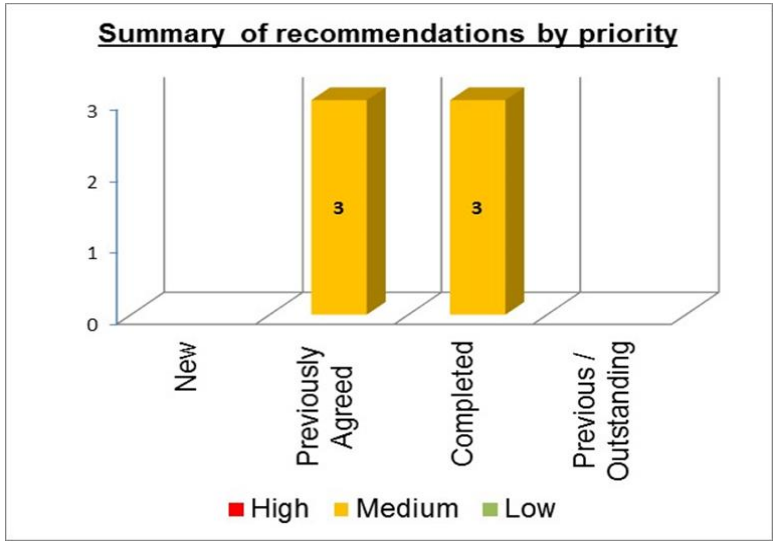
Catering Contracts – Follow-up

Executive Summary

Organisation: Nottingham City Council Directorate: Commercial and Operations	Overall Opinion: **Significant Assurance**	Direction of Travel: Improving
Previous reviews: Catering Contracts 2018/19	Scope and Approach: Follow up of the recommendations made in the 2018/19 report	

High Priority Recommendations:

There were no high priority recommendations:



Royal Centre and Concert Hall 2019-20

Executive Summary

Department: Sports & Culture	Overall Opinion: **Limited Assurance**	Direction of Travel: N/A
Previous review: There have been no recent reviews	Scope and Approach: • Payroll, overtime and expenses • Box Office system and processes • Income • Procurement • Performer contracts	

High Priority Recommendations:

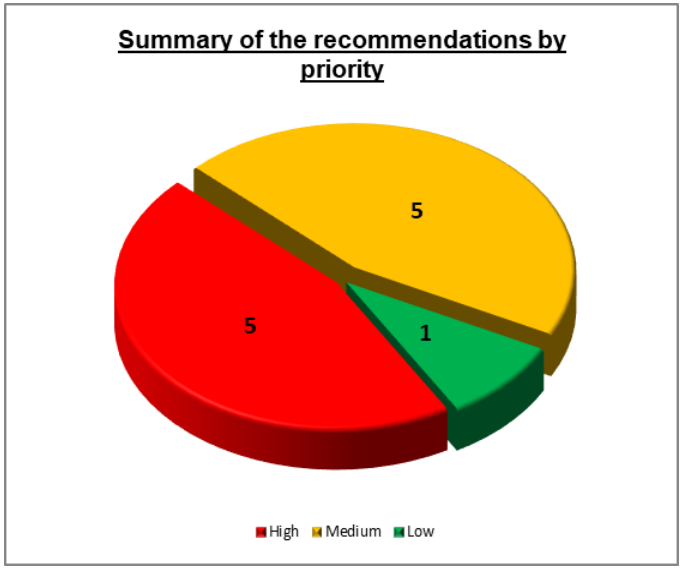
2019/20 R4 Management should ensure that procurement and approval routes are complied with.

2019/20 R6 A process should be created for the removal of leavers from Tessitura and regular review of access.

2019/20 R7 A Business Continuity Plan should be created to be held by TRCH.

2019/20 R8 Management should review the issuing of complimentary tickets and consider implementing controls.

2019/20 R10 The Business Performance Director should periodically review settlements and advanced payments that have been processed. This review should be evidenced.



Investment Property and Land Disposals

Executive Summary

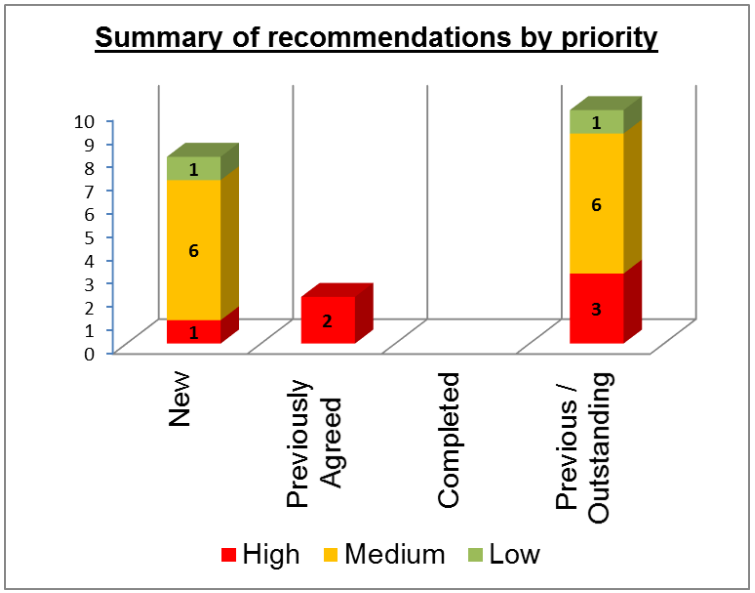
Department: Development & Growth – Strategic Assets & Property	Overall Opinion: **Limited Assurance**	Direction of Travel: N/A
Previous review: No previous review. However some aspects were included in our review of - Capital Strategy & Fixed Assets Register (July 2018).	Scope and Approach: This review considered the following: • Review of the Disposal Strategy • Review of the procedures in place for disposals • Selection of a sample of disposals to ensure:- – Adherence to procedures – Transparency – Statutory compliance – Achievement of best value – Achievement of objectives • Review of risk management processes	

High Priority Recommendations

2018/19 R2 Each valuation should confirm compliance with RICS guidance or professional standards

2017/18 R4 A Disposals Policy should be created, approved and form part of the Corporate Asset Management Plan

2017/18 R6 Any valuations made should be clearly compliant with the Council's existing asset valuation guidelines. Reasons for alternative treatments should be clearly stated and supported by independent advice, where appropriate. (2018/19 update) Once the decision to dispose has been made, a formal control document should be prepared which should state how the DCLG's principles will be met. This should be suitably approved and retained on the case file



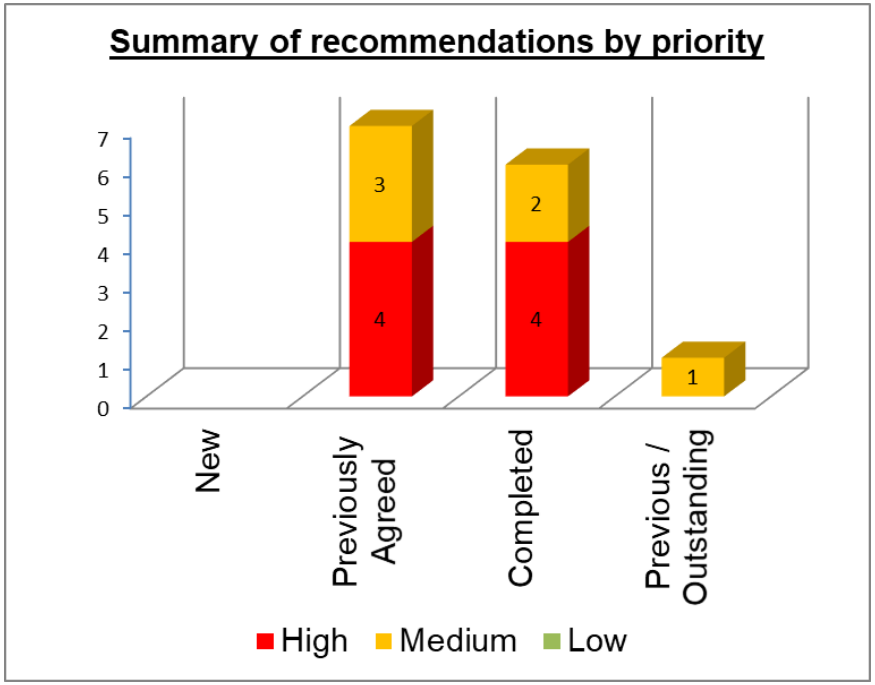
Risk Management – Follow-up

Executive Summary

Directorate: Audit & Risk, Strategy & Resources	Overall Opinion: **Significant Assurance**	Direction of Travel:
Previous reviews: Risk Management 20 March 2019	Scope and Approach: Follow up of recommendations from the March 2019 report	

High Priority Recommendations:

There are no high recommendations to report.



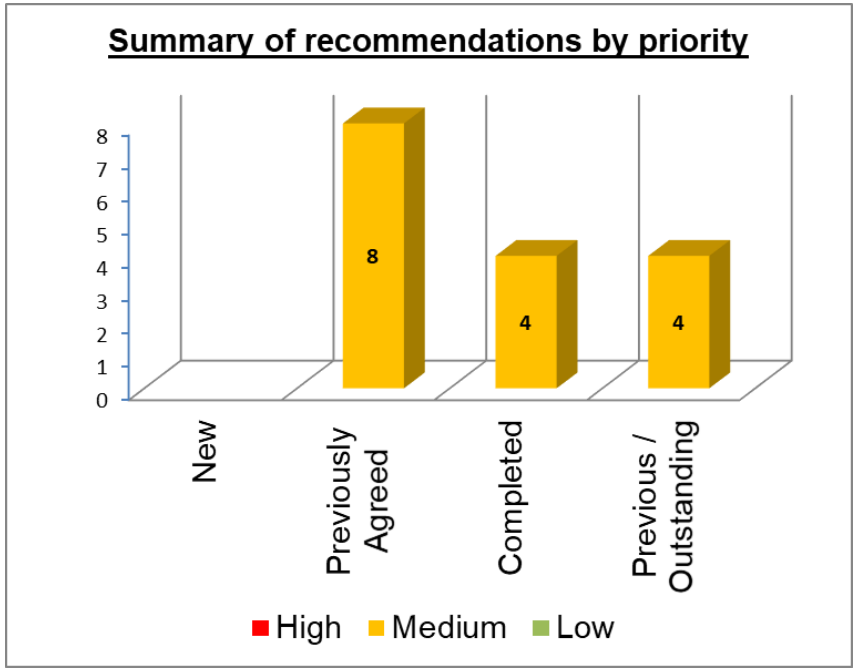
Data Protection – Follow-up

Executive Summary

Directorate: Legal & Governance, Strategy & Resources	Overall Opinion: **Limited Assurance**	Direction of Travel:
Previous reviews: Data Protection (Information Compliance) March 2019	Scope and Approach: • Follow Up of recommendations from the March 2019 report	

High Priority Recommendations

There are no high priority recommendations to report.



Business Continuity and Disaster Recovery – Follow-up

Executive Summary

Department: Strategy & Resources	Overall Opinion: **Limited Assurance**	Direction of Travel: Some improvements have been identified.
Previous review: Business Continuity & Disaster Recovery Audit 2018/19 Business Continuity & Disaster Recovery Implications for IT – Sept 2013	Scope and Approach: We have reviewed the recommendations that were agreed within the 2018/19 Business Continuity Audit in order to assess the level of implementation.	

High Priority Recommendations

2018-19 R3 IT should be invited to attend the DEPLG, with new threats and opportunities for improving resilience being referred to the Senior Resilience Group for action.

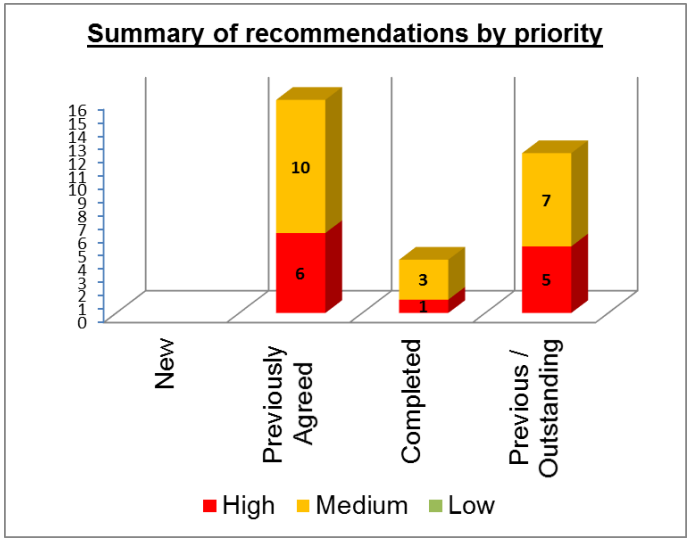
2018-19 R7 CLT should be reminded of the need for all City Council service areas and subsidiaries to complete BCP plans and submit them to Emergency Planning.

Once complete CLT should determine the order in which IT Services should restore services in order that they can put appropriate measures and strategies in place to ensure recovery efforts are effective.

2018-19 R8 The RPO objective for each system should be clearly stipulated in order that IT can put in place the appropriate policies and strategies in order to meet the business requirements.

2018-19 R9 IT should be informed of the approved RTO and RPO requirements in order that they can assess whether or not the required expectations are being met or they need to produce proposals to support service delivery.

By providing this information to IT they will be able to ensure that they can plan for systems to be restored in an appropriate sequence and allow for an investment strategy to be developed which meets the needs of the City Council



2018-19 R10 Departmental plans should clearly stipulate where systems are being provided by cloud based providers as this may affect the RTO and the priority in which services are provided.

In addition the externally hosted service providers may need to know the RTO requirements in order that they can plan accordingly.

Continued

2018-19 R11	Departmental plans should be quality checked to ensure that data recorded is accurate and up to date.
2018-19 R16	Polices and strategies should be developed to aid the testing and evaluation of plans.
	In addition the strategies and policies should also encompass IT and the testing of disaster recovery plans so that they are co-ordinated.

Treasury Management

Executive Summary

Department:	Overall Opinion:	Direction of Travel:
Strategy & Resources	**Significant Assurance**	No material change

Previous review:

Treasury Management 2018/19

Treasury Management 2017/18

Scope and Approach: This review considered the following aspects of the system:

- Treasury Management complies with the legislation and CIPFA Code of practice to include borrowing and lending activities
- The existence of an agreed Treasury Management strategy that follows CIPFA Treasury management code
- A review of current processes to ensure the Treasury Management strategy is followed
- A review of Treasury Management activities to ensure they are correctly recorded in the accounts
- A review of the Investment Strategy including debt repayment
- A review of prudential indicators and limits
- A review of controls in place to ensure that investment opportunities are appropriately identified and a sound authorisation process is applied.
- The existence and coverage of fidelity guarantees for all appropriate staff.

High Priority Recommendations

No Recommendations Outstanding

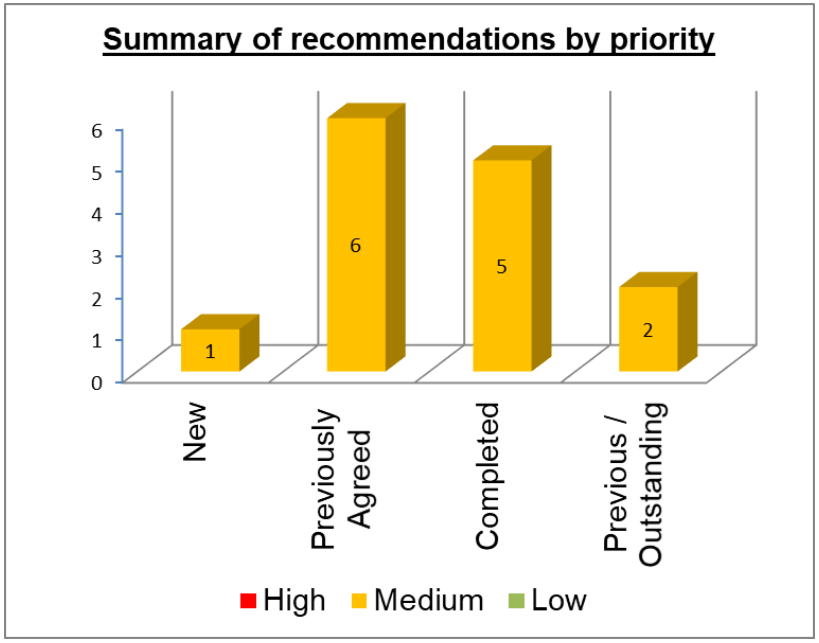
Budget Monitoring

Executive Summary

Department: Strategy & Resources, Finance	Overall Opinion: **Significant Assurance**	Direction of Travel:
Previous review: Budget Monitoring 2018/19	Scope and Approach: ❖ Budget approval from Full Council ❖ Loading of the approved budget onto Oracle ❖ Budget monitoring process ❖ Sample testing of virements for compliance with Financial Regulations ❖ Follow up of previous recommendations	

High Priority Recommendations

No high recommendations have been made.



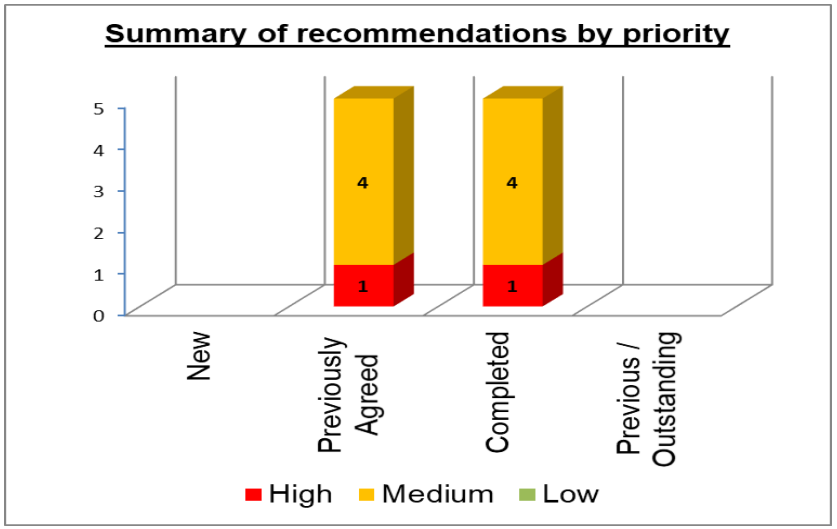
Income and Debt Collection - follow-up Cemeteries

Executive Summary

Organisation: Nottingham City Council Directorate: Neighbourhood Services	Overall Opinion: **Significant Assurance**	Direction of Travel: Improving
Previous reviews: Income & Debt Collection 18/19	Scope and Approach: The scope was limited to a review of recommendations from the previous report	

Outstanding High Priority Recommendations.

There are no outstanding priority recommendations.



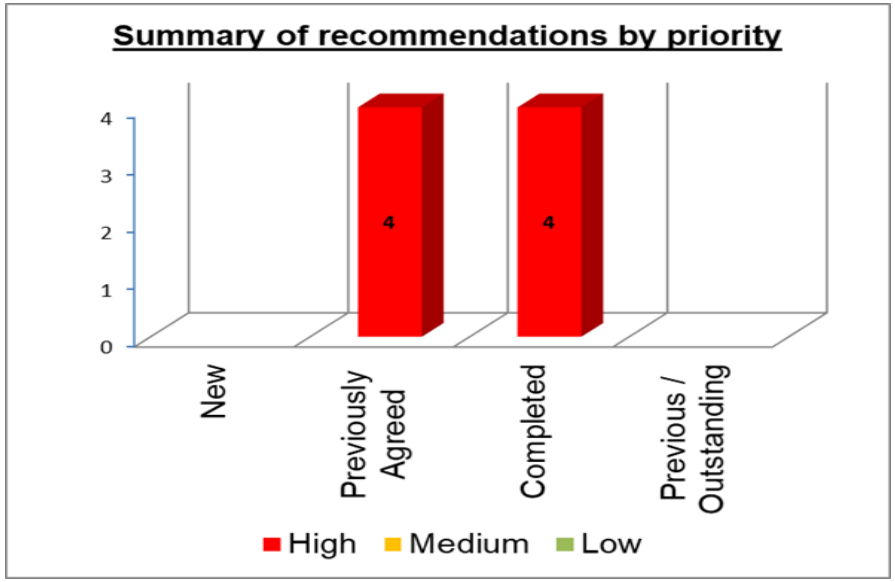
Income and Debt Collection - follow-up – Harvey Hadden Sports Village

Executive Summary

Department : Sports, Culture & Parks Previous reviews: None.	Overall Opinion: **Significant Assurance**	Direction of Travel: Improving
	Scope and Approach: The scope was limited to a review of recommendations from the previous report	

Outstanding High Priority Recommendations:

There are no high priority recommendations outstanding.



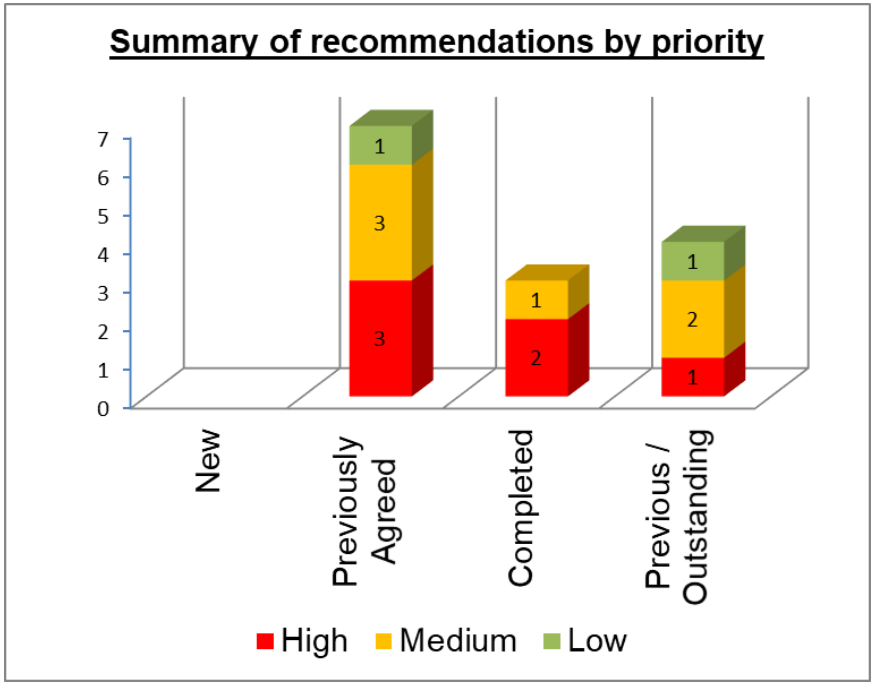
Income and Debt Collection - follow-up - Markets

Executive Summary

Organisation: Nottingham City Council Directorate: Sports, Culture and Parks	Overall Opinion: **Limited Assurance**	Direction of Travel: Improving
Previous reviews: None	Scope and Approach: The scope was limited to a review of recommendations from the previous report	

Outstanding High Priority Recommendations

R3. An exercise should be undertaken to establish the value of the overcharges. Refunds should be given where possible.



PCI Compliance

Executive Summary

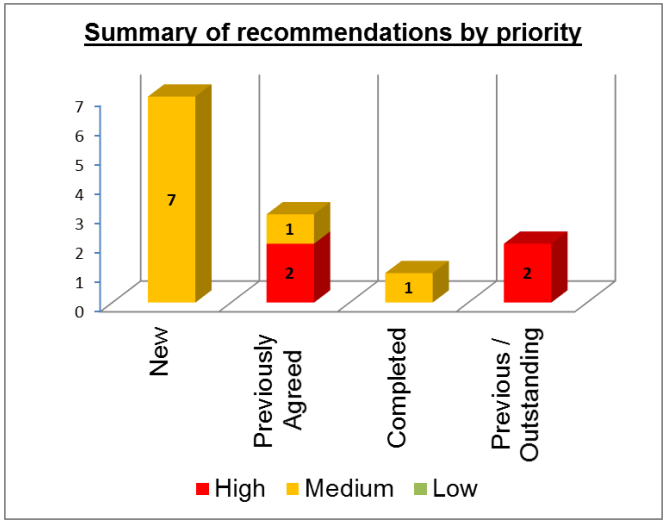
Department: Strategy and Resources – Strategic Finance	Overall Opinion: **Significant Assurance**	Direction of Travel: There are some signs of improvement, but there are issues within the governance arrangements which need to be addressed
Previous review: PCI Compliance 2015-16	Scope and Approach: This review was a follow-up of the previous review undertaken during 2015-16	

High Priority Recommendations-

2015/16 R2 A firm proposal and business case should be developed to replace the existing arrangements with a more secure means of accepting payments over the telephone.

2015/16 R3 A formal policy should be communicated to all customer-facing colleagues who may receive payments via the telephone.

In addition, where this function is undertaken by external organisations, who currently use NCC's facilities, then clauses should be included within the contracts specifying the penalties for breaching the policy.



Appendix 2

Final Audit Reports Issued in 2019/20 including level of assurance and breakdown of recommendations

Department	Division	Activity	Level of Assurance	High	Medium	Low
Children and Adults		Children and Adults - Liquidlogic and ContrOCC systems administration	Limited Assurance	0	8	0
	Total			**0**	**8**	**0**
	Adult Social Care Quality and Change	ASC - ContrOCC Provider Portal	Significant Assurance	0	0	1
	Adult Social Care Quality and Change Total			**0**	**0**	**1**
	Children's Integrated Services (Formerly Safeguarding)	Fostering, Adoption and External Placements 2019-20	Limited Assurance	2	5	2
	Children's Integrated Services (Formerly Safeguarding) Total			**2**	**5**	**2**
	Education (Formerly Schools & Learning)	Dovecote Primary School	Limited Assurance	17	14	4
		Fernwood Primary School	Significant Assurance	0	1	1
		Henry Whipple Primary 2019-20	Significant Assurance	2	3	1
		Nottingham Schools Trust 2019-20	Limited Assurance	4	4	0
		Crabtree Primary School	Limited Assurance	16	10	1
	Education (Formerly Schools & Learning) Total			**39**	**32**	**7**
Children and Adults Total				**41**	**45**	**10**
Commercial and Operations	Neighbourhood Services	Waste Manager - Application review	Limited Assurance	4	3	0
		Commercial Waste Contracts	Significant Assurance	0	7	1
		Fleet Management	Limited Assurance	5	3	0
	Neighbourhood Services Total			**9**	**13**	**1**
	Sports, Culture & Parks	Royal Centre & Concert Hall 2019-20	Limited Assurance	5	5	1
	Sports, Culture & Parks Total			**5**	**5**	**1**
Commercial and Operations Total				**14**	**18**	**2**
Development & Growth		Housing Rents	Significant Assurance	0	0	1
	Total			**0**	**0**	**1**
	Strategic Asset & Property Management	Commercial and Investment Properties Health and Safety	Limited Assurance	5	2	0
		Estate Rents 2019-20	Significant Assurance	0	4	2
		Investment Property and Land Disposals	Limited Assurance	1	6	1
	Strategic Asset & Property Management Total			**6**	**12**	**3**
	Traffic & Transport	Traffic & Safety Capital Projects - Follow Up	Limited Assurance	1	0	0
	Traffic & Transport Total			**1**	**0**	**0**

Department	Division	Activity	Level of Assurance	High	Medium	Low
Development & Growth Total				**7**	**12**	**4**
	Legal & Governance	Councillor Allowances 2018 -19	Significant Assurance	0	1	2
	Legal & Governance Total			**0**	**1**	**2**
	Procurement and Commissioning	Procurement 2019-20	Limited Assurance	3	3	16
	Procurement and Commissioning Total			**3**	**3**	**16**
	Strategic Finance	Capital Programme	Limited Assurance	3	3	0
		Housing Benefits 2018-19	Limited Assurance	0	1	0
		Treasury Management	Significant Assurance	0	0	0
		Budget Monitoring	Significant Assurance	0	1	0
		NCC Accounts Receivable 2018-19	Limited Assurance	0	0	1
		NCC Accounts Payable 2018-19	Significant Assurance	0	0	0
		Transport Grant - LTP Capital Block Funding 2018-19	Grant Audit	0	0	0
		PCI Compliance	Significant Assurance	0	7	0
		NPIF Grant for Year Ending 2018-19	Significant Assurance	0	0	0
		LA Bus Subsidy Grant Year Ending 2018-19	Grant Audit	0	0	0
		Disabled Facilities Grant (DFG) 2018-19	Significant Assurance	0	0	0
	Strategic Finance Total			**3**	**12**	**1**
	Strategy and Policy	Corporate Performance Indicators	Significant Assurance	0	2	1
	Strategy and Policy Total			**0**	**2**	**1**
Strategy and Resources Total				**6**	**18**	**20**
			Grand total	**68**	**93**	**36**

Follow Up* Reports Issued in 2019/20 including level of assurance and breakdown of recommendations

Department	Division	Activity*	Level of Assurance	High	Medium	Low
Children and Adults		Schools Themed - Safeguarding & Casey	Significant Assurance	6	3	1
		Crabtree Primary School	Limited Assurance	16	10	4
	Education (Formerly Schools & Learning) Total			22	13	5
Children and Adults Total				**22**	**13**	**5**
Commercial and Operations	Neighbourhood Services	Waste Manager - Application review	Limited Assurance	4	3	0
		Catering Contracts	Significant Assurance	0	3	0
		Income and Debt Collection - Cemeteries	Significant Assurance	0	0	0
		Income and Debt Collection – Harvey Hadden Sports Village	Significant Assurance	0	0	0
	Neighbourhood Services Total			4	6	0
	Sports, Culture and Parks	Income and Debt Collection - Markets	Limited Assurance	1	2	1
	Sports, Culture and Parks Total			1	2	1
Commercial and Operations Total				**5**	**8**	**1**
Development & Growth	Traffic & Transport	Traffic & Safety Capital Projects	Limited Assurance	9	1	0
	Traffic & Transport Total			9	1	0
Development & Growth Total				**9**	**1**	**0**
NCC Corporate		Risk Management follow-up	Significant Assurance	4	3	0
	Total			4	3	0
NCC Corporate Total				**4**	**3**	**0**
Strategy and Resources	HR & Customer (Formerly Organisational Transformation)	Recruitment & Retention	Significant Assurance	2	6	1
	HR & Customer (Formerly Organisational Transformation) Total			2	6	1
		Data Protection	Limited Assurance	0	8	0
		Business Continuity and Disaster Recovery	Limited Assurance	8	8	0
	Legal & Governance Total			8	16	0
		Income and Debt Collection	Limited Assurance	8	7	1
	Strategic Finance Total			8	7	1
Strategy and Resources Total				**18**	**29**	**2**
			Grand total	**58**	**54**	**8**

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Appendix 3

Summary of performance against updated Internal Audit Plan 2019/20 – Quarter 3

Audit Title	Planned Days	Actual Days
Governance	255	112
Organisation	125	57
Key Financial Systems	154	140
Procurement & Projects Programme Management	225	122
Big Ticket / Risk Based Service Reviews	202	206
Compliance / Challenge	150	115
ICT and Information Governance	95	51
Counter Fraud	500	546
Corporate Fraud Strategy	110	19
Companies / Other Bodies	280	316
Consultancy, Advice and Support	258	241
Development , Redesign & Quality	175	87
Total Days	**2529**	**2012**

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Appendix 4

Nottingham City Internal Audit Local Performance Indicators (PIs)

Table 1 : Performance v PI Targets					
Indicator		**Target**	**Period**	**Actual Year**	**Comments**
1	% of all recommendations accepted.	95%	99%	99%	On Target
2	% of high recommendations accepted.	100%	100%	100%	On Target
3	Average number of working days from draft agreed to the issue of the final report	8 days	2	3	Above Target
4	% of staff receiving at least three days training per year.	100%	63%	cumulative	On Target
5	% of customer feedback indicating good or excellent service.	85%	cumulative	98%	Above Target
6	Number of key / high risk systems reviewed	12	-	Complete in Qtr4	See Below

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Appendix 2 - Audit Committee Work Programme

1 Proposed Work Programme

2019

Sep

- Audit Committee Training - Treasury Management Scrutiny
- IICSA presentation
- Customer Experience / Complaints and Ombudsman Annual Assurance
- Non-Executive Amendments to the Constitution
- Audit Committee Terms of Reference & Work Programme
- External Audit Update

Oct

- External Audit Of Nottingham City Council Group

2020

Jan

- Audit Committee Training - Risk
- Non-Executive Amendments to the Constitution
- Health & Safety Annual Assurance
- Treasury Management Half Year
- Review of Accounting Policies 2019/20
- Risk Management & Corporate Risk Register Update
- Information Governance & Information Security Annual Assurance
- External Auditor Update

Feb

- AGS update & 2019-20 process
- Corporate Performance Assurance
- External Audit plan
- Treasury Management and Capital Strategy
- Internal Audit Update
- Governance of major projects & capital schemes presentation

2020

Feb (continued)

- Partnership Governance Framework & Annual Health Checks
- Audit Committee Terms of Reference & Work Programme

May

- IICSA Update
- Brexit Update
- Equality / HR Assurance
- Governance and Accountability of 3rd Party Arrangements
- Companies Governance Update
- External Audit Update
- Audit Committee Terms of Reference & Work Programme

Jun

- Accounts Update 2018-19
- IA Annual Report & Opinion
- Draft Statement of Accounts
- EMSS Annual Report
- Interim AGS 2019-20
- Treasury Management Annual Report
- Ethics & Culture
- Audit Committee Terms of Reference & Work Programme

Jul

- Audit Committee Annual Report
- External Audit Report
- Statement of Accounts
- Final AGS 2019-20
- Audit Committee Terms of Reference & Work Programme

2020

Sep

- Audit Committee Training - Treasury Management Scrutiny
- Counter Fraud Strategy & Whistleblowing Policy
- Companies Governance Annual Assurance
- Customer Experience / Complaints and Ombudsman Annual Assurance
- Audit Committee Terms of Reference & Work Programme

Nov

- Treasury Management Half Year
- Risk Management & Corporate Risk Register Update
- Partnership Governance Framework & Annual Health Checks
- Internal Audit Update
- Audit Committee Terms of Reference & Work Programme

2021

Feb

- AGS update & 2019-20 process
- Corporate Performance Assurance
- External Audit plan
- Treasury Management and Capital Strategy
- Internal Audit Update
- Health & Safety Annual Assurance
- Review of Accounting Policies 2019/20
- Information Governance & Information Security Annual Assurance
- Audit Committee Terms of Reference & Work Programme

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