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Nottingham City Council
Audit Committee

Date: Friday, 25 November 2022

Time: 10.30 am

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

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

Director for Legal and Governance

Governance Officer: Catherine Pryor **Direct Dial:** 0115 876 4298

1	**Apologies for absence**	
2	**Declarations of interests**	
3	**Minutes confirmation**	
a	**29 April 2022**	3 - 6
b	**30 September 2022**	7 - 14
4	**External Audit - update** Verbal update by external auditors	
5	**Treasury Management 2022/23 half-yearly report** Report of Corporate Director for Finance and Resources / Section 151 Officer	15 - 36
6	**Exemption from Contract Procedure Rules: Q2 2022-23** Report of Corporate Director for Finance and Resources	37 - 40
7	**Companies Governance Executive Committee - update on 'Together for Nottingham: Theme 3'** Report of Corporate Director for Finance and Resources	41 - 86
8	**Additional meeting** To agree to hold an additional Audit Committee meeting at Loxley House at 10.30am on 31 March 2023	

Continued over

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

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 Loxley House, Station Street, NG2 3NG, on 29 April 2022 from 10.30 am - 1.45 pm

Membership

Present	**Absent**
Councillor Audra Wynter (Chair)	Councillor Graham Chapman
Councillor Sajid Mohammed (Vice Chair)	Councillor Ethan Radford
Councillor Michael Edwards	
Councillor Jane Lakey	
Councillor AJ Matsiko	(present for minutes 77 to 86 only)
Councillor Anne Peach	(present for minutes 85 to 89 only)
Councillor Andrew Rule	

Colleagues, partners and others in attendance:

Beth Brown	-	Head of Legal and Governance
John Gregory	-	Grant Thornton External Auditors
Richard Grice	-	Interim Director of Transformation
Titu Hayre-Bennett	-	Head of HR and OD
Clive Heaphy	-	Interim Corporate Director for Finance and Resources
Richard Henderson	-	Director for HR and EDI
Mark Leavesley	-	Governance Officer
Naomi Matthews	-	Data Protection Officer
Rob McCutcheon	-	Team Leader, Corporate Safety Advice
Paul Millward	-	Head of Resilience
Sean Nolan	-	member of the Improvement and Assurance Board
Steve Oakley	-	Head of Contracting and Procurement
Ita O'Donovan	-	Interim Director for Strategy and Policy
Sir Tony Redmond	-	Chair of the Improvement and Assurance Board
Simon Salmon	-	Head of IT
Shail Shah	-	Head of Audit and Risk
John Slater	-	Group Auditor
Councillor Adele Williams	-	Portfolio Holder, Adults and Health

77 Apologies for absence

Councillor Chapman – leave
Councillor Radford - personal

78 Declarations of interests

None.

79 Minutes

The Committee confirmed the minutes of the meeting held on 25 February 2022 as a correct record and they were signed by the Chair.

80 Exemption from Contract Procedure Rules

Steve Oakley, Head of Contracting and Procurement, presented the report, which detailed all exemptions requested during the period from the commencement of the Council's new Constitution in November 2021, and also provided an update on actions taken and planned to improve compliance with the new Constitution, in particular Contract Procedure rules.

Resolved to note the number of exemptions from Contract Procedure Rules during quarter three of 2021/22, and the actions being taken to ensure that contracts were awarded in line with Contract Procedure Rules and exemptions only occurred where there was a sound rationale for approving that exemption.

81 ICT Procurement Audit

This item was deferred to the June 2022 meeting of the Committee.

82 Working Group Updates

Resolved that the Head of Audit and Risk be requested to submit a report, detailing the District Heating and Waste Infrastructure, to a future meeting of this Committee.

83 Work Plan and Action Log

Shail Shah, Head of Audit and Risk, stated that work was currently under way to review the remit of Audit as a whole, with a potential for it to 'add value', and further updates would be given to the Committee as appropriate.

84 Service Design and Delivery (including the Transformation Programme)

Ita O'Donovan, Interim Director for Strategy and Policy, presented the report, detailing the progress to date in delivering Theme 7 of the Together for Nottingham Plan, the council's approach to reviewing the design and delivery of services to the community.

Resolved to note the report.

85 Equality and HR Assurance annual report

Richard Henderson, Director for HR and Equality, Diversity and Inclusion, presented the report, detailing work to date on Theme 6 of the Together for Nottingham Plan, 'Organisation and Culture', and highlighting that organisational and statutory requirements are being met or progressed and monitored through activity in relevant functions/areas.

Resolved

(1) to note the work being done within the HR/EDI division to deliver on the Theme 6, Organisation and Culture work stream, of the Together for Nottingham Plan, and to ensure the Council's statutory and non-statutory

obligations relating to people management and Equality, Diversity and Inclusion were being met and/or progressed;

(2) that the Director of HR and EDI be requested to submit an update report, detailing the challenges in respect of staffing resourcing, to this Committee in 6 months' time.

86 Annual Report of Health and Safety within the Council

Paul Millward, Head of Resilience, presented the annual Health and Safety within the Council report.

Resolved

(1) that all Corporate Directors be requested to ensure that by Friday 8 July 2022:

(a) their directorate colleagues can demonstrate up to date training in all mandatory health and safety courses, and where appropriate, asbestos management;

(b) all outstanding Accident/Violence/Audit recommendations are completed and recorded on the corporate system;

(2) to note the absence of any Health and Safety Executive intervention at the council during the past three years.

87 Exclusion of the public

The Committee resolved to exclude the public from the meeting during consideration of the remaining items in accordance with Section 100A of the Local Government Act 1972, on the basis that, having regard to all the circumstances, the public interest in maintaining an exemption outweighs the public interest in disclosing the information.

88 Exempt Minutes

The Committee agreed the exempt minutes of the meeting held on 25 February 2022 as a correct record and they were signed by the Chair.

89 Information Compliance and Information Security Annual Assurance Report 2022

Naomi Matthews, Data Protection Officer, and Simon Salmon, Head of IT, presented the report, which provided independent assurance to the Committee of the adequacy of the information compliance framework and the internal control environment.

Resolved to note the report.

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Nottingham City Council

Audit Committee

Minutes of the meeting held at Ground Floor Committee Room - Loxley House, Station Street, Nottingham, NG2 3NG on 30 September 2022 from 10.35 am - 1.05 pm

Membership

Present	**Absent**
Councillor Sajid Mohammed (Chair)	
Councillor Graham Chapman	
Councillor Michael Edwards	
Councillor Jane Lakey	
Councillor AJ Matsiko (Vice Chair)	
Councillor Nayab Patel	
Councillor Ethan Radford	
Councillor Andrew Rule	

Colleagues, partners and others in attendance:

Clive Heaphy	-	Corporate Director for Finance and Resources
Steve Oakley	-	Head of Contracting and Procurement
Dominic Omelia	-	Customer Experience Project Manager
Shail Shah	-	Head of Audit and Risk
John Slater	-	Group Auditor
Jane Garrard	-	Senior Governance Officer

19 Change in membership

The Committee noted that Councillor Nayab Patel had been appointed to a vacant seat on the Committee.

20 Apologies for absence

None

21 Declarations of interests

None

22 Minutes

The minutes of the meeting held on 24 June 2022 were approved as an accurate record and signed by the Chair.

23 Working Group Update

1

Councillor Jane Lakey reported that the Capital Working Group met on 28 July 2022 and the main focus for discussion was the nature and scope of the Broadmarsh project. At that time, the Group concluded that the position was under control although the roadmap was not yet clear. The Group has been advised that the heat station is not yet at a stage within the capital programme that it would be relevant for the Group to look at. She reported that property sales had been reported as being on track but that there are risks associated with the current economic situation. The next meeting of the Group will be in October and it was suggested that the Group look at the sale of assets that have revenue streams attached to seek assurance that assets are not being sold where the revenue from those assets outstrips the benefit of the capital receipt.

The Companies Working Group has not met since the last meeting of this Committee and councillors requested that a meeting is arranged soon.

Councillors commented on the valuable work carried out by the working groups but sought clarity as to whether there is sufficient officer resource, particularly within the Finance Division, to support their operation. The Corporate Director for Finance and Resources agreed that the working groups are useful but stated that, given the current lack of capacity within the Finance Division, priority has to be given to meetings and decisions that form part of the Council's formal governance arrangements.

24 Proposed work programme

This item was deferred to the next meeting.

25 Exemption from Contract Procedure Rules quarter one 2022/23

Steve Oakley, Head of Contracting and Procurement, presented the report detailing the exemptions from Contract Procedure Rules that had been approved during Quarter 1 of 2022/23 and the actions being taken to ensure that exemptions only occur when there is a sound rationale for doing so. He highlighted the following information:

a) During Quarter 1 there were 10 requests for exemption, which continues the downward trend seen in previous quarters. These requests were all approved.
b) One request was for a range of services relating to homelessness which were being dealt with together. Work is underway to develop a framework for rough sleeper initiatives given the tight timescales associated with grant funding.
c) The majority of requests for exemption are now Regulation 32 requests that relate to situations where there is only one supplier in the market. It is proposed that Contract Procurement Rules are amended to clarify that such situations are legally permitted and are not actually an exemption from the rules.
d) During Quarter 2 there were two requests that could have been avoided if plans had been developed earlier in the process.

During subsequent discussion and in response to questions from councillors the following point was made:

e) The frequency of reporting of requested and approved exemptions is set out in Contract Procedure Rules. When Contract Procedure Rules are next revised, it is proposed that the frequency is changed to twice per year and then potentially annually in the future, with a commitment that the Chief Finance Officer will report anything of concern to the Committee during the intervening period.

Resolved to:

(1) note the number of exemptions from Contract Procedure Rules during Quarter 1 2022/23; and

(2) note the actions being taken to ensure that contracts are awarded in line with Contract Procedure Rules and that exemptions only occur where there is a sound rationale for approving the exemption.

26 Complaints and Ombudsman Annual Assurance Report

Dominic Omelia, Customer Experience Project Manager, presented the report reflecting on complaints received by the Council, and decisions on those complaints by the Council and the Local Government and Social Care Ombudsman between 1 April 2021 and 31 March 2022. He highlighted the following information:

a) The largest proportion of complaints come through the Council's Have Your Say process. There were 4888 complaints received through this process in 2021/22 and the majority of these were resolved at the first stage.

b) There are also statutory processes for receiving, and dealing with complaints about child and adult social care. Very few of these complaints progress to the Independent Panel stage.

c) Overall there are very low numbers of complaints that go to the Local Government and Social Care Ombudsman, and numbers continue to be lower than pre-pandemic. The percentage of complaints upheld was 65% which is in line with the national rate of 66%.

d) Before complaints go to the Ombudsman, the Council assures it self that its position is correct and this is reflected in the low numbers going to the Ombudsman and the percentage upheld.

During subsequent discussion and in response to questions from councillors the following point was made:

e) The Council advises customers that it aims to respond to complaints submitted via the Have Your Say process within 10 working days. The majority of complaints are dealt with quickly but it is important that complaints are dealt with properly and complex issues can take longer. The Ombudsman is mindful of the complexity of a complaint when reviewing response time.

The Committee welcomed the improvements that have been made since the previous year and thanked the relevant teams for their work on this.

Resolved to note the Complaints and Ombudsman Annual Assurance report.

27 Treasury Management Annual Report 2021-22

Clive Heaphy, Corporate Director of Finance and Resources, presented the report setting out the treasury management performance for 2021/22. He highlighted the following information:

a) The report has been produced in accordance with the requirements of CIPFA's Code of Practice on Treasury Management.

b) The Council achieved all indicators and measures that it intended to.

c) Strategies have been followed to phase out requirements for borrowing in line with the Voluntary Debt Reduction Policy previously agreed by the Council. The Council has kept within the terms of this policy and the level of borrowing is coming down.

During subsequent discussion and in response to questions from councillors the following points were made:

d) The majority of the Council's debt is at a fixed rate so exposure to variable interest rates is relatively low.

e) The Council borrows internally from cash that it is holding, for example money received as a grant from Government, and this reduces the need for external borrowing. As markets change this approach is being actively reviewed to ensure that it is still the best use of cash.

f) There has been a lot of slippage in capital projects and this is monitored by the Capital Board. Slippage is being managed through monitoring and over-programming and building in more contingency cost. However, with inflation resulting in increased costs this may become a problem. Slippage is a concern of the Improvement and Assurance Board who are challenging the Council to bring forward other schemes when those originally scheduled have slipped. Councillors suggested that this needs to be discussed in more detail at a Capital Working Group meeting.

It was suggested that it would be useful to have a report to a future Committee meeting on standards of reporting on the capital programme to provide assurance on how progress is being embedded.

Resolved to note the treasury management performance for 2021/22.

28 External Audit Update

The Committee was advised that the External Auditor was unable to attend the meeting and had indicated that there was nothing pertinent for him to have raised at this meeting. Committee members expressed surprise that there was nothing for the External Auditor to report at this time, and commented that they expect the External Auditor to attend every meeting of the Committee and if (s)he is unable to attend then it is reasonable to expect provision of a written update instead.

Clive Heaphy reported that there had been no bids to carry out work requested by the External Auditor to look at the management of the override of controls. This is one of the outstanding factors influencing the 2019/20 and 2021/22 accounts and a key issue for the Auditor and the Department for Levelling Up, Housing and Communities. The Council is working with the External Auditor to determine on next steps on this issue. Options could include making it an extension of Audit work or going to a different framework.

Resolved to request that in the event that the External Auditor is unable to attend a future meeting of the Committee then a written update be provided instead.

29 Audit Committee Annual Report 2021/2022

The Chair introduced the Audit Committee Annual Report 2021/22 which outlines the work undertaken by the Committee during the year, how the Committee has fulfilled its designated role within the Council's Constitution and how its work relates to its core responsibilities. It will be presented to a future meeting of Full Council. He asked for comments from Committee members on the report's content.

During discussion the following comments were made:

a) In Appendix C it would be useful to articulate the outcomes from recommendations made by the Committee in order to demonstrate where value is being added.

b) A committee member raised concern that despite councillors being told to provide challenge, it feels as though it is only acceptable to challenge in 'safe areas' and not universally. This issue is not reflected in the Annual Report. It was clarified that the Audit Committee has a clear role in ensuring the control environment in which the Council operates is effective and the Committee should have access to information to enable it to carry out its role. However, this role does not extend to managing risks itself. There may also be times when the concept of legal privilege is relevant and the Monitoring Officer will have to take a decision on what information can be made available.

c) It would be helpful to provide more information in the Annual Report about the work and value of the working groups.

d) It was suggested that there should be greater emphasis in the Annual Report on demonstrating where work is embedded.

Resolved to update the Audit Committee Annual Report 2021/22, where appropriate.

30 Internal Audit Annual Report and Opinion

Shail Shah, Head of Audit and Risk, presented the Internal Audit Annual Report and Opinion report which sets out the work of the Internal Audit Team, the Head of Audit and Risk's annual opinion on the effectiveness of the internal control systems operating within the Council, the Internal Audit Charter and the Counter Fraud Strategy. He highlighted the following information:

a) There is limited assurance for the control systems in place during 2021/22.

b) Sheffield City Council has carried out an external assessment of Internal Audit and found that it 'generally conforms', which is the highest rating.

During subsequent discussion and in response to questions from councillors the following points were made:

c) The report highlights staffing challenges and councillors sought reassurance about the capacity available to undertake audit work and that, if necessary, areas where the most value can be added will be prioritised. It was confirmed that the recruitment and retention of staff is the highest risk on the Corporate Risk Register. The Audit Plan is set out as part of the report but this Plan will be revised if there is insufficient capacity to deliver it. Priority will be given to statutory work and priority areas for the Council.

d) Significantly more days were spent on counter fraud activity than planned for. This was because a more proactive approach to counter fraud is being taken on areas such as council tax and business rates.

Resolved to:

(1) note the audit work completed during 2021/22, including the use of other sources of assurance and reliance upon those sources;

(2) note the Head of Audit and Risk's Annual Opinion;

(3) note the parameters for the proposed Audit Plan for 2022/23;

(4) note the results of the recent external assessment of Internal Audit by Sheffield City Council;

(5) note the progress reported in respect of high priority recommendations;

(6) approve the Internal Audit Charter; and

(7) endorse the Counter Fraud Strategy.

31 Business Rates Limited Assurance Internal Audit report 20-21 - Planned Improvements

Clive Heaphy, Corporate Director for Finance and Resources, presented the Business Rates Limited Assurance Internal Audit Report which sets out the actions taken to address the recommendations of Internal Audit. He highlighted that business rate collection is important for the Council and generates approximately £182m income. For a number of years, the service has been delivered by a small team with a number of vacancies and consequently the service has struggled. Work is taking place to develop a new model of service delivery.

Resolved to note the progress made in addressing the Internal Audit recommendations and plans to stabilise the service and develop plans to establish a robust, efficient and cost-effective service.

32 Date of next meeting

The Committee noted that the date of the next scheduled meeting is 25 November 2022 10:30am. Subsequently, during a later agenda item, the Committee agreed to hold an additional meeting on 28 October 2022 10:30am.

33 Exclusion of the public

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

34 Exempt minutes

The exempt minutes of the meeting held on 24 June 2022 were approved as an accurate record.

35 Business Rates Limited Assurance Internal Audit report 2020-21 - Planned Improvements - Exempt Appendix

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

36 Housing Revenue Account and emerging risks update

The Committee considered a verbal update from the Corporate Director of Finance and Resources on the Housing Revenue Account and emerging risks.

37 Improvement and Assurance Board - Statement of Requirements

The Chair of the Committee agreed that this item, although not on the agenda, could be considered as a matter of urgency in accordance with Section 100B(4)(b) of the Local Government Act 1972, because the deadline for the Council to respond to the Statement of Requirements is before the next scheduled meeting of the Committee.

The Committee discussed the Improvement and Assurance Board Statement of Requirements, details of which are set out in the exempt minutes.

Resolved to approve recommendations as set out in the exempt minutes.

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Subject:	Treasury Management 2022/23 - half yearly update
Corporate Director:	Clive Heaphy - Finance and Resources and Section 151 Officer
Portfolio Holder:	Sam Webster - Finance and Resources
Report author and contact details:	Jacqueline Mundy, Senior Accountant – Treasury Management 0115 876 3724 Jacqueline.mundy@nottinghamcity.gov.uk
Other colleagues who have provided input:	Members of Treasury Management Panel: Clive Heaphy, Corporate Director of Finance and Resources Debbie Middleton, Interim Director of Finance and Deputy 151 Officer Jean Stevenson, Interim Finance Team Leader – Technical Team Jo Worster, Strategic Finance Team Leader Jacqueline Mundy, Senior Accountant – Treasury Management

Subject to call-in: ☐ Yes ☒ No

Key Decision: ☐ Yes ☒ No

Type of expenditure: ☐ Revenue ☐ Capital

Total value of the decision: Nil

Wards affected: All

Date of consultation with Portfolio Holder: Throughout the year

Relevant Council Plan Key Outcome:

Clean and Connected Communities	☒
Keeping Nottingham Working	☒
Carbon Neutral by 2028	☒
Safer Nottingham	☒
Child-Friendly Nottingham	☒
Healthy and Inclusive	☒
Keeping Nottingham Moving	☒
Improve the City Centre	☒
Better Housing	☒
Financial Stability	☒
Serving People Well	☒

Summary of issues (including benefits to citizens/service users):

This report sets out details of treasury management actions and performance from 1 April 2022 to 30 September 2022. In summary:

- No new long-term borrowing has been undertaken in the period to 30 September 2022, the balance of external loans debt has decreased by £14.1m and is below the forecast within the Voluntary Debt Reduction Policy (section 4.3);
- The average interest rate payable on the debt portfolio increased slightly from 3.431% at 31 March 2022 to 3.433% at 30 September 2022 (section 4.3);
- no debt rescheduling had been undertaken to 30 September 2022 (section 4.4);
- the average return on investments to 30 September 2022 was 1.85% against a benchmark rate of 1.22% (SONIA) (section 4.7);
- there has been compliance with Prudential Indicators for 1 April to 30 September 2022 (section 4.8);

Does this report contain any information that is exempt from publication? No
Recommendation:
1 To note the treasury management actions taken in 2022/23 to 30 September 2022.

1. **Reasons for recommendations**

1.1 To ensure that Councillors are kept informed of the actions taken by the Chief Finance Officer (CFO) under delegated authority. The currently adopted Treasury Management Code of Practice requires the CFO to submit at least three reports on treasury management each year; a policy and strategy statement for the ensuing financial year, a 6-monthly progress report and an outturn report after the end of the financial year. The Code also requires that the reports be considered by relevant scrutiny or executive committees, and that the City Council approves any changes to the treasury management strategy.

2. **Background**

2.1 **Capital Strategy**

In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. As from 2019/20, all local authorities have been required to prepare a Capital Strategy which is to provide the following:

- a high-level 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.

2.2 **Treasury Management**

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising 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 the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Accordingly, treasury management is defined as:
"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

2.3 This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017).

The primary requirements of the Code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
- Receipt by the Full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead. Receipt by Executive Board of a Mid-year Review Report and an Annual Report, covering activities during the previous year.
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Audit Committee.

2.4 This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first part of the 2022/23 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure, as set out in the Capital Strategy and prudential indicators;
- A review of the Council's investment portfolio for 2022/23;
- A review of the Council's borrowing strategy for 2022/23;
- A review of any debt rescheduling undertaken during 2022/23;
- A review of compliance with Treasury and Prudential Limits for 2022/23

3. Other options considered in making recommendations

3.1 No other options were considered as the report is required by the Treasury Management Code of Practice.

4. Treasury Management Activity to 30 September 2022

4.1 The Economy and Interest Rates During 2022/23

<u>Growth and Inflation</u>

The UK economy grew by 0.2% q/q in Q1 2022/23, though this remains below pre-pandemic levels. This means the UK economy has so far avoided recession. There are signs of economic activity losing momentum as production falls and energy prices continue to rise.

The Monetary Policy Committee (MPC) expect inflation to rise to 11% at the close of 2022. CPI inflation eased to 9.9% y/y in August, having been 10.1% in July, but domestic price pressures showing little sign of abating in the near-term and future inflation is likely to stay above 10% over the coming months.

The Monetary Policy Committee (MPC) Bank Rate rose by 100bps over quarter 2, taking Bank Rate to 2.25% with further rises to come. Our external advisors Link expect the Monetary Policy Committee (MPC) to increase interest rates further and faster, from 2.25% currently to a peak of 5.00% in February 2023. The combination of the government's fiscal loosening, the tight labour market and inflation expectations means they expect the MPC to raise interest rates by 100bps at the policy meetings in November (to 3.25%) and 75 basis points in December (to 4%) followed by further 50 basis point hikes in February and March (to 5.00%).

The Consumer Price Index inflation % (CPI) has eased from 10.1% in July to 9.9% in August, though inflation has not peaked yet. The easing in August was mainly due to a decline in fuel prices reducing fuel inflation from 43.7% to 32.1%.

Forecast Interest rates

The Council's treasury advisor, Link Group, has provided the following forecast. (PWLB rates are certainty rates):

Link Group Interest Rate View	27.09.22											
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
BANK RATE	4.00	5.00	5.00	5.00	4.50	4.00	3.75	3.25	3.00	2.75	2.75	2.50
3 month ave earnings	4.50	5.00	5.00	5.00	4.50	4.00	3.80	3.30	3.00	2.80	2.80	2.50
6 month ave earnings	4.70	5.20	5.10	5.00	4.60	4.10	3.90	3.40	3.10	3.00	2.90	2.60
12 month ave earnings	5.30	5.30	5.20	5.00	4.70	4.20	4.00	3.50	3.20	3.10	3.00	2.70
5 yr PWLB	5.00	4.90	4.70	4.50	4.20	3.90	3.70	3.50	3.40	3.30	3.20	3.20
10 yr PWLB	4.90	4.70	4.60	4.30	4.10	3.80	3.60	3.50	3.40	3.30	3.20	3.20
25 yr PWLB	5.10	4.90	4.80	4.50	4.30	4.10	3.90	3.70	3.60	3.60	3.50	3.40
50 yr PWLB	4.80	4.60	4.50	4.20	4.00	3.80	3.60	3.40	3.30	3.30	3.20	3.10

Appendix B shows the money market interest rates, the PWLB borrowing rates for the half-year to 30 September 2022 and a forward view for PWLB loan rates.

4.2 **Local Context**

4.2.1 The Treasury Management Strategy Statement (TMSS), for 2022/23 was approved by Full Council on 22 March 2022. There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved as at 30 September 2022.

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

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or

- If insufficient financing is available, or a decision is taken not to apply resources based on robust financial modelling, the capital expenditure will give rise to a borrowing need.

4.2.3 At 31/03/2022 the Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £1,382m.

The CFR is forecast to decrease by £11.7m to £1,353.4m by 31/03/2023 against the original CFR estimate for 31/03/2022 of £1,365.1m with reductions due to slippage and the Voluntary Debt Reduction Policy (VDRP) review of the capital program which included the delay/cancellation of some major schemes.

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

Table 1: Capital Expenditure	**2022/23 Original Estimate £m**	**2022/23 Revised Estimate £m**
Total Capital Expenditure	223.73	184.03
Financed by:		
Capital Receipts	27.241	28.1
Capital Grants & Contributions	113.655	92.959
Internal Funds/Revenue (inc.Major Repairs Reserve	40.885	39.83
Resources	7.138	0
Total Financing	**188.919**	**160.9**
Borrowing Requirement	**34.811**	**23.1**

Note to table: Original estimate was Q3 2021/22 used for the 2022/23 Treasury Management Strategy Report.

4.2.4 The decrease in estimated capital expenditure is due to slippage on capital projects including expenditure originally forecast to have been incurred in 2022/23. The associated financing of these schemes has also moved to the same forecast period as the expenditure.

4.3 Borrowing

4.3.1 To finance the CFR the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

4.3.2 At 30/9/2022 the Council has reduced the balance of external loans by £8.1m since the balance at 31/3/2022 due to monthly repayments of principle and interest on the outstanding loans. The Council does not expect to increase borrowing in the 2nd half of 2022/23 based on the revised capital program and forecast cash flow requirements. As described in the Voluntary Debt Reduction Policy the level of external loans is expected to continue to reduce as existing loans mature without replacement. The CFR reduces due to the reductions in the capital program and as the council makes its approved minimum revenue provision (MRP) against prior years capital expenditure financed by borrowing.

4.3.3 **Table 2** summarises the Council's outstanding external debt at 30 September 2022 showing the value of debt and the average interest rate payable on the debt.

TABLE 2: DEBT PORTFOLIO					
	31-Mar-22		30-Sep-22		Change
DEBT	**£m**	**Average Interest %**	**£m**	**Average Interest %**	**£m**
PWLB borrowing	849.71	3.385	841.6	3.39	-8.1
Market loans	49.0	4.348	49.0	4.348	-
Temporary borrowing & other	2.232	0.768	2.232	0.768	0.0
TOTAL LOANS DEBT	**900.94**	**3.431**	**892.832**	**3.433**	**-8.1**
Other inc PFI	170.2		164.2		-6.0
TOTAL DEBT	**1071.1**		**1057.0**		**-14.1**

The graph below shows the debt portfolio's maturity profile by loan type and the weighted average interest rates that are associated with the maturities in each period. This maturity profile is summarised in the Prudential Indicator for the Maturity Structure for Borrowing table shown in **section 4.8.3**.

4.3.4 At 30/09/2022, the Council had £1,057m of external borrowing including £164.2m of Private Finance Initiative (PFI) and lease liabilities. The Council continues to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, subject to holding a minimum investment balance of around £30m.

The Council's internal borrowing position at 31 March 2022 was £312m. This meant that c.27% of the overall capital borrowing need including prior year capital expenditure, but excluding PFI liabilities (known as the Underlying Borrowing Requirement or Loans Capital Financing Requirement), was not funded with loan debt as cash supporting the Council's reserves, balances and cash flow was used as a temporary measure.

The strategy of using internal borrowing avoids interest payable on external borrowing in the short term until actual new borrowing is taken or the borrowing requirement reduces. For example £300m borrowing would cost around £7m per year using an interest rate of 2.33% and a 25 year maturity loan profile (2.33% was average PWLB rate for 2021-22 for 25 years loans which broadly represents the debt portfolio's weighted average life).

The council expects to retain this internal borrowing position as a prudent and cost effective approach in view of the reducing CFR and the current economic climate but will continue to monitor this against the upside risk to gilt yields.

The continuation of this existing strategy will further support managing the council's cost of financing in the coming years and supports the aims of the VDRP in reducing the Council's debt levels.

4.3.5 **Compliance with the Voluntary Debt Reduction Policy**

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

Table 3: VDRP Forecast Refresh			
Debt Measurement	**VDRP Original Forecast £m**	**Qtr2 Actual & Forecast £m**	**Movement (Under) / Over £m**
CFR			
2020/21	1,443.50	1,411.60	**(31.90)**
2021/22	1,434.20	1,382.88	**(51.32)**
2022/23	1,390.60	1,350.56	**(40.04)**
2023/24	1,337.30	1,305.31	**(31.99)**
2024/25	1,272.50	1,243.92	**(28.58)**
External Debt			
2020/21	981.60	932.80	**(48.80)**
2021/22	991.00	900.94	**(90.06)**
2022/23	986.20	887.54	**(98.66)**
2023/24	954.80	864.46	**(90.34)**
2024/25	927.40	840.01	**(87.40)**

4.4 **Debt rescheduling**

Debt rescheduling opportunities have been very limited in the current economic climate given the PWLB continued to operate a spread of approximately 1% between "premature repayment rate" and "new loan" rates so the premium charge for early repayment of PWLB debt remained relatively expensive for the loans in the debt portfolio and therefore unattractive for debt rescheduling activity. Market Loan rescheduling opportunities are currently being investigated. As interest rates rise there may be opportunities to repay debt early without incurring substantial costs. No debt rescheduling has therefore been undertaken to date in the current financial year. However, we continue to look for opportunities in the second half of the financial year.

4.5 **Lender's Option Borrower's Options (LOBO) Loans**

The Council holds £34.000m of LOBO loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. £14.000m of these LOBO loans have options during the year, none have been exercised by the lender. The Council acknowledges there is an element of refinancing risk as in the current interest rate environment lenders may be more likely to exercise their options.

4.6 **Housing Revenue Account (HRA) Treasury Management Strategy**

4.6.1 From 1 April 2002, the Council's HRA was allocated a separate debt portfolio based on the appropriate proportion of the Councils existing debt at that time.

4.6.2 No further HRA loans have been taken in the first half of 2022/23. The HRA element of the CFR was £300.8m as at 31 March 2022 and was fully financed at an average rate of 4.49%. This includes £53.2m of long term fixed rate loans from the General Fund (known as internal loans). The HRA CFR is forecast to be £303.9m by 31 March 2023 and the HRA interest charge for 2022/23 is expected to be c.£13.076m.

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

4.7 Investments

4.7.1 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity. The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and within the Council's risk appetite. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also where cash flow forecasts permit to seek out value available in longer periods with high credit rated financial institutions, using the Link suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

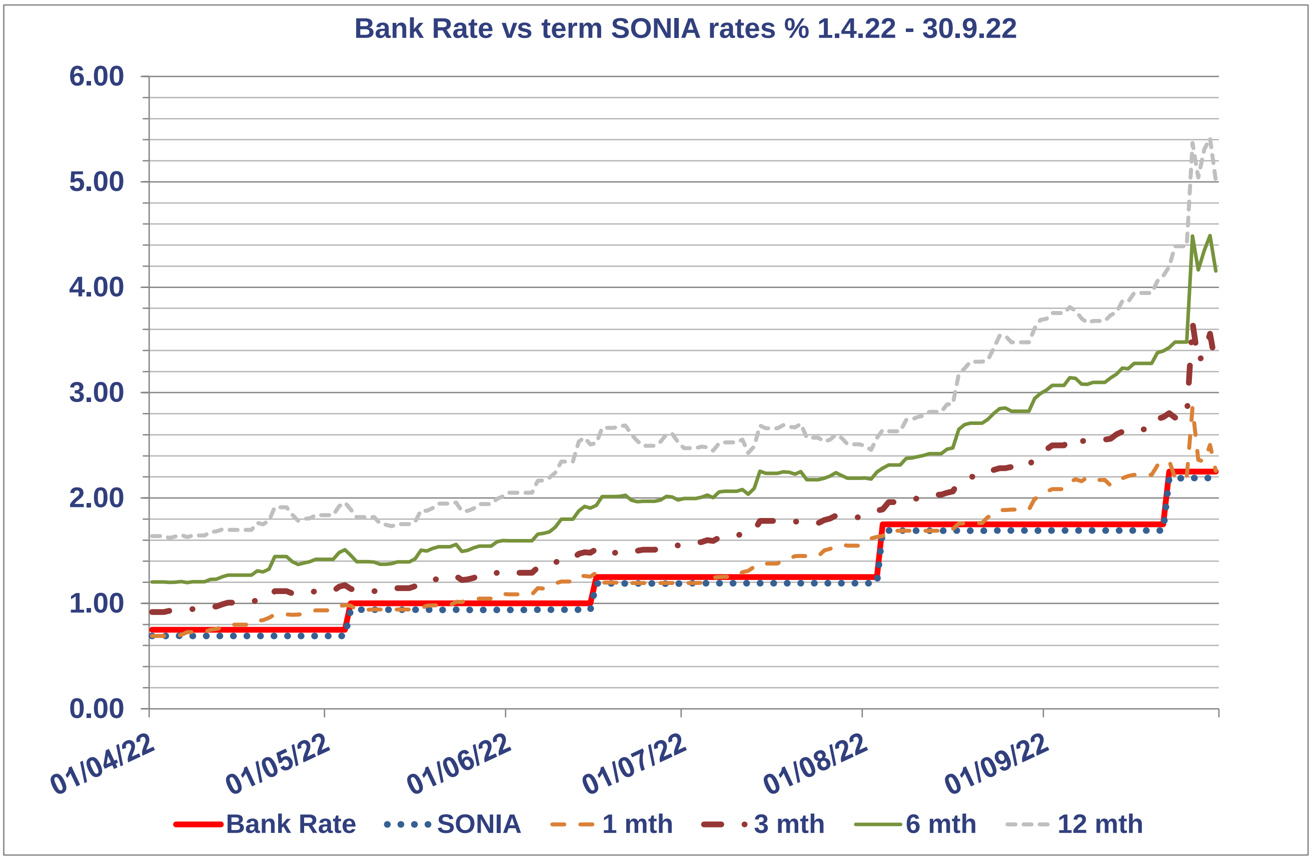
4.7.2 As shown by the interest rate forecasts in section 4.1, it is now possible to earn greater levels of interest rates as all short-term money market investment rates have risen substantially. Given this environment and the fact that Bank Rate may rise several times before 31 March 2023, investment returns are expected to increase in the second half of the year.

4.7.3 **Creditworthiness**: Following the Government's fiscal event on 23rd September, both S&P and Fitch have placed the UK sovereign debt rating on Negative Outlook, reflecting a downside bias to the current ratings in light of expectations of weaker finances and the economic outlook.

The current investment counterparty criteria selection (including minimum long-term counterparty credit rating of A- across rating agencies Fitch, S&P and Moody's) approved in the TMSS is meeting the requirement of the treasury management function.

4.7.4 **Investment balances:** The average level of funds available for investment purposes during the first half of 2022/23 was £391.6m. This was significantly higher than anticipated but is expected to fall in the next 6 months. The increased investment balances has been seen across most local authorities and in part was due to increased government funding and delays to forecast spending on the capital programme.

4.7.5 **Investment rates during half year ended 30th September 2022:** As shown below the rates use the traditional market method for calculating SONIA period % rates and shows the upward trend in levels this year.



QUARTER ENDED 30/9/2022	Bank Rate	SONIA	1 mth	3 mth	6 mth	12 mth
High	2.25	2.19	2.86	3.67	4.49	5.41
High Date	22/09/2022	30/09/2022	26/09/2022	26/09/2022	29/09/2022	29/09/2022
Low	0.75	0.69	0.69	0.92	1.20	1.62
Low Date	01/04/2022	28/04/2022	01/04/2022	01/04/2022	07/04/2022	04/04/2022
Average	1.28	1.22	1.39	1.70	2.12	2.62
Spread	1.50	1.50	2.17	2.75	3.29	3.79

4.7.6 **Investment performance year to date as at 30th September:** The Council held £385.7m of investments as at 30 September 2022 (£367.2m at 31 March 2022) and the investment portfolio yield for the half year was 1.85% against a benchmark (Ave. SONIA) of 1.22%.

The Council outperformed the benchmark by 27 bps. The budgeted investment return for 2022/23 is £100k, and performance for the year to date is £2m above budget mainly due to rising interest rates and the higher than expected balances available for investment. These balances are expected to reduce towards the end of 2022/23.

LIBID as benchmark has been replaced with sterling overnight index average % (SONIA) during 2022.

4.7.7 **Appendix A** provides details of the Council's external investments at 30 September 2022, analysed between investment type and individual counterparties showing the current Fitch long-term credit rating.

Table 4 below summarises investment activity by type in 2022/23.

Table 4:Investment Portfolio	Balance on 01/04/2022 £m	Balance on 30/09/2022 £m	Avg Rate/Yield (%) as at 30/09/2022
Short term investments (call account, deposits):			
Banks and Building Societies with ratings of A- or higher	151.97	174.8	2.06
Local Authorities	142	85	1.16
Long Term Investments	9.9	9.9	1.08
Money Market Funds	64.3	116	1.98
Total Investments	**368.17**	**385.7**	**1.849**
Increase/(Decrease) in Investments £m		17.53	

4.7.8 **Approved limits**: The approved limits within the Annual Investment Strategy have not been breached during the first 6 months of 2022/23.

4.8 **Compliance with Prudential Indicators**

4.8.1 This report confirms compliance with the Prudential Indicators for 2022/23 set on 22 March 2022 as part of the Council's Treasury Management Strategy Statement.

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

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

	2021/22 £m	2022/23 £m	2023/24 £m
Upper limit on variable interest rate exposure	300	300	300
Actual	33.0	33.0	

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

	Lower	Upper	Actual
Under 12 months	0%	25%	1%
12 months and within 24 months	0%	25%	3%
24 months and within 5 years	0%	25%	9%
5 years and within 10 years	0%	25%	17%
10 years and within 25 years	0%	50%	7%
25 years and within 40 years	0%	50%	32%
40 years and above	0%	50%	31%

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

	2021/22 £m	2022/23 £m	2023/24 £m
Limit on principal invested beyond year end	100	100	100
Actual	10	30	

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

The table below shows the expected debt position during 2022/23.

	2022/23 Original Estimate £m	**Current Position**	**2022/23 Revised Estimate £m**
Borrowing	890	892.8	892.8
Other long term liabilities*	158.2	158.2	158.2
Total Debt (year end position)	**1,046.3**	**1051.0**	**1,051.0**
Operational Boundary for external debt	**1365.1**	**1365.1**	**1365.1**
Authorised limit for external debt	**1395.1**	**1395.1**	**1395.1**

'* Includes PFI and Leases liabilities

4.9 **Treasury Management Reserve**

4.9.1 The Treasury Management Reserve is maintained to smooth the impact of any volatility in treasury management revenue charges in any one year including new technical accounting entries relating to IFRS 9 (which stipulates the treatment of expected loss model based impairments on Treasury related investments and capital investments such as loans to third parties and financial guarantees). The balance on this reserve at 30 September 2022 is **£16.426m**.

Recent review of the Treasury reserves concluded that **£10.221m** could be released from the Treasury reserves that had totalled at **£26.647**. This was transferred to the Corporate Resilience Reserve during September 2022.

Based on the 6 months to 30 September 2022 there are no expected loss impairments expected in 2022/23 in relation to treasury investments.

4.10 **Risk Management**

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

4.10.2 The treasury management risk register's overall risk rating at 31 March 2022 was 4.23, (Likelihood = unlikely, Impact = minor) and is a lower rating than as at 31 March 2021, but it remains over the targeted risk rating of 2.94 (Likelihood = remote, Impact = minor). The risk rating reflects reduced risks around the capital programme, impacts of Covid-19, working from home arrangements and the changes to the PWLB lending arrangements. The Treasury Management Working Group of senior Finance Managers with responsibility for Treasury Management (including Section 151 Officer and deputy 151 Officer) meet to manage this risk register and take appropriate actions as required.

4.11 **Other Issues**

4.11.1 CIPFA have released proposed changes to the current Treasury Management Code and Prudential Code. There will be a requirement to apply the principles from the publication date with full adoption expected from 2023/24.

The Treasury Management Code key proposals – update to the Treasury management practices (TMP) TMP10 training requirements; TMP 12 Corporate Governance; and amendments to Maturity Structure of Borrowing indicator. To introduce Investment Management Practices (IMPs) for reporting on investments which are not for treasury management purposes.

The Prudential Code key proposals – revision to Borrowing in Advance of Need criteria, including in respect of primarily yield generating investments; inclusion of proportionality in key capital expenditure objectives; process and governance sections to incorporate further changes in respect of commercial activity; three new prudential indicators – External Debt to Net Revenue Stream (NRS), Income from Commercial and Service Investment to NRS, Liability Benchmark; Proposal to abolish Gross Debt to Capital Financing Requirement indicator.

The implications of the revised guidance once published will be reported to councillors at the next opportunity.

5. **Consideration of Risk**

5.1 **Covered throughout the report.**

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

6.1 Treasury management payments comprise interest charges and receipts and provision for repayment of debt. A proportion of the City Council’s debt relates to capital expenditure on council housing and this is charged to the HRA. The remaining costs are included within the treasury management section of the General Fund budget. The General Fund Treasury Management budget is £49.53m for 2022/23.

6.2 Value for Money: The Management of borrowing and investments is undertaken in conjunction with our appointed advisors, with the aim of minimising net revenue costs, maintaining an even debt maturity profile and ensuring the security and liquidity of investments.

Jacqueline Mundy/Jean Stephenson, Technical Accounting - 26 October 2022

7. **Legal colleague comments**

Legal Comments to follow.

8. **Other relevant comments**

8.1 None.

9. **Crime and Disorder Implications**

9.1 N/A.

10. **Social value considerations**

10.1 N/A.

11. **Regard to the NHS Constitution**

11.1 N/A.

12. **Equality Impact Assessment (EIA)**

12.1 Has the equality impact of the proposals in this report been assessed?

No ☒

13. **Data Protection Impact Assessment (DPIA)**

13.1 Has the data protection impact of the proposals in this report been assessed?

No ☒

14. **Carbon Impact Assessment (CIA)**

14.1 Has the carbon impact of the proposals in this report been assessed?

No ☒

15. **List of background papers relied upon in writing this report**

15.1 None.

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

16.1 Treasury Management Strategy 2022/23 and Capital Investment Strategy 2022/23 (including the Voluntary Debt Reduction Policy)
16.2 Nottingham City Council Recovery & Improvement Plan
16.3 Money Market and PWLB loan rates
16.4 Treasury Management in the Public Services Code of Practice 2017–CIPFA
16.5 Prudential Code 2017-CIPFA
16.6 Treasury Management in the Public Services Guidance Notes 2018 – CIPFA
16.7 Statutory guidance on local government investments 3rd Edition 2018
16.8 Statutory guidance on Minimum Revenue Provision (MRP) 2018

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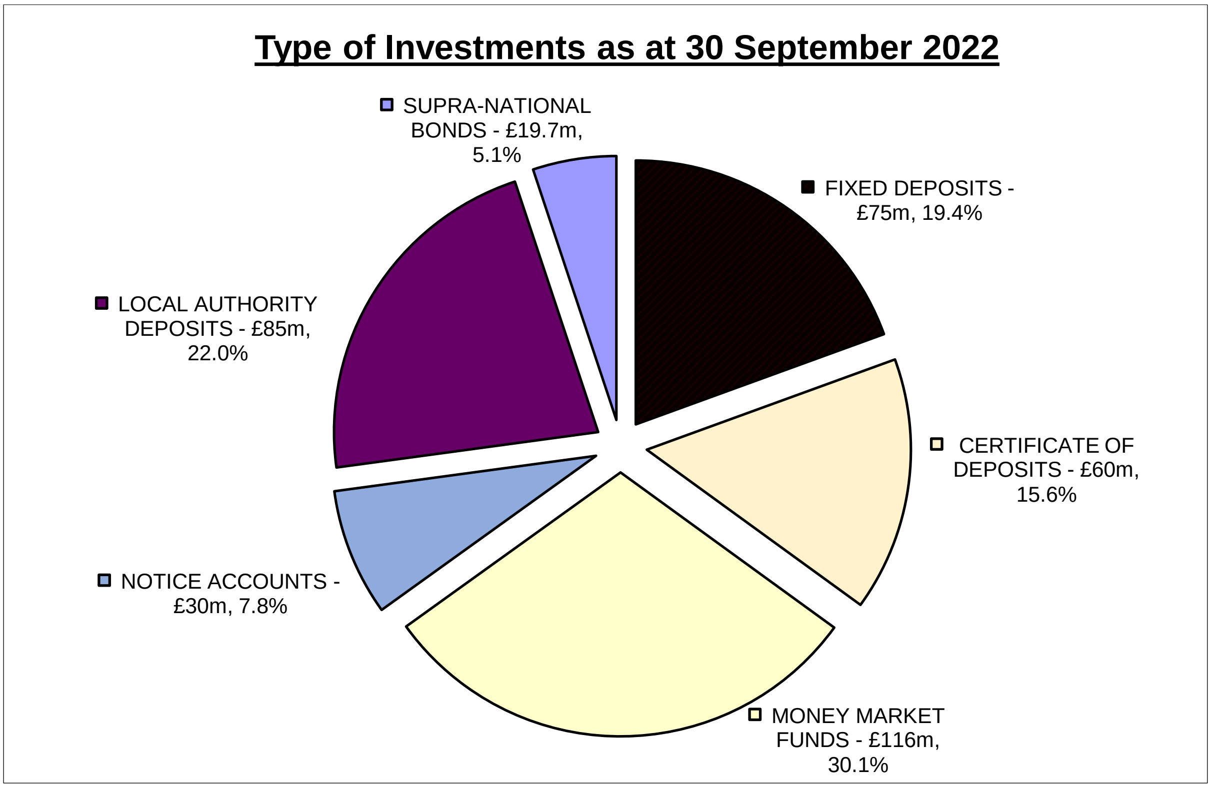
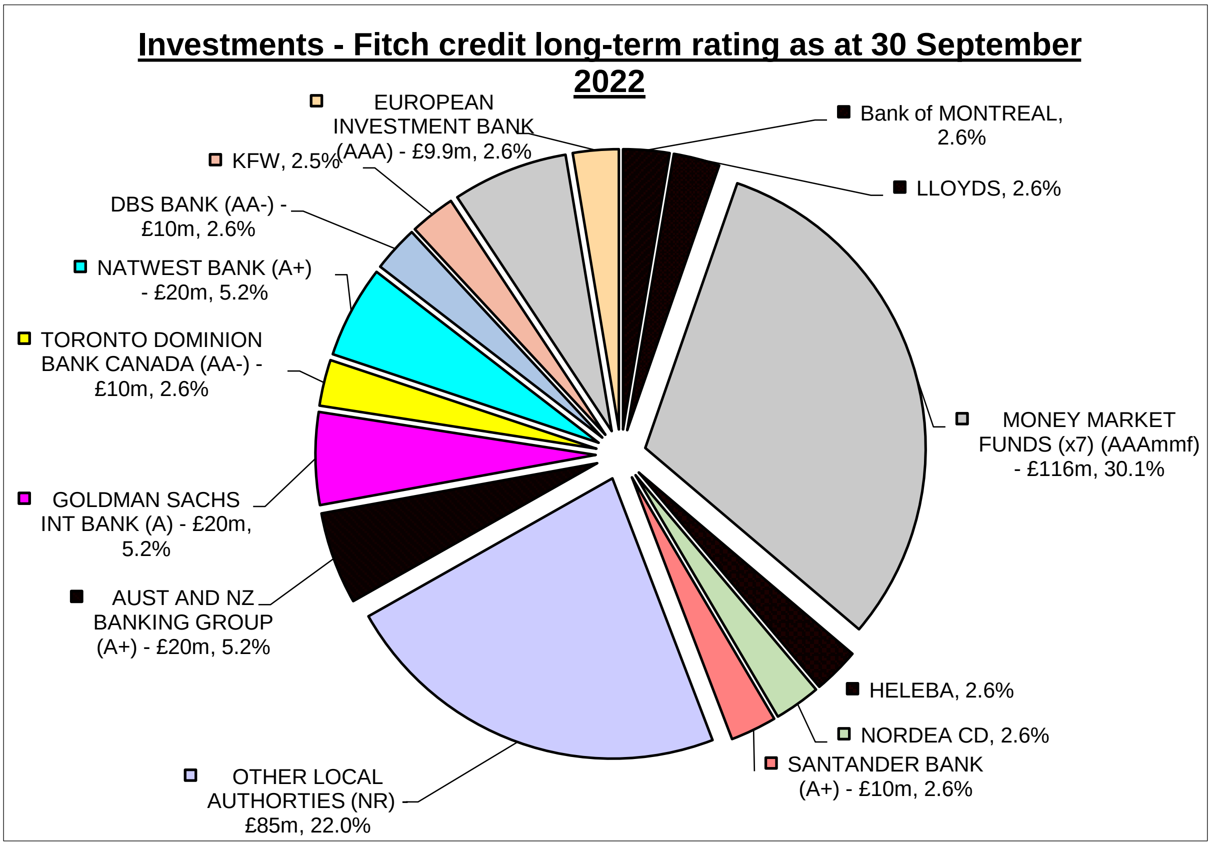
APPENDIX A

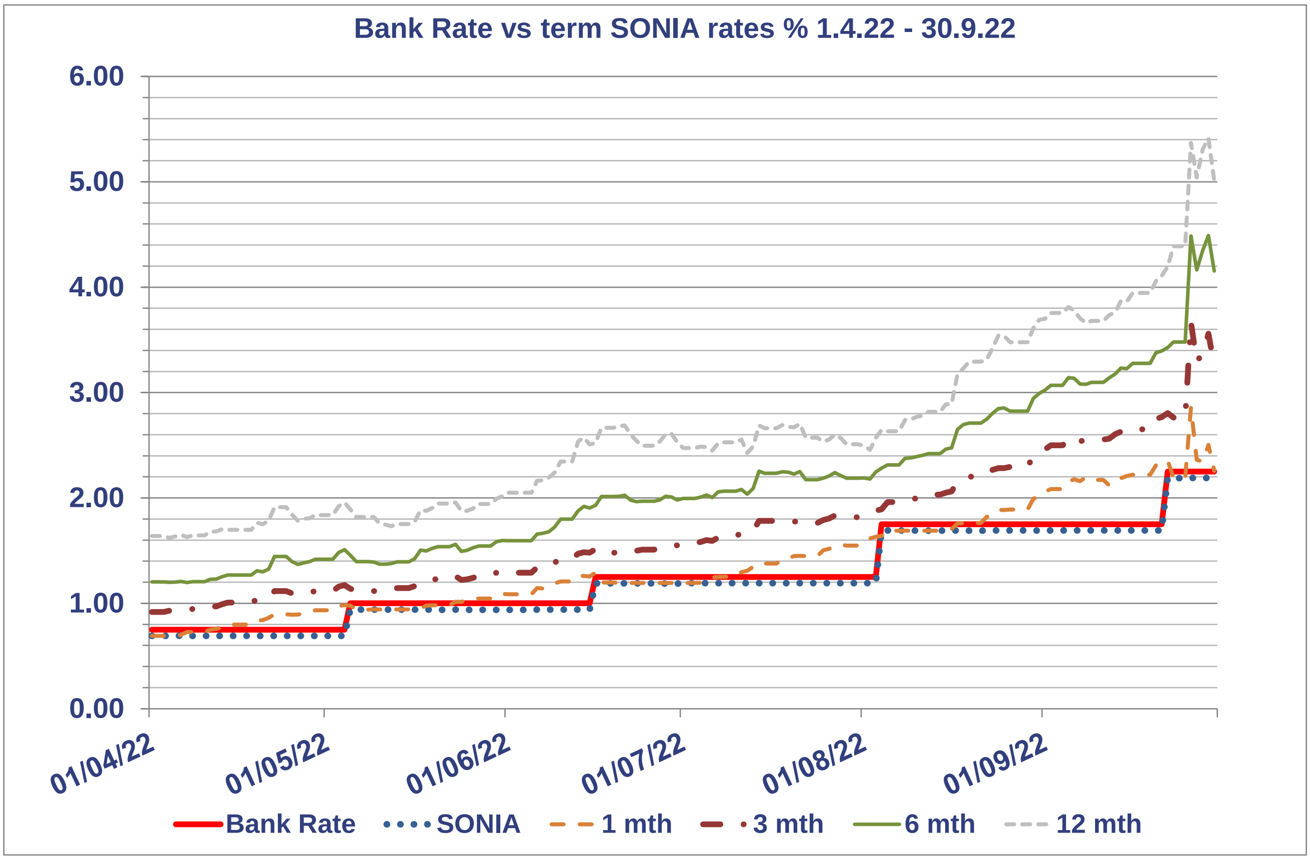
The charts below provide details of the Council's external investments at 30 September 2022, analysed between investment type and individual counterparties showing the current Fitch long-term credit rating.





Money Market Data, PWLB Rates and an Economic Update

The table and graph below shows the UK Bank of England Bank Rate and benchmark rates within the short term money markets for the last 6 months.

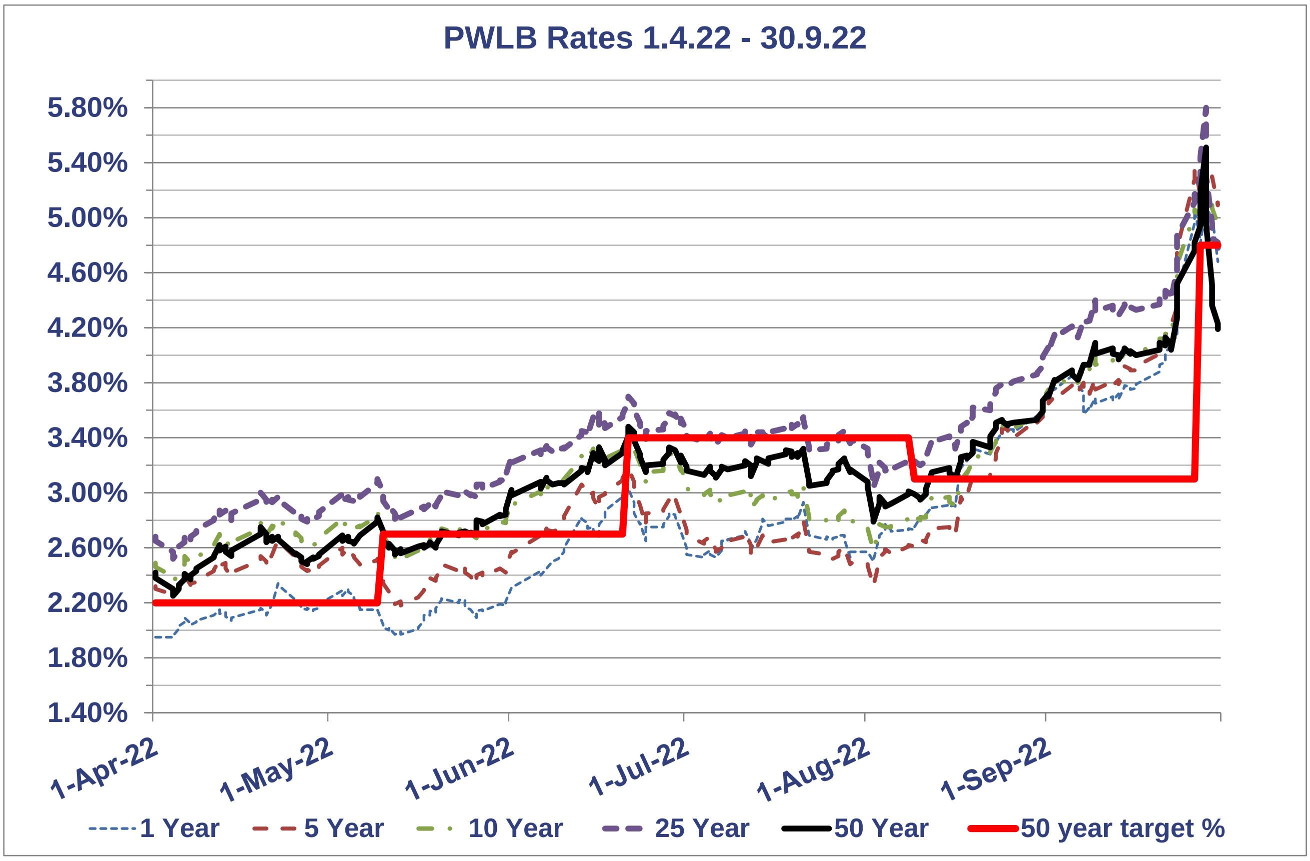


QUARTER ENDED 30/9/2022						
	Bank Rate	SONIA	1 mth	3 mth	6 mth	12 mth
High	2.25	2.19	2.86	3.67	4.49	5.41
High Date	22/09/2022	30/09/2022	26/09/2022	26/09/2022	29/09/2022	29/09/2022
Low	0.75	0.69	0.69	0.92	1.20	1.62
Low Date	01/04/2022	28/04/2022	01/04/2022	01/04/2022	07/04/2022	04/04/2022
Average	1.28	1.22	1.39	1.70	2.12	2.62
Spread	1.50	1.50	2.17	2.75	3.29	3.79

The table above, for completeness, covers both the first and second quarters of 2022/23.

PWLB certainty rates 1 April 2022 to 30 September 2022

The graph and table below show the movement in PWLB certainty rates for the first six months of the year to date:



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.35%	5.80%	5.51%
Date	28/09/2022	28/09/2022	28/09/2022	28/09/2022	28/09/2022
Average	2.81%	2.92%	3.13%	3.44%	3.17%
Spread	3.16%	3.26%	2.99%	3.28%	3.26%

Economics and interest rates

Economics update

The second quarter of 2022/23 saw:

- GDP revised upwards in Q1 2022/23 to +0.2% q/q from -0.1%, which means the UK economy has avoided recession for the time being;
- Signs of economic activity losing momentum as production fell due to rising energy prices;
- CPI inflation ease to 9.9% y/y in August, having been 9.0% in April, but domestic price pressures showing little sign of abating in the near-term;
- The unemployment rate fall to a 48-year low of 3.6% due to a large shortfall in labour supply;
- Bank Rate rise by 100bps over the quarter, taking Bank Rate to 2.25% with further rises to come;
- Gilt yields surge and sterling fall following the “fiscal event” of the new Prime Minister and Chancellor on 23rd September.

The UK economy grew by 0.2% q/q in Q1 2022/23, though revisions to historic data left it below pre-pandemic levels.

There are signs of higher energy prices creating more persistent downward effects in economic activity. Both industrial production (-0.3% m/m) and construction output (-0.8% m/m) fell in July 2022 for a second month in a row. Although some of this was probably due to the heat wave at the time, manufacturing output fell in some of the most energy intensive sectors (e.g., chemicals), pointing to signs of higher energy prices weighing on production. With the drag on real activity from high inflation having grown in recent months, GDP is at risk of contracting through the autumn and winter months.

The fall in the composite PMI from 49.6 in August to a 20-month low preliminary reading of 48.4 in September points to a fall in GDP of around 0.2% q/q in Q3 and consumer confidence is at a record low. Retail sales volumes fell by 1.6% m/m in August, which was the ninth fall in 10 months. That left sales volumes in August just 0.5% above their pre-Covid level and 3.3% below their level at the start of the year. There are also signs that households are spending their excess savings in response to high prices. Indeed, cash in households’ bank accounts rose by £3.2bn in August, which was below the £3.9bn rise in July and much smaller than the 2019 average monthly rate of £4.6bn.

The labour market remained exceptionally tight. Data for July and August provided further evidence that the weaker economy is leading to a cooling in labour demand. Labour Force Survey (LFS) employment rose by 40,000 in the three months to July (the smallest rise since February). But a renewed rise in inactivity of 154,000 over the same period meant that the unemployment rate fell from 3.8% in June to a new 48-year low of 3.6%. The single-month data showed that inactivity rose by 354,000 in July itself and there are now 904,000 more inactive people aged 16+ compared to before the pandemic in February 2020. The number of vacancies has started to level off from recent record highs but there have been few signs of a slowing in the upward momentum on wage growth. Indeed, in July, the 3my/y rate of average earnings growth rose from 5.2% in June to 5.5%.

CPI inflation eased from 10.1% in July to 9.9% in August, though inflation has not peaked yet. The easing in August was mainly due to a decline in fuel prices reducing fuel inflation from 43.7% to 32.1%. And with the oil price now just below $90pb, we would expect to see fuel prices fall further in the coming months.

However, utility price inflation is expected to add 0.7% to CPI inflation in October when the Ofgem unit price cap increases to, typically, £2,500 per household (prior to any benefit payments). But, as the government has frozen utility prices at that level for two years, energy price inflation will fall sharply after October and have a big downward influence on CPI inflation.

Nonetheless, the rise in services CPI inflation from 5.7% y/y in July to a 30-year high of 5.9% y/y in August suggests that domestic price pressures are showing little sign of abating. A lot of that is being driven by the tight labour market and strong wage growth. CPI inflation is expected to peak close to 10.4% in November and, with the supply of workers set to remain unusually low, the tight labour market will keep underlying inflationary pressures strong until early next year.

During H1 2022, there has been a change of both Prime Minister and Chancellor. The new team (Liz Truss and Kwasi Kwarteng) have made a step change in government policy. The government's huge fiscal loosening from its proposed significant tax cuts will add to existing domestic inflationary pressures and will potentially leave a legacy of higher interest rates and public debt. Whilst the government's utility price freeze, which could cost up to £150bn (5.7% of GDP) over 2 years, will reduce peak inflation from 14.5% in January next year to 10.4% in November this year, the long list of tax measures announced at the "fiscal event" adds up to a loosening in fiscal policy relative to the previous government's plans of £44.8bn (1.8% of GDP) by 2026/27. These included the reversal of April's national insurance tax on 6th November, the cut in the basic rate of income tax from 20p to 19p in April 2023, the cancellation of next April's corporation tax rise, the cut to stamp duty and the removal of the 45p tax rate, although the 45p tax rate cut announcement has already been reversed.

Fears that the government has no fiscal anchor on the back of these announcements has meant that the pound has weakened again, adding further upward pressure to interest rates. Whilst the pound fell to a record low of $1.035 on the Monday following the government's "fiscal event", it has since recovered to around $1.12. That is due to hopes that the Bank of England will deliver a very big rise in interest rates at the policy meeting on 3rd November and the government will lay out a credible medium-term plan in the near term. This was originally expected as part of the fiscal statement on 23rd November but has subsequently been moved forward to an expected release date in October. Nevertheless, with concerns over a global recession growing, there are downside risks to the pound.

The MPC has now increased interest rates seven times in as many meetings in 2022 and has raised rates to their highest level since the Global Financial Crisis. Even so, coming after the Fed and ECB raised rates by 75 basis points (bps) in their most recent meetings, the Bank of England's latest 50 basis points hike looks relatively dovish. However, the UK's status as a large importer of commodities, which have jumped in price, means that households in the UK are now facing a much larger squeeze on their real incomes.

Since the fiscal event on 23rd September, we now expect the Monetary Policy Committee (MPC) to increase interest rates further and faster, from 2.25% currently to a peak of 5.00% in February 2023. The combination of the government's fiscal loosening, the tight labour market and sticky inflation expectations means we expect the MPC to raise interest rates by 100bps at the policy meetings in November (to 3.25%) and 75 basis points in December (to 4%) followed by further 50 basis point hikes in February and March (to 5.00%). Market expectations for what the MPC will do are volatile. If Bank Rate climbs to these levels the housing market looks very vulnerable, which is one reason why the peak in our forecast is lower than the peak of 5.50% - 5.75% priced into the financial markets at present.

Throughout 2022/23, gilt yields have been on an upward trend. They were initially caught up in the global surge in bond yields triggered by the surprisingly strong rise in CPI inflation in the US in May. The rises in two-year gilt yields (to a peak of 2.37% on 21st June) and 10-year yields (to a peak of 2.62%) took them to their highest level since 2008 and 2014 respectively. However, the upward trend was exceptionally sharply at the end of September as investors demanded a higher risk premium and expected faster and higher interest rate rises to offset the government's extraordinary fiscal stimulus plans. The 30-year gilt yield rose from 3.60% to 5.10% following the "fiscal event", which threatened financial stability by forcing pension funds to sell assets into a falling market to meet cash collateral requirements. In response, the Bank did two things. First, it postponed its plans to start selling some of its quantitative easing (QE) gilt holdings until 31st October. Second, it committed to buy up to £65bn of long-term gilts to "restore orderly market conditions" until 14th October. In other words, the Bank is restarting QE, although for financial stability reasons rather than monetary policy reasons.

Since the Bank's announcement on 28th September, the 30-year gilt yield has fallen back from 5.10% to 3.83%. The 2-year gilt yield dropped from 4.70% to 4.30% and the 10-year yield fell back from 4.55% to 4.09%.

There is a possibility that the Bank continues with QE at the long-end beyond 14th October or it decides to delay quantitative tightening beyond 31st October, even as it raises interest rates. So far at least, investors seem to have taken the Bank at its word that this is not a change in the direction of monetary policy nor a step towards monetary financing of the government's deficit. But instead, that it is a temporary intervention with financial stability in mind.

After a shaky start to the year, the S&P 500 and FTSE 100 climbed in the first half of Q2 2022/23 before falling to their lowest levels since November 2020 and July 2021 respectively. The S&P 500 is 7.2% below its level at the start of the quarter, whilst the FTSE 100 is 5.2% below it as the fall in the pound has boosted the value of overseas earnings in the index. The decline has, in part, been driven by the rise in global real yields and the resulting downward pressure on equity valuations as well as concerns over economic growth leading to a deterioration in investor risk appetite.

Our PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps, calculated as gilts plus 80bps) which has been accessible to most authorities since 1st November 2012.

Interest rate forecasts

The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

The latest forecast on 27th September sets out a view that both short and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy, whilst the government is providing a package of fiscal loosening to try and protect households and businesses from the ravages of ultra-high wholesale gas and electricity prices.

The increase in PWLB rates reflects a broad sell-off in sovereign bonds internationally but more so the disaffection investors have with the position of the UK public finances after September's "fiscal event". To that end, the MPC has tightened short-term interest rates with a view to trying to slow the economy sufficiently to keep the secondary effects of inflation – as measured by wage rises – under control, but its job is that much harder now.

Link Group Interest Rate View	27.09.22											
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
BANK RATE	4.00	5.00	5.00	5.00	4.50	4.00	3.75	3.25	3.00	2.75	2.75	2.50
3 month ave earnings	4.50	5.00	5.00	5.00	4.50	4.00	3.80	3.30	3.00	2.80	2.80	2.50
6 month ave earnings	4.70	5.20	5.10	5.00	4.60	4.10	3.90	3.40	3.10	3.00	2.90	2.60
12 month ave earnings	5.30	5.30	5.20	5.00	4.70	4.20	4.00	3.50	3.20	3.10	3.00	2.70
5 yr PWLB	5.00	4.90	4.70	4.50	4.20	3.90	3.70	3.50	3.40	3.30	3.20	3.20
10 yr PWLB	4.90	4.70	4.60	4.30	4.10	3.80	3.60	3.50	3.40	3.30	3.20	3.20
25 yr PWLB	5.10	4.90	4.80	4.50	4.30	4.10	3.90	3.70	3.60	3.60	3.50	3.40
50 yr PWLB	4.80	4.60	4.50	4.20	4.00	3.80	3.60	3.40	3.30	3.30	3.20	3.10

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Audit Committee – 25 November 2022

Title of paper:	Exemption from Contract Procedure Rules quarter two 2022/23	
Corporate Director:	Clive Heaphy - Finance and Resources	**Wards affected:** All
Report author and contact details:	Steve Oakley - Head of Procurement steve.oakley@nottinghamcity.gov.uk	
Other colleagues who have provided input:	None.	
Does this report contain any information that is exempt from publication? No		
Recommendations:		
1.	To note the number of exemptions from Contract Procedure Rules during quarter two of 2022/23 and the exemptions since October 2021.	
2.	To note the actions that continue to be taken to ensure that contracts are awarded in line with Contract Procedure Rules and that exemptions only occur where there is a sound rationale for approving the exemption.	

1. **Reasons for recommendations**

1.1 As part of the new Constitution all exemptions from Contract Procedure rules need to be reported to Audit Committee on a quarterly basis, Article 18.79. This report outlines all exemptions requested during the period from July to September 2022.

1.2 The original audit report identified actions needed across Nottingham City Council to address poor compliance with the old Financial Regulations and Contract Procedure Rules. This report also provides an update on actions taken and planned to improve compliance with the new Constitution and in particular Contract Procedure rules.

2. **Background**

2.1 An audit of Procurement Dispensations was undertaken in 2021 and identified significant non-compliance with Financial Regulations and Contract Procedure Rules which resulted in higher than would be expected requests for Dispensation from Financial Regulations.

2.2 With the development of a revised Constitution it was agreed to change the Contract Procedure Rules and include the need for a formal record of all exemptions to be taken separately to seeking approval for spend. Article 18 Contract Procedure Rules includes an exemption form that is completed whenever an exemption from Article 18 is requested. These forms are reviewed by the Head of Procurement prior to seeking the approval of the Director of Finance and Resources. Once approved these are collated by the Head Procurement to ensure a comprehensive record of all exemptions is maintained.

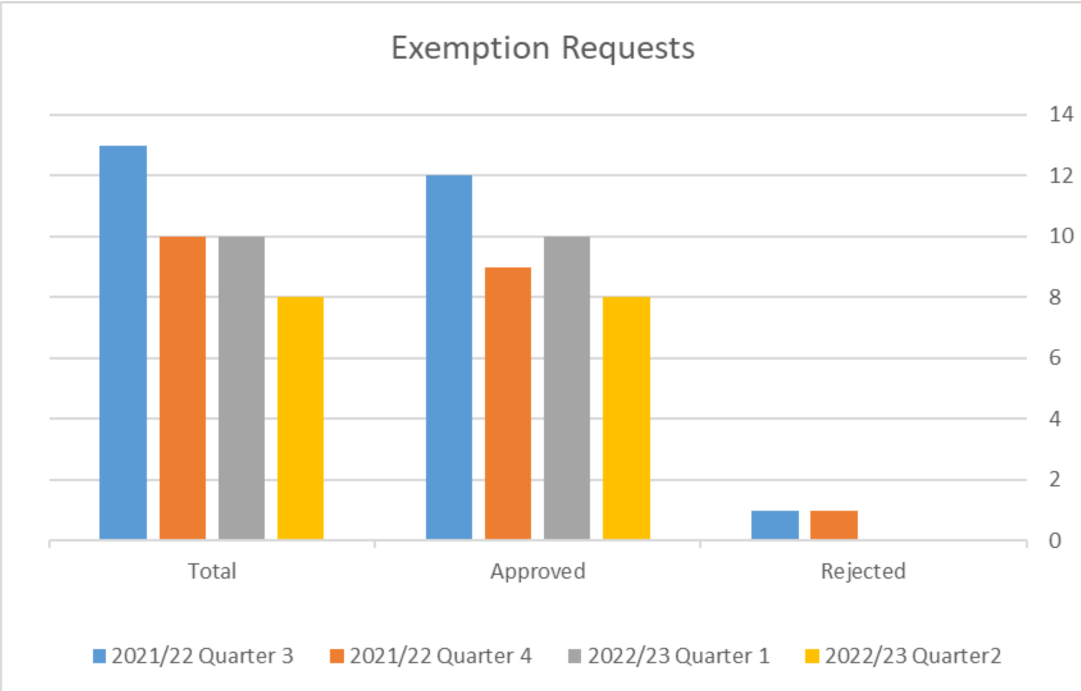
2.3 There will always be some requests for exemption from Contract Procedure Rules as not all contracts can be let through a formal tendering or quotation process for various reasons. An example is where there is only one supplier for technical reasons.

2.4 Article 18.79 requires a report to Audit Committee on a quarterly basis of all exemptions from Article 18. This report provides the fourth quarterly report since the new Constitution was implemented in October 2021.

2.5 The following table outlines the number of exemptions requested and approved during the year from October 2021 to September 2022. Appendix 1 lists the eight exemption requests with the reasons for the decision.

	Total	Approved	Rejected
2021/22 Quarter 3	13	12	1
2021/22 Quarter 4	10	9	1
2022/23 Quarter 1	10	10	0
2022/23 Quarter 2	8	8	0

2.6 The chart below shows the exemption requests to date from November 2021 to June 2022



2.7 Of the approved requests seven were unavoidable with no alternative option to the exemption for various reasons. The other exemption may have been avoidable if plans had been discussed with Procurement at an earlier stage.

2.8 The eight approved exemptions total £1.41m with an average of £0.176m

2.9 Procurement continue to work with departments to ensure exemptions only come forward when there is no alternative. Wherever possible alternative solutions are found that do not require an exemption.

2.10 Approved exemption requests are lower this quarter than the three previous quarters. This is significantly lower than the previous year’s dispensation requests. The original audit work had shown on average 16 dispensations/exemptions per quarter in 2020 and

2021 against the 8 this quarter and an average of 9.75 per quarter since the new constitution was launched in October 2021.

2.11 It is important to note that this month five of the eight would have been allowed under Public Contract Regulations 2015 (PCRs) for technical reasons, but needed an exemption from NCCs Contract Procedure Rules. The remaining three were all below PCR threshold and there were good reasons for each to be awarded following an exemption.

Key actions undertaken this quarter

2.12 Procurement have produced the first draft of a new pipeline of works to replace the old procurement plan. This will be shared with Directors during November. This will support planning with departments and aims to reduce the late requests for procurement support.

2.13 The Compliant Purchasing Team, within Procurement, continue to work with the Category Manager to ensure any request that is not following best practice is added to the longer term Category plan or alternative compliant purchasing options implemented.

2.14 The proposed new operating model work has been completed and the costs of implementation have been included in the plans for 2023/24 budget.

2.15 The Procurement training programme is now live on the Learning Zone and the Contract Management Training is now being formatted into an e-training package ready for dissemination to all colleagues that undertake any purchasing.

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 Follow-up audit report Contract Management 2021

4.2 Internal Audit Report Procurement Dispensations

4.3 Contract Management and Procurement Audits 2021

4.4 Exemption from Contract Procedure Rules quarter three 2021/22

4.5 Exemption from Contract Procedure Rules quarter four 2021/22

4.6 Exemption from Contract Procedure Rules quarter two 2022/23

Title of Exemption	Division	Directorate	Supplier	Date Signed	Outcome	Value	Avoidable	Rationale for exemption/ Procurement Reason for Supporting
Microsoft support services	ICT	Finance and Resources	Microsoft	08/08/2022	Approved	£122,833	N	Direct Award sole supplier under regulation 32 - Microsoft are the only supplier who can provide this for Microsoft products
Swimming Pool Hire for School Swimming	Education	Peoples	Lenton Centre and Notts County	01/08/2022	Approved	£149,000	N	Direct Award sole supplier under regulation 32 - the schools require pools within a specific distance from the school
District Heating Network Condition Survey	District Heating and Waste Strategy	Growth and City Development	Vital Energy	10/08/2022	Approved	£117,235	N	Direct Award below threshold, previous work had been undertaken by this supplier and any other supplier would not have the background information so best value achieved with existing supplier
Centre of excellence membership	Carbon Reduction, Energy and Sustainability	Growth and City Development	The Retrofit Academy	30/08/2022	Approved	£410,000	N	Direct Award sole supplier under regulation 32 - following market testing it became clear that only the chosen supplier could provide these services
Family Court Service	Community Protection	Resident Services	Juno Women's Aid	14/09/2022	Approved	£136,168	Y	Direct Award below threshold - process undertaken but not in line with CPRs so exemption required
Vehicle to Grid Bid Directional Chargers	Carbon Reduction, Energy and Sustainability	Growth and City Development	EV Charging Solutions	01/09/2022	Approved	£148,748	N	Direct Award below threshold following failed tender regulation 32, failed to find a solution following tender so inline with Regulation 32 negotiated procedure used without competition
ESOL Schemes	Community Protection	Resident Services	Enable	01/09/2022	Approved	£90,000	N	Direct Award below threshold, longer term solution needed to replace existing agreement continue with current arrangement until tender complete
Maintenance of ANPR Camera Enforcement	Traffic and Safety	Growth and City Development	Yunex	15/09/2022	Approved	£233,379	N	Direct Award sole supplier under regulation 32 - only Yunex can provide maintenance on their cameras

Audit Committee – 25 November 2022

Title of paper:	Companies Governance Update	
Corporate Director:	Clive Heaphy – Finance and Resources	**Wards affected:** All
Report author and contact details:	Ian Edward – Strategic Advisor on Companies	
Other colleagues who have provided input:	None	
Exempt information: None.		
Recommendation:		
1	To receive assurance of progress against the Together for Nottingham companies theme.	

1 Reasons for recommendations

1.1 This report provides an update on progress since the last report submitted on 24 June 2022.

2 Background

2.1 The Together for Nottingham plan is tracked as three projects: Commercial Strategy, Company Governance, Council-owned company review a summary of progress against each project is set out below

2.2 **Commercial Strategy** – A commercial strategy has been developed and is tabled for acceptance at 20 November 2022 Executive Board meeting. A copy of the strategy is provided at appendix 1.

2.3 **Companies Governance** – The Council has consolidated its approach to companies' governance in a framework document to Article 19 of the constitution. The Companies Governance Handbook was approved by the Companies Governance Executive Committee on 20 October 2022. Workshops to introduce the Handbook to company Board members and Shareholder Representatives have been ongoing during November. The handbook is provided at appendix 2. The handbook will be put into operation by the shareholder unit and overseen by the Councils Commercial Director.

2.4 **Review of Council owned companies** – Since the date of the last report the Council has sold its interests Thomas Bow Ltd and continues to progress projects with the remaining companies. At present the options for the restructuring of the NCH companies (after services transfer in April 2022) is in hand and a plan to progress the options will be presented to the Improvement Board at the end of November. Proposals have been made to transfer the services provided by Nottingham Revenues and Benefits to the Council on 1 April 2023, with a managed closure of the company following that event. Work continues on the liquidation of the former Enviroenrgy ltd company entity.

2.5 The jointly commissioned review of the longer term options to maximise participation in physical activities, and a potential revised commercial structure of NIC ltd is at tender evaluation stage. Tender award will be made in December, with expected initial findings in March 2023.

2.6 Work is underway to progress the legal arrangements required to revise the company LGPS pension scheme and reduce future risks associated with the scheme. Timescales for completion of this work will be dependent upon the pace at which the scheme, city council and company can progress, however the practicalities of the revised arrangement once confirmed are that it will complete upon closure of the legal agreements between the three parties.

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 Together for Nottingham Improvement Plan, Companies Governance Handbook to Article 19 of the Constitution.

Nottingham City Council Commercial Strategy

Background

The Council aspires to be a leading exponent of best practice in its approach to governing its wholly owned and controlled companies and more widely in its commercial ventures. The creation and maintenance of this commercial strategy exemplifies that ambition and is a requirement of the Governance Handbook.

The continuing application and development of both the Governance Handbook and this strategy will allow the Council to become an example of best practice amongst its peers.

This strategy is owned by the Commercial Director who is responsible for its production, updating and implementation. The Council's Corporate Leadership team and Executive has responsibility for approving the strategy.

The Public Interest Report concerning Robin Hood Energy (RHE), published in August 2020, raised serious concerns over the governance arrangements that the Council had in place. These concerns are summarised in the report as follows:

- There was an insufficient appreciation within the Council (as a corporate body) of the huge risks involved in ownership of, and investment in, RHE
- There was insufficient understanding within the Council of RHE's financial position, partly due to delays in the provision of information by RHE and the quality and accuracy of that information
- There was insufficient sector (or general commercial) expertise at non-executive Board level
- There was a lack of clarity in relation to roles within the governance structure
- The arrangements did not establish an appropriate and consistent balance between holding to account and allowing the Company freedom to manage, and this worsened as levels of trust decreased and the financial position deteriorated.

The Council has responded positively and purposefully to the PIR report and this strategy and the Governance Handbook were developed to address all weaknesses identified and to adopt prevailing best practice from across the public and private sectors.

The Governance Handbook was approved by the City Council's Executive on the 20 September 2022 and now forms part of the Governance Framework Documents which, alongside the Constitution, set out the rules by which the Council operates.

1. **Purpose**

1.1 The purpose of this strategy is to ensure that the requirements of the Governance Handbook are fully implemented and that all commercial ventures are demonstrably aligned to the Council's prevailing, high-level, strategic priorities. At the time of writing, these strategic priorities may be found in the

Nottingham City Council's Strategic Council Plan 2021-23. These may be summarised as follows:

- Clean and Connected Communities
- Keeping Nottingham Working
- Carbon Neutral by 2028
- Safer Nottingham
- Child-Friendly Nottingham
- Healthy and Inclusive
- Keeping Nottingham Moving
- Improve the City Centre
- Better Housing
- Financial Stability
- Serving People Well

1.2 Many commercial ventures will link to other Council strategies. Where this is the case, those links will be clear and auditable.

1.3 This strategy will allow the Council to demonstrate it is fulfilling its Best Value duty (as it applies to the scope of this strategy) in the follow terms:

- Having arrangements in place to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency, and effectiveness
- Consideration of economic, environmental, and social value impacts

1.4 Continuous improvement will be demonstrated through the historic performance of commercial ventures through business plans and periodic strategic reviews which will test commercial ventures against alternative delivery models.

1.5 This strategy provides a set of principles with which all commercial ventures, including proposed ventures or arrangements, must comply. The principles take into account prevailing council strategies and other constitutional requirements such as the Governance Handbook.

1.6 As the Council delivers its strategies and its strategic focus changes, commercial ventures must be able to demonstrate continuous improvement. In many cases that will be achieved through delivery of the annual business plan.

2. Scope

2.1 At this stage, this strategy does not include procurement or contract management. However, future iterations of this strategy will include both areas of activity, being a very significant area of the council’s spend and service delivery. There is an existing procurement strategy – Procurement Strategy 2018 – 2023 which also deals with contract management. Similarly, a new Commercial, Procurement and Contract Management Operating Model has been created. When the Procurement Strategy is revisited in 2023, it will form part of a new, more widely scoped, Commercial Strategy.

2.2 The first part of the Workplan in Section 7 is concerned with operationalising the Governance Handbook. This is critical for the delivery of the rest of this strategy.

2.3 This strategy applies to all commercial ventures provisionally listed in Appendix A to this document. Commercial ventures are included in Appendix A on the basis of their potential impacts and risks by applying the evaluation model in Appendix B. As a full evaluation of all commercial ventures is completed, Appendix A will move from provisional to confirmed. The commercial director may subsequently add or remove commercial ventures in Appendix A in consultation with the relevant portfolio holder(s).

2.4 For the purposes of this strategy, a Commercial Venture is defined as an activity or activities that seek payment for goods or services provided, from another person or entity, whether those ventures are for profit or otherwise, whatever form the ventures may take. For example, limited companies with shares, companies limited by guarantee or other arrangements that are established as part of the City Council without their own distinct legal personality. For example, the district heating business that has moved back in-house and school catering.

2.5 In common with the requirements of the Governance Handbook, this strategy requires a ‘comply or explain’ approach. This allows deviations from the strategy where this can be justified as being in the interests of the City Council. Any deviations must be approved by the Commercial Director and recorded for audit purposes. This record will also include the date of a review to ensure the deviation is still justified or that it is no longer appropriate or required. The reviews will also be recorded.

2.6 The requirements of this strategy will be applied annually to all commercial ventures in Appendix A to ensure theses commercial ventures continue to support the wider strategic objectives of the council. Where an annual business plan is produced, the requirements of this strategy will be considered as part of the business planning process.

2.7 Similarly, whenever the Council is carrying out delivery model assessments, the requirements of this strategy must be followed if a commercial venture is being considered as a means of service delivery.

3. Principles

3.1 For clarity, this strategy is entirely neutral on the form and method of service delivery and whether that delivery is fulfilled through a commercial venture or not. This is a matter for the directorates and leadership of the Council to determine. The Commercial Function will play a coordinating and advisory role on delivery model assessment.

3.2 Whilst evaluation of impacts and of risk are of critical importance, there are additional principles that the Council wishes to apply to commercial activity. These are:

(i) **A focus on core purpose and supporting the Council's priority outcomes:** Commercial ventures must demonstrably contribute to improved outcomes for the people and communities the Council serves. Commercial investments or activities outside Nottingham, which cannot demonstrate a direct contribution to delivering the Council's strategies, will be avoided

(ii) **Compliance**: commercial ventures must be consistent with statutory duties and strategies

(iii) **Commercial discipline**: our commercial ventures must demonstrate robust governance, performance management, financial performance and appropriate controls

(iv) **Governance and structures**: proportionate governance and structures to provide oversight of substantial in-house commercial ventures and to support good, evidence based decision making

(v) **Learning and risk management**: we will achieve a sensible balance of risk and opportunity across the Council's commercial portfolio, assess and manage performance robustly, and capture learning from commercial ventures

(vi) **Commercial ventures will be required to evaluate and forecast impacts** in the following areas:

a. Financial impacts for the City Council including
    i. Investment required
    ii. Revenue costs and returns over time
    iii. Movement in net asset value over time (where applicable) and
    iv. Impact on the local economy and local businesses

b. Environmental impacts including
    i. Net carbon dioxide emissions reduction / increase
    ii. Changes to the natural environment through land use / enhancement including changes to biodiversity and habitats
    iii. Changes to flood risks and
    iv. Air quality impacts

c. Social impacts including
    i. Clear, demonstrable links to the delivery and support of the Council's core purpose and contribution to improved outcomes
    ii. The number of individuals and communities in Nottingham impacted
    iii. The number and magnitude of the impacts

iv. Equality, diversity and inclusion

d. Benefits to the local economy including
   i. Employment
   ii. Skills and work-related training
   iii. Transport
   iv. Digital inclusion

(vii) **Any new commercial ventures will also be required to produce a business case** and follow the HM Treasury Guide to Developing the Project Business Case, often referred to as the five case model. This requires the following areas to be addressed, proportional to the scale of risks and impacts:

a. Provides strategic fit and is supported by a compelling case for change. This dimension of the five cases focuses on business planning and is the ‘strategic case’ section within the Project Business Case.
b. Will maximise public value to society through the selection of the optimal combination of components, products and related activities. This dimension of the five cases focuses on options appraisal and the identification of the preferred option and is the ‘economic case’ section within the Project Business Case.
c. Is commercially viable and attractive to the supply side. This dimension of the five cases focuses on the development and procurement of the potential Deal and is the ‘commercial case’ section within the Project Business Case.
d. Is affordable and is fundable over time. This dimension of the five cases focuses on the whole life costs of the proposed Deal and is the ‘financial case’ section within the Project Business Case.
e. Can be delivered successfully by the organisation and its partners. This dimension of the five cases focuses on the implementation arrangements for the proposal and is the ‘management case’ section within the Project Business Case.

(viii) Decision making that flows from the implementation of this strategy will be carried out in accordance with the council’s Constitution. The Commercial Director has a duty to ensure that the requirements of this strategy, the Governance Handbook and wider Constitutional and legal requirements (as far as they apply to activity under her/his leadership) are observed. In practice, the Commercial Director will advise colleagues where requirements are not being observed or where there are concerns, with a view to resolving them. If this is unsuccessful the Commercial Director will refer to the Corporate Director for Finance and Resources or the Chief Executive as appropriate.

4. Objectives

4.1 The overall objective of this strategy is to ensure and to demonstrate, transparently and openly, that the City Council's commercial activities are aligned to its core strategic aims. This supported by the following enabling objectives:

(i) That the strategic fit of commercial activities is reviewed annually or whenever a significant change is proposed (see Governance Handbook Section on Strategic Review)

(ii) To maintain a register of all commercial ventures to which this strategy applies

(iii) To create and deliver a workplan of commercial strategy reviews for all existing commercial ventures

(iv) To create a review process along with a process for addressing any non-compliance or shortfalls with the principles above

(v) To fully implement the requirements of the Governance Handbook

5. Risks and impacts

5.1 All commercial ventures must comply with the Governance Handbook's requirements on risk and, in the case of commercial ventures that are entirely within the Council (that is to say are not a separate legal entity), the council's Risk Management and Policy Framework must also be followed.

5.2 The approach to commercial risks must be balanced against potential opportunities and reward with an emphasis on being risk aware, not risk averse. Risks need to be managed continuously from the earliest conception of an idea for a project or opportunity and for all the time they are live. The Commercial Director will be responsible for overseeing the management of commercial risks.

5.3 In the case of novel commercial ventures, where performance or benchmark information is not available, a higher level of risk awareness is required.

5.4 The overall balance of risks across the portfolio of the Council's commercial ventures must also be considered in aggregate as well as individually. This is to ensure that exposure to common risks among the commercial ventures is understood and appropriately managed.

5.5 Similarly, the impacts of the commercial ventures should be considered in aggregate as well as individually. By doing so, the overall contribution to delivering the Council's strategic objectives can be understood. Once this is understood, the focus for each commercial entity can be refined so as to create the biggest impact at lowest cost for the Council.

5.6 The Commercial Director will report on aggregated risks and impacts on a quarterly basis.

6. Review

5.1 This Strategy will be kept under regular review every twelve months. The next review is due in November 2023.

7. Workplan

Deliverable	Description	Target completion date
Part A	**Operationalising the Governance Handbook (GH)**	
1	Recruitment of a Commercial Director	30/11/2022
2	Fully resourced shareholder unit in place with governance, finance and legal officers (CH)	30/11/2022
3	Shareholder unit, shareholder representatives and Council company directors training in the Governance handbook	30/11/2022
4	Council Board Member competency self-assessments	30/11/2022
5	Options developed for revised structure of NCH and subsidiaries	30/11/2022
6	Review of both subsidiary and non-subsidiary NCC companies	30/11/2022
7	Implementation of GH requirements for conflicts of interest as they apply to Council appointed board members	31/12/2022
8	Learning and development plan for Council appointed board members	31/12/2022
9	Learning and development plan for Council shareholder reps	31/01/2023
10	Pipeline of future shareholder reps created	31/01/2023
11	Check that COEs have carried out an external board competency evaluation within the last three years and that annual board evaluations are taking place	28/02/2023
12	Work with COE’s to agree annual business planning process as set out in GH	28/02/2023
13	Work with COE’s to implement reporting cycle and content required by GH	28/02/2023
14	Confirm COEs risk management policy satisfies the GH requirements, agree any remedial actions with the Chair of the respective COE	31/03/2023
15	Implementation of GH requirements for conflicts of interest as they apply to Boards	31/03/2023
16	Comprehensive Strategic Reviews for each COE in line with the GH requirements will be scheduled and agreed with each COE’s board.	30/06/2023
17	Pipeline of future board members created	31/07/2023
18	Review the prevailing guidance and best practice provided by the FRC (in future the Audit, Reporting and Governance Authority) CIPFA, LLG and the IOD and propose any changes to the GH	30/09/2023
19	Carry out an internal evaluation of the shareholder unit and staff and plan for an external review in 2025	30/09/2023
20	Review and revise the Governance handbook and Commercial Strategy as necessary	31/10/2023

Part B	**Strategic principles applied**	
1	Create a definitive list of all commercial ventures with which the City Council is involved.	31/12/2022
2	Apply the Impacts and Risks Evaluation (see Appendix B) and determine to which ventures this strategy must be applied.	31/01/2023
3	Evaluate in-scope commercial ventures against the Principles in section 6 with respective commercial ventures' personnel	31/03/2023
4	Creation of quarterly report format and content to report on risks and impacts	31/03/2023
5	Create a comprehensive report based on the evaluation, above, with recommendations for the Executive to consider and an action plan based on the report's findings for their approval	30/05/2023
6	Implementation of the action, plan likely to include: - Re-alignment of commercial venture activities and objectives - Improved governance - Improved reporting arrangements - Changes to delivery models and structures	30/09/2023
7	Work with commercial ventures to agree annual business plans	01/12/2022 to 30/11/2023

Appendix A

Commercial Ventures to which this strategy applies [provisional list, subject to amendment when the risks and evaluation matrix is applied to all NCC commercial ventures]

Bridge Estate Trust
Nottingham City Homes Ltd
Nottingham City Transport Ltd
Nottingham Ice Centre Ltd
Nottingham Revenues and Benefits
Blueprint Limited Partnership
Futures Advice, Skills and Employment Ltd
Nottingham Castle Trust
[other trusts delivering leisure based services to be added]
Theatre Royal
Royal Concert Hall
Enviroenergy
Commercial Waste
Nottingham Catering
Cleaning services
Services provided to schools and academies

Appendix B

Impacts and risks evaluation

Impacts and risk evaluation for:	Critical	Significant	Important	Not significant	Marginal
How important is this commercial venture for the Council to achieve its strategic objectives?					
What financial impacts does this venture bring the City Council?					
What environmental impacts does this venture bring the City?					
What social impacts does this venture have on the City?					
To what extent does this venture impact the local economy?					
To how much risk does this venture expose the City Council?					

Any commercial venture that has a critical or significant impact or risk, will be included in Appendix A. Any commercial venture that has more than two important impacts or risks will also be included.

Those that have less than two important impacts or risks and no critical or significant risks, will be reviewed annually or when any significant change occurs.

NCC Companies Governance Handbook

Introduction

This handbook is owned by the Commercial Director who is responsible for keeping it up to date, relevant and accessible and for arranging relevant training for those involved in working with our companies.

The purpose of this handbook is to act as a practical guide for NCC members and officers, and staff and board members of entities in which the council have an interest, in their dealings with each other and with the important business that is conducted by them. An interest, for the purposes of the scope of this handbook, applies to any of the following:

- entities in which the council has a shareholding
- entities to which the council can appoint a director
- companies limited by guarantee where the council is a member

The governance, structure and processes take account of the latest thinking in local government and in particular, the lawyers in Local Government code of practice, The Governance of Council Interests in Companies, and CIPFA's guidance document produced for the Council. The principle of "comply or explain" is expected in relation to following the requirements of this handbook. That is to say, compliance with the requirements contained here is mandated, unless there is a good, well-argued and documented reason for adopting a different approach, agreed with the Council's S151 Officer and Monitoring Officer. Constitutional and legal requirements must still be followed, however.

At its heart, this governance model is concerned with demonstrating the transparency and accountability that is essential for all parties to have confidence in each other and to make the best decisions in the interests of all.

Contents

Governance Structure

The Council's Constitution

The Constitution governs how the Council works and always takes precedence. In particular, it sets out the roles, powers and limits if delegation of the Executive and key committees including Companies Governance, Overview & Scrutiny and Audit committees. The Constitution should be referred to alongside this handbook.

The Council Owned Entity's governing documents

Each COE has a set of its own governing documents to meet the requirements of the law and those of its shareholders. Every COE is an independent entity free to operate within the scope of its governing documents. It is important that the distinction between a COE and the Council is clearly understood. The governing documents for each COE are held by the Shareholder Unit.

Article 10 of the Council's Constitution - Executive Arrangements (including the Executive Scheme of Delegation)

Article 10 describes how decisions are made by the Council's Executive. This includes the Companies Governance Executive Committee (CGEC) and sets out its terms of reference. The authority to make decisions may be delegated to Council Officers.

Where any decision is a Key Decision, they can only be taken in accordance with the notice requirements outlined in Article 13.

Article 19 of the Constitution – Council Companies

This Article sets out the principles and governance that relates to COEs. It explicitly states that the Executive acts as the Shareholder (or its equivalent) in respect-of all COEs and that decisions can be delegated to officers. Article 19 is freely available to anyone and is, along with the rest of the Constitution, published on the Council's website.

Commercial Strategy

The Commercial Strategy is owned by the Commercial Director who is responsible for its production, updating and implementation. The Commercial Strategy sets the direction and aims of the council in respect of the entities in which the council has an interest. The strategy acts as a bridge between these entities and the broader strategic objectives of the council.

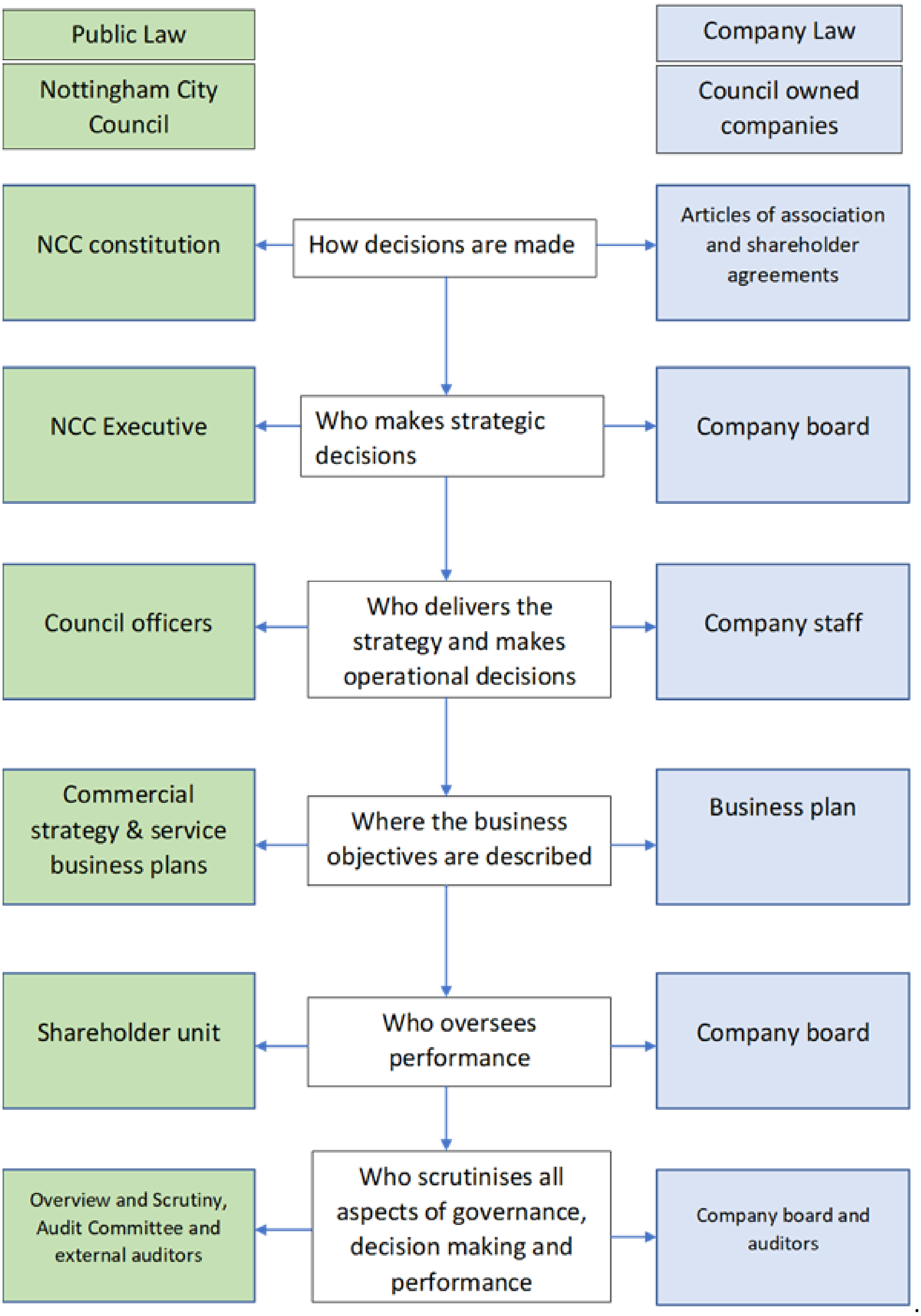
Glossary

Articles of Association	Written rules about running the company agreed by the shareholders or guarantors, directors and (where there is one) the company secretary
CIPFA	The Chartered Institute of Public Finance and Accountancy (CIPFA) is a UK-based international accountancy membership and standard-setting body
Commercial director	NCC officer with responsibility for all procurement, contract management and effective oversight and shareholder inputs for council owned entities
Commercial Strategy	The Commercial Strategy is owned by the Commercial Director who is responsible for its production, updating and implementation. The Commercial Strategy sets the direction and aims of the council in respect of the entities in which the council has an interest. The strategy acts as a bridge between these entities and the broader strategic objectives of the council.
Companies Act 2006	The Companies Act was introduced in 2006 to do the following things: to simplify administration. To improve the rights of shareholders. To update and simplify corporate law
Companies Governance Executive Committee (CGEC)	To approve and oversee 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 regulations and ambitions.
Company Chair	The Chair’s primary role is to ensure that the board is effective in its task of setting and implementing the company’s direction and strategy. The Chair is appointed by the board and the position may be full-time or part-time
Company directors	Persons appointed to act as a director in accordance with the Companies Act 2006. They have a number of legal duties, set out in the Governance Roles section of this document
Council appointed board members	Board members (also known as directors if the COE is a company), that the council has the power to appoint.

Council Owned Entity (COE)	A company, or other entity, in which the council has an interest such as shares, the right to appoint a director or for which it is a member.
Financial Reporting Council	The Financial Reporting Council is an independent regulator in the UK and Ireland, responsible for regulating auditors, accountants and actuaries, and setting the UK's Corporate Governance and Stewardship Codes. It is due to be replaced by the Audit, Reporting and Governance Authority in 2023.
Lawyers in Local Government	Lawyers in Local Government is the representational body for all lawyers and governance officers working in local authorities and similar organisations
Memorandum of association	A legal statement signed by all initial shareholders or guarantors agreeing to form the company
NCC Constitution	The Constitution is *the* fundamental document that describes how the Council works. In particular it sets out the decision making process by the Executive and oversight of the Executive's decisions by the Overview & Scrutiny and Audit committees
Reserved matters	A shareholders' agreement and / or Articles of Association will often set out things which the company should not do without first getting the approval shareholders. These are known as reserved matters
Shareholder agreement	An agreement entered into between all or some of the shareholders in a company. It regulates the relationship between the shareholders, the management of the company, ownership of the shares and the protection of the shareholders. They also govern the way in which the company is run
Shareholder rep	A council officer whose purpose is to represent and protect the council's interests and to act as a conduit between the council and the COE
Shareholder Unit	Comprises the Head of Commercial Strategy, shareholder reps, finance officer, commercial / compliance officer and legal officer

Operating relationship between Nottingham City Council and Council Owned Entities (COEs)

The following diagram show each entity – the Council and a COE – in its own column with their respective governance, decision making & execution, strategy & planning, oversight and scrutiny arrangements in relation to COEs.



Governance Documents

Articles of Association

These are the written rules that determine how the COE is run and is agreed by the shareholders or guarantors, directors and (where there is one) the company secretary.

NCC will create a standard set of minimum requirements for the Articles of Association for any entity in which it has an interest.

Shareholder Agreement

Although the articles of association and a shareholders' agreement are very similar in nature, and their contents will quite often overlap, the shareholders' agreement is a confidential document, whereas the articles of association are open for the public to view at Company House. This may affect the decision about what is included in the articles of association and what should be kept private in the shareholders' agreement.

Typically, a shareholder agreement will cover the following:

- The nature of the company and its purpose
- The process for appointing and removing directors
- How decisions about the company will be made
- How disputes will be resolved
- The shareholders' rights to information
- How shares will be distributed and sold
- Any restraint provisions on shareholders

Reserved matters

Found in the Shareholder Agreement and / or the Articles of Association, reserved matters are those things the COE can only do with the agreement of the shareholder(s).

Typically, these include the following:

- Commencement of any proceeding for the voluntary dissolution, winding up or bankruptcy of the Company.
- Any non-pro rata reduction to the share capital of the Company, except as required by law.
- Approval of and any amendment to the articles of incorporation or by-laws of the Company, which amendment would change (A) the name of the Company, (B) the jurisdiction of incorporation of the Company, (C) the purpose or purposes for which the Company is organized, (D) the size of the Board of Directors or (E) the shareholder approval requirements for Shareholder Reserved Matters.
- Any appointment to the Board of Directors
- Removal of directors
- Any merger, amalgamation or consolidation of the Company with any other entity or the spinoff of a substantial portion of the business of the Company.

- The creation of any subsidiary entity.
- The sale, conveyance, transfer or other disposal of all or substantially all of the assets of the Company, whether in a single transaction or a series of related transactions.
- Any change in the principal line of business of the Company.
- Entering into any mortgage, lease or other long term financial commitment.
- The use by the company of any assets as security against any financing instrument

Governance roles

Company Directors

Major duties of a company director

(From Dr Roger Barker, head of Governance, IOD)

The company's constitution

The first of these duties is that a director must act within their powers under the company's constitution. The most important part of the company's constitution is the articles of association. These are an important set of rules for your company and for your board.

Promoting the success of the company

The second major duty of a company director is to promote the success of the company. The duty states a director must act in a way that they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members (shareholders) as a whole.

When making decisions, directors must also consider the likely consequences for various stakeholders, including employees, suppliers, customers and communities. They should also consider the impact on the environment, the reputation of the company, company success in the longer term and all of the shareholders (including minority shareholders).

Board decisions can only be justified by the best interests of the company, not on the basis of what works best for anyone else, such as particular executives, shareholders or other business entities. But directors should be broad minded in the way that they evaluate those interests – paying regard to other stakeholders rather than adopting a narrow financial perspective.

Independent judgement

The third major duty requires directors to exercise independent judgement. Directors are meant to develop their own informed view on the company's activities.

Directors should not be delegates who simply implement the commands of other parties (such as major shareholders). Nor should they avoid their responsibility to make independent decisions by relying on the knowledge or judgement of other directors or experts.

A director needs to form their own view, and this may require some effort – especially if they are not already familiar with key aspects of the company's activities.

Exercise reasonable care, skill and diligence

The third major duty requires directors to exercise independent judgement. Directors are meant to develop their own informed view on the company's activities.

Directors should not be delegates who simply implement the commands of other parties (such as major shareholders). Nor should they avoid their responsibility to make independent decisions by relying on the knowledge or judgement of other directors or experts.

A director needs to form their own view, and this may require some effort – especially if they are not already familiar with key aspects of the company's activities.

In the past, directors could be appointed purely for their name or reputation, without the expectation that they would actually do any work as a board member. Those days are now over due to the duty for directors to exercise reasonable skill, care and diligence in their role.

The benchmark is that of a reasonably diligent person with the general knowledge, skill and experience that could reasonably be expected from a person carrying out the director's functions. Also, directors with specific professional training or skills (such as a lawyer or accountant) are held to a higher standard in related issues than less qualified colleagues.

Conflicts of interest and personal benefits

The remaining three legal duties relate to the need for directors to avoid or manage conflicts of interest which may affect their objectivity.

If situations arise which impose multiple claims on a director's attention or loyalty, it is essential that they disclose them to fellow board members. It will then be up to the other non-conflicted board members (or the shareholders, in some cases) to decide how to manage or approve the conflict and maintain the integrity of the board's decision-making process.

Examples of conflicts of interest include situations where the director has relationships of a business or personal nature with persons or entities that are affected by the company's activities. It could also relate to situations where the director may be considering taking advantage, on a personal basis, of property, information or opportunity which belongs to the company.

Gifts or benefits from third parties are also a potential threat to a director's objectivity. Most importantly, directors have a statutory duty to disclose any direct or indirect interest in proposed or existing transactions or arrangements with the company.

Keeping a record

How can a director prove they've fulfilled these legal duties? One of the important purposes of the minutes of board meetings is to provide a record of the board's decision-making process.

By law, these minutes must be kept for 10 years. Years from now, it may be difficult for you to remember if you fulfilled your directors' duties in respect of some key decision. The minutes can provide vital evidence that you did – something that you may well have cause to be grateful for.

Council appointed board members

Power to appoint and remove board members

The public law related power to appoint and remove board members is found in Article 19 of the Council's Constitution. The Executive Board will normally exercise this power with arrangements in place for any in year changes to appointments that may be required.

The company law related power for the council, as shareholder, to appoint and remove board members will be found in the relevant COE's articles and shareholder agreement.

Competency of board members

It is essential that existing and prospective board members are demonstrably competent, and have sufficient knowledge, to undertake the role.

To that end, board members (current and prospective) will be required to undertake training and assessment to a standard comparable to that of the Institute of Directors Director Competency Framework.

The Shareholder Unit will carry out the assessments of each board member and prospective board member. The assessment will be carried out prior to appointment and whenever board members change roles between COEs.

Creating a pipeline of potential board members

The appointment of NCC personnel as board members on the Council's COE's ensures that a public sector perspective and NCC's strategic aims. In addition, whilst their prime duty is to the success of the company, NCC personnel appointed to boards will be well placed to anticipate the Council's position on a variety of matters and to ensure NCC's values and ethics are represented at board level. Personnel within NCC to be considered for board member roles in any COE, will be selected according to the Council's prevailing policies. Nevertheless, it is important that prospective board members are able to demonstrate the depth of experience, intellectual ability and personal resilience that their future role will likely require of them.

Once selected, prospective board members should undertake the training described above *before* joining the COE board.

Conflicts of interest

Conflicts of interest must be managed in accordance with the conflicts of interest section in this document.

Board membership planning

A cohort of prospective board members, fully trained, will be available to replace existing board members in COEs as and when required. The exact number in this cohort is a matter for the Commercial Director to determine, taking into account relevant factors.

Competency evaluation of board members

COEs are required to carry out self-evaluation each year with external evaluation every third year. This must be broadly in line with FRC guidance. A key factor of this process is the evaluation of individual directors (item 5 in the checklist).

In the event that a council appointed board member is found to be ineffective, they will be required to undertake any training that is agreed between the Commercial Director and the Chair of the COE board that is likely to improve their performance. In the event that the ineffectiveness is so pronounced that any training would be unlikely to improve matters, or that the training fails in its objectives, the board member shall be replaced. If, however, the individual's effectiveness improves following training, no further action will be required.

Term of appointment to a COE board

It is up to the Council, as shareholder, to determine how long a council appointed board member should remain in place. As a minimum, the FRC guidance found in Appendix One should be followed. At present, this means the Chair should serve for no more than nine years, and NEDs for no more than two, three year terms.

Commercial Director

The Commercial Director is the NCC officer with responsibility for all procurement, contract management and oversight and shareholder inputs for council owned entities**.** The Commercial Director reports to the Corporate Director of Finance.

They are responsible for creating the Commercial Strategy, keeping it updated, and for its implementation.

The Commercial Director's role description is available from the Shareholder Unit.

Shareholder Representatives

For each COE, the council will appoint a shareholder representative. Each shareholder representative will have sufficient experience, skills and seniority to be able to discharge their duties effectively.

The purpose of the shareholder representatives is to protect the council's interests and to act as a conduit between the council and the COE.

The standards of behaviour required include:

- To act with honesty and integrity in the delivery of their duties.
- To actively communicate and collaborate with all required within the wider governance framework.
- To build and maintain effective and transparent relationships with all parties.
- To take personal accountability for own actions and decisions.
- To take personal responsibility for own continuous improvement working collectively with other shareholder representatives where appropriate.
- To actively work to promote and improve good working relationships between the Council and its companies.

- To take appropriate action to avoid conflicts of interest arising especially in relation to the shareholder role and any client roles.

The full role profile is here:

Enc. 2 for The Role of the Shareholder F

All current and prospective shareholder representatives will undertake training to the same standard and scope of the Institute of Directors Director Competency Framework.

To support the shareholder representatives, a user group will be created to allow the free exchange of ideas, challenges and experiences and to support prospective shareholder representatives as they undertake their training and in handovers from one representative to another. The user group will be organised by the Shareholder unit.

Creating a pipeline of shareholder representatives

The SU will create and maintain a pipeline of prospective shareholder representatives from officers employed by NCC. The council may choose to offer a small financial incentive to interested parties to take on these additional duties. Selection and appointment of officers as prospective shareholder reps will follow prevailing NCC policies.

Shareholder Unit

The Shareholder Unit (SU) comprises the Shareholder Reps and the SU officers for Commercial, Financial and Governance. The team reports into the Commercial Director.

1. Purpose

The main function of the Shareholder unit is to embed the LLG code of practice into NCC ways of working by:

a. Acting as the custodian of the Shareholder's interests in the COEs

b. Establishing with the CGEC the outcomes NCC requires of its group companies, frequently testing the group entities against these

c. Building and maintaining an effective and transparent relationship between the Shareholder and COEs

d. Ensuring each COE has the right level of challenge and support from the Shareholder

e. Establishing and maintaining a group environment and culture for COEs

f. Preparing, gaining approval and implementing a commercial strategy for the COEs within the group

2. Approach

a. Keeping up to date with best practice and legislative changes

b. Establishes impartial, factual decision making, based on reliable information and justifiable commercial criteria

c. Operate efficient and practical processes, avoiding duplication with existing council governance

d. Governance is collectively understood between NCC and the COEs, and is applied accordingly

e. Shareholder compliance points are addressed (and evidenced)

f. A collaborative and pragmatic approach is demonstrated

g. Key events are planned for and emergent issues are managed on a priority basis

h. Awareness between group entities of the collective challenge and opportunities is evident

i. Current year budget and MTFP are regularly monitored and informed

Major governance processes and policies

Risk management policy

The Council Owned Entities (COEs) are responsible for their own arrangements in respect of risk management. NCC require these arrangements to be broadly in line with the FRC's *Guidance on Risk Management, Internal Control and Related Financial and Business Reporting*. This requirement should be set out in the COEs Articles of Association and/or Shareholder Agreement as appropriate.

The Shareholder Unit (SU) is responsible for periodically seeking assurance that COEs are complying with this requirement. To assist SU staff, the following checklist covers the significant elements of the FRC guidance. Detailed evidence of compliance (or otherwise) will be produced in a report and sent in draft to the COE for their comments or corrections. A final version will be distributed under the Commercial Director's guidance.

Checklist

Item	Description	Evidence
1	There is a clear statement, endorsed by the Board, setting out the COEs willingness to take on risk commensurate with its risk appetite.	
2	The risk statement is reviewed at least annually and when there is any significant business change or change to the risk environment	
3	There is a clear statement describing the nature and extent of the risks facing, or being taken by, the company which it regards as desirable or acceptable for the company to bear	
4	The Board is provided with sufficient information to allow it to assess the effectiveness with which risk is being managed or mitigated	
5	Risk management and internal controls are integrated with considerations of strategy and business model, and with business planning processes	
6	Risk management is demonstrably incorporated into the COE's day to day management and governance processes.	
7	The Board can demonstrate that the COE's management systems offer adequate assurance that risk is being effectively managed.	

Conflicts of interest policy

Introduction

The policy adopted by the Council is based on the Institute of Directors guidance.

The appointment of NCC councillors or officers as board members on the Council's COE's ensures that a public sector perspective and NCC's values and ethics are represented at board level.

A conflict of interest arises when an individual has competing interests or loyalties, financial or otherwise, where serving one interest may mean working against the other. Company law requires directors to disclose such interests (Institute of Directors).

Council officers or Councillors (who do not hold company directorships) may also be at risk of conflicts of interests where they work in a decision making capacity around the Council's ownership of companies. This policy is intended to augment the current officer and Councillor Codes of Conduct (Articles 16 and 15 of the Council's Constitution).

Directors Duties – (Section 175 Companies Act 2006)

Directors must avoid circumstances in which 'they have, or can have, a direct or indirect interest that conflicts with the interest of the company, or that may possibly conflict with those interests'.

This applies to both actual and potential conflicts and both direct and indirect interests. This duty is absolute. There is, however, no breach of duty if the circumstances:

- Cannot 'reasonably be regarded as likely to give rise to a conflict'. In practice this means that, if the director's potential interest is so indirect or remote that no reasonable person would see a problem, it can be ignored, and
- the Director's involvement has been authorised by the rest of the board.

If neither exception applies, the conflict must be avoided

In practice, the duty means that a director cannot, without the company's consent:

- compete with the company for a commercial opportunity; or
- use, for their own purpose, information belonging to the company; make a gain from their role. These restrictions apply even if the company has no wish to pursue the opportunity or is unable to benefit from the information or the gain.

The GC 100 (a group of general counsels and company secretaries working in FTSE 100 companies) give the following examples of situations which may constitute conflict situations for a director:

- being a director of a competitor
- being a potential customer of or supplier to the company
- owning property adjacent to the company's property, the value of which could be affected by the activities of the company

- having an advisory relationship (for example financial or legal) with the company or a competitor
- being a director of the company's pension trustee company
- wanting to take up an opportunity that has been offered to, but declined by, the company
- being in a situation where they can make a profit as a result of their directorship whether or not they disclose this to the company; and
- in each of the above situations, being a director of another company and that other company having the relevant relationship with the relevant company or being in the situation described above.

The duty to avoid conflicts continues to apply to a former director as regards the exploitation of any property, information or opportunity which they became aware of at a time when they were a director.

Conflicts of interest may be waived by a company but, as a matter of public law, never in the decision making of the Council. The Council Member / company director will *always* have a conflict of interest when it comes to their role as a councillor. This conflict must be resolved and resolved in the favour of the company. A Member (or officer) as director, therefore, must not be a party to making a decision of the Council affecting the company, but may provide evidence or advice to the Council on the company's behalf when invited to do so. Where a conflict of interest arises, Councillors or officers must, in accordance with the relevant code of conduct, remove themselves from the meeting/ decision making process and not take any further part.

The Councillor's Code of Conduct applies to a Member's activity as a director, except where it directly conflicts with the interests of the company. Where this occurs, the potential conflict must be notified to the company secretary and to the Council's monitoring officer.

The Council Policy for Councillors and employees

Directorships may create additional potential conflicts of interests for councillors or officers. The way in which these are handled *within the council* are the same as other conflicts of interest.

The existing codes of conduct require that both officers and members to register and declare interests. In the case of Councillors, Section 29 of the Localism Act requires the monitoring officer to maintain a register of interests of members of the authority. Interests must be registered within 28 days of becoming a member or being re-elected. Any changes to a Councillor's interests while they are in office must be registered within 28 days of the change having taken place. Details of how this is done are set out in the Councillor Code of Conduct.

Employees must avoid situations where their conduct could create an impression of a conflict of interest in the minds of the public. Additional employments outside of council employment are not unreasonably precluded, however the guidance sets out the situations in which the written consent of the council is required. In any event, employees must avoid situations where work and personal interests conflict or may appear to conflict.

Employees must register personal interests (financial and non-financial) when they could be reasonably deemed to potentially conflict with any work undertaken by employees in the course of their duties. Notices of interests in contracts (in place or proposed) in which the council is involved must be notified in writing to the monitoring Officer.

Situational conflicts which will not be permitted

The Council recognises the need for an absolute separation of roles and duties to avoid conflicts which are deemed to be unmanageable. These include but may not be limited to:

- Executive Councillors holding a portfolio who also serve as a director of a company under the control of the same portfolio
- Councillors taking shareholder decision in respect of a company of which they are also a director, for example members of CGEC.
- Officers who serve as a director of the contracting company for which they are also client. That is to say, having any responsibility or accountability for the performance of services by the COE.
- Officers who serve as director for a company for which they undertake the Shareholder Representative role for the Council.
- Conflicts prohibited by the council constitution (directorships and service on governance and audit committees)

Shareholder Unit controls

The directorships held by officers and Councillors are not static, equally portfolio responsibilities for Executive Councillors, appointments to Audit and Overview & Scrutiny committees, and duties of officers change periodically. Therefore, in addition to the maintenance of registers of interests outlined in the Codes of Conduct, the Shareholder Unit will review the potential for conflicts upon all changes in directorships and portfolio responsibility / officer duties.

- Monitoring of all appointments of Councillors and officers to the register of outside bodies and review for potential conflicts of interest (annually and on changes to councillor responsibilities and officer organisational structure).
- Maintaining a register of present, impending and potential future conflicts of interest for each council appointed director with a clear record of the avoidance, management and mitigation measures adopted.
- Checking against the registered declared interests annually and upon changes to the register
- Questionnaires to all **proposed** new council appointed company directors to assist with the identification of any conflict situation. This will include a check of connected persons' interests, which are defined in the legislation but should also cover any

corporate connections or wider connections that the council may wish to know about. This is to ensure that the responsibilities under s175 of the CA 2006 can be demonstrated by the proposed director.

- Escalation of potential conflicts to the Companies Governance Executive Committee, with recommendations for the removal of the conflict.

Company Board controls

The council must be able to assure that the boards of the companies operate an appropriate conflict of interest policy and controls. The COEs should follow guidance issued by the FRC and IOD.

The broader work on companies' governance will ensure the Chair of each subsidiary and joint venture is able to demonstrate upon enquiry that appropriate measures and process are in place. Controls the council require as a minimum include: -

- Company secretary (or appointed representative) to supply each new director with a briefing note explaining the legal and company protocols in relation to conflicts and the requirement for the prior authorisation of conflict situations.
- Questionnaire to be sent to all new directors to assist with the identification of any conflict situation. Companies will need to decide if they are going to require directors to check all their connected persons' interests, which are defined in the legislation but should also cover any corporate connections or wider connections that the company may wish to know about.
- Putting in place a process for authorising conflicts, including the basis on which authorisation is to be granted and the terms/conditions attached – for example, whether a director should be excluded from the board meeting, whether board papers should be withheld, whether the director would be required to step down from his directorship on a temporary basis. Also consider confidentiality issues, including whether, if a company is to release a director from disclosing confidential information relating to a third party, it will want to make sure that the director has an equivalent release from the third party in respect of confidential information relating to the company.
- Consider appointing a board committee to review conflict authorisations (possibly the nomination committee).
- Advise directors that they may need to take independent legal advice if a direct conflict situation arises.
- Prepare board papers setting out details of each director's conflict situation, for the board then to consider and authorise, if appropriate.
- If the board wishes to pass a written resolution to authorise conflicts, the articles of association must be checked to see if a written resolution can be passed without all the directors, as interested directors cannot be counted.
- Include in the induction process for new directors a briefing on the duties and a questionnaire on their conflict situations.

- Recording of authorisations. Company secretaries to maintain a register of authorisations which can set out the terms and conditions rather than simply rely on board minutes.

Major Governance Processes

Council Owned Entities – high level activities cycle

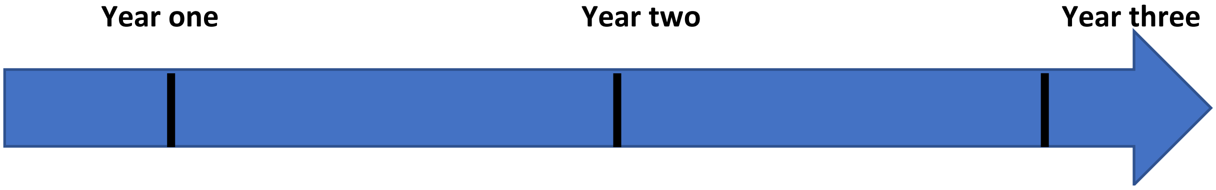
This diagram sets out the annual activities cycle as well as those activities that will be carried out only once every three years. In the case of a Strategic review, this may also be asked for by the Council when any significant change to a COE is requested, for example entering a new business area.

More detailed consideration of these activities is found later in this handbook.

Year one

Year two

Year three



Year one:

- Annual Business Plan
- Internal Board Effectiveness Review
- Internal Shareholder Unit Effectiveness Review

Year two:

- Annual Business Plan
- Internal Board Effectiveness Review
- Internal Shareholder Unit Effectiveness Review
- Strategic review based on CIPFA guidance

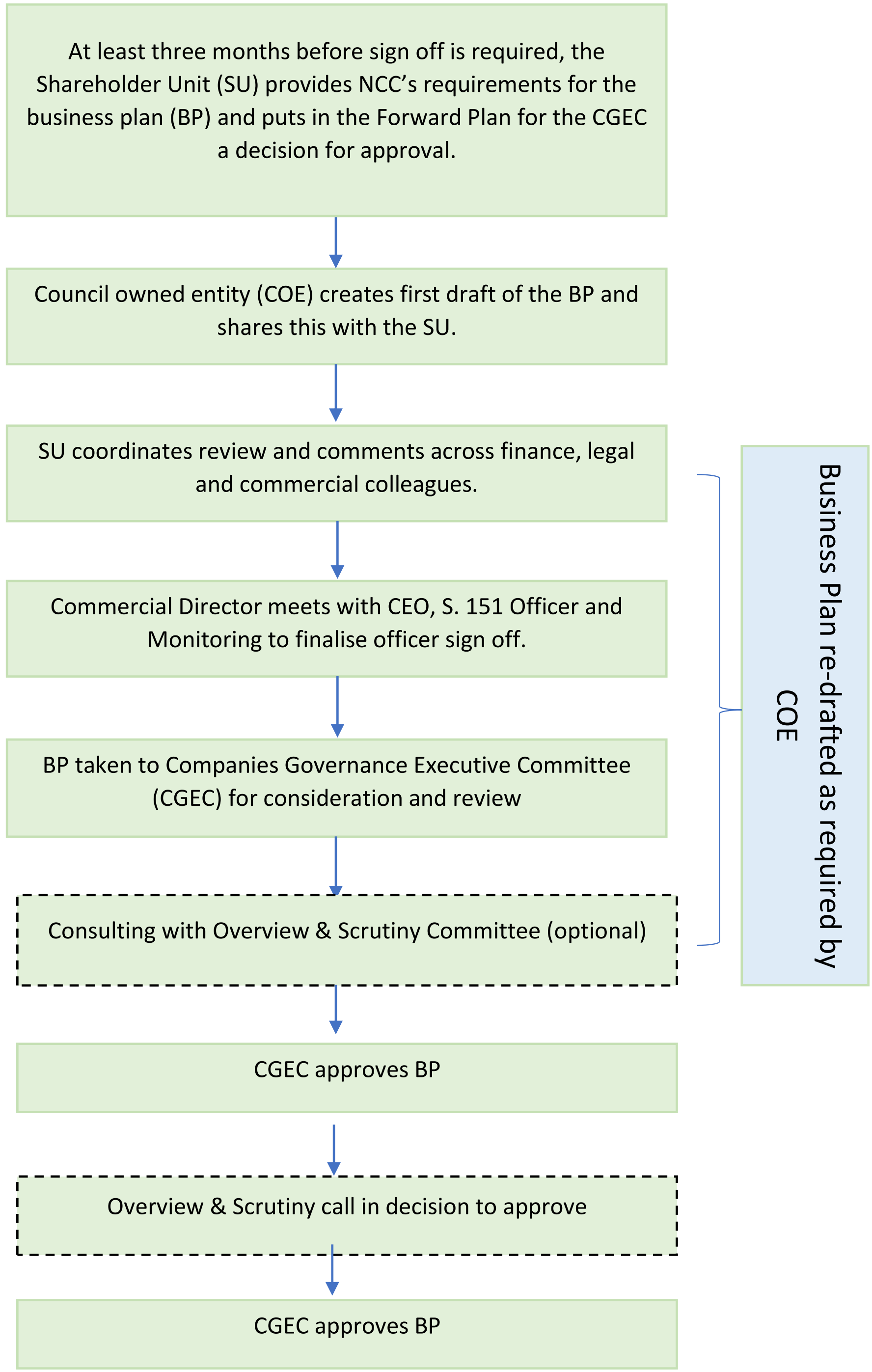
Year three:

- Annual Business Plan
- External Board Effectiveness Review
- External Shareholder Unit Effectiveness Review

Business Planning Process

The diagram sets out the business planning process. It is essential that each step of the process is given sufficient time for inputs and ideas to be considered. As a minimum, the COE should be approached with the Council's requirements three months before the business plan needs to be signed off. The COE will explain how NCC's client department's views and needs are to be addressed.

Business Planning Process



The reporting framework

COEs will be required to provide regular reports to the Shareholder. Each Shareholder Rep, supported by the SU, will determine the minimum reporting requirements for each COE. This requirement will be set out in the Articles of Association and / or the Shareholder Agreement as appropriate.

Monthly:

- Performance against business plan/ budget
- Financial reporting current view of outturn turnover, profit before tax, expected year end cash balance
- Risk management update
- Cash flow forecast for companies with high liquidity risk
- Any shareholder consent matters

Quarterly

As monthly plus

- Conflicts of interest register
- Progress against internal audit and assurance work plans
- Latest cash-flow forecast

Every six months

As quarterly plus

- Revised and updated risk register

Annually

As six-monthly plus

- Results of the board self-assessment / third party assessment
- Associated improvement plans
- Business plan

Strategic Review

In August 2021 CIPFA produced a document for NCC, Company Oversight: **Strategic Principles and Code of Practice.** The code of practice sets out the key principles that should be considered each time that a strategic decision is required for one of the COEs and routinely, at a frequency to be determined by the Commercial Director, to ensure the COE remains aligned to the Council's best interests. The guidance has been approved by the s.151 Officer and should be applied with the principle of "comply or explain". The document may be found in Appendix One.

The principle as set out in the code are as follows:

Responsibility for oversight of each principle is also set out in the Code:

		RESPONSIBILITY	IN CONSULTATION WITH
Purpose	01	Shareholder representative	Portfolio holders
Resilience	02	Shareholder unit finance officer	Legal representatives, procurement
Commitment	03	Shareholder unit legal officer	Finance, shareholder representative
Focus on value for money	04	Shareholder representative	Portfolio holders
Risk profile	05	Shareholder unit finance officer	Shareholder representative, legal representatives
Organisational capacity	06	Head of shareholder unit	Director of resources, s.151 officer

j. Board Effectiveness Evaluation

The Council Owned Entities (COEs) are responsible for their own arrangements in respect of Board Evaluation. NCC require these arrangements to be broadly in line with the FRC's Guidance on Board Effectiveness. This requirement should be set out in the COEs Articles of Association and/or Shareholder Agreement as appropriate.

The Shareholder Unit (SU) is responsible for periodically seeking assurance that COEs are complying with this requirement annually with an external review every third year. To assist SU staff, the following checklist covers the significant elements of the FRC guidance. Detailed evidence of compliance (or otherwise) will be produced in a report and sent in draft to the COE for their comments or corrections. A final version will be distributed under the Commercial Director's guidance.

Whether facilitated externally or internally, evaluations should be rigorous. They should explore how effective the board is as a unit, as well as the quality of the contributions made by individual directors. Some areas which may be considered, although they are neither prescriptive nor exhaustive, include the following: -

Item	Description	Compliance?
1	Does the COE Board have the mix of skills, experience and knowledge in the context of developing and delivering the strategy, the challenges and opportunities, and the principal risks facing the COE?	
2	Are the purpose, direction and values of the company clearly communicated and does the Board provide effective leadership in these areas?	
3	Are there succession and development plans in place?	
4	Does the board work together as a cohesive unit?	
	Do key board relationships support the overall effectiveness of the Board? Particularly chair/chief executive, chair/ senior independent director, chair/company secretary and executive/non-executive directors	
5	How effective are individual directors?	
6	How effective are Board committees, and how they are connected with the main Board?	
7	Is the quality of information provided on the company and its performance sufficient to meet Shareholder requirements? (see Standard Reporting document)	
8	Do the quality and timing of papers and presentations to the board support board effectiveness?	
9	Is the quality of discussions around individual proposals sufficient and is enough time allowed for proposals to be properly considered?	
10	Does the company secretary/secretariat support the Board effectively?	
11	Is there demonstrable clarity of the decision-making processes and authorities, looking back on key decisions made over the year?	

12	Are processes for identifying, reviewing and managing risks (see Risk Management document) in place and functioning well?	
13	Can the board demonstrate that it communicates with, and listens and responds to, shareholders and other key stakeholders?	

k. <u>Shareholder Unit Effectiveness Review</u>

The Commercial Director is responsible for ensuring the Shareholder unit is operating effectively. Annually, an internal review will be conducted and every third year an independent review will be carried out by the Council's audit team.

The effectiveness of the SU will be assessed with reference to the Terms Of Reference (see document I, Shareholder Unit TOR), the SU business plan and feedback sought from the COEs, Shareholder Reps and CGEC.

In addition, the LLG Code of Practice Checklist should be used:

Item	Description	Lead Role	Supporting activities	Evidence of effectiveness of SU
1	Are COEs monitored against local authority trading powers?	Activity managed by Shareholder Rep	Monitoring at scheduled meetings with company	
2	Are COEs monitored against local authority financial regulations (e.g. borrowing)?	Activity managed by Shareholder Rep	Monitoring at scheduled meetings with company	
3	Are Controlled companies applying standards expected of the local authority?	Activity managed by Shareholder Rep	Monitoring at scheduled meetings with company	
4	Is any Management/ Shareholder agreement understood and applied correctly?	Activity managed by Shareholder Rep	Monitoring at scheduled meetings with company	
5	Have the COEs adopted a comply or explain approach to UK Corporate Governance Code?	Activity managed by Shareholder Rep	Monitoring at scheduled meetings with company	
6	Has an assessment of adequacy of controls over the company been undertaken and management agreement amended, if required?	NCC Legal	Activity managed by Shareholder Rep	
7	Are Overview and Scrutiny, and Audit committee informed and engaged with the SU?	Activity managed by NCC companies finance lead	Scheduled plan of work through sub-group to audit committee	
8	Is induction/ training and support to Shareholder	Activity managed by	Standard induction and training checklist	

	Representatives provided?	NCC companies finance lead	– monitored by NCC finance & legal. Cohort training on a scheduled basis	
9	Is a Comprehensive Statement (The Local Government (Best Value Authorities) (Power to Trade) (England) Order 2009) in place and monitored against business plans?	Activity managed by NCC companies finance lead	Process facilitated by Shareholder Representative	
10	Are any financial agreements between NCC and COEs in place and up to date?	Activity managed by NCC companies finance lead	Process facilitated by Shareholder Representative	
11	Is the Company business plan scrutinised annually and taken to CGEC for approval, as per the prescribed process?	Activity managed by NCC companies finance lead	Process facilitated by Shareholder Representative	
12	Where expedient, is a common approach applied across the group – policies eg social value, audit, financial procedures and health & safety	Activity managed by Shareholder Rep	Supported by NCC finance, legal, HR, Audit and risk	
13	Any common approach is reviewed and kept up to date	Activity managed by NCC companies finance lead	Supported by NCC finance, legal, HR, Audit and risk	
14	Are conflicts of interest identified and managed	Activity managed by Shareholder Rep	Supported by NCC finance, legal, HR, Audit and risk	
15	Do NCC appointed company chairs have a casting vote?	Activity monitored by Shareholder Rep	Supported by NCC finance, legal, HR, Audit and risk	
16	Is a remuneration committee in place and operated for each COE?	Activity monitored by Shareholder Rep	Monitoring at scheduled meetings with company	
17	Is an audit committee in place and operated for each COE?	Activity monitored by Shareholder Rep	Monitoring at scheduled meetings with company	

18	Are officer and member indemnities in place – care they checked annually or on change of membership?	Activity managed by Shareholder Rep	Supported by NCC finance, legal, HR, Audit and risk	
19	Are non-executive memberships reviewed, along with a check on individuals' skills and capability?	Activity managed by Shareholder Rep	Annual review: Supported by NCC finance, legal, HR, Audit and risk	
20	Are SU terms of reference reviewed?	Activity managed by NCC companies finance lead	Operation of the monthly CGEC reporting process is regularly tested to ensure compliance against the code of practice	

Appendix One – guidance documents

CIPFA Company Oversight: Strategic Principles and Code of Practice

NCC company
oversight - strat prir

Lawyers in Local Government: The Governance of Council Interests in Companies – Code of Practice

Council_Interests_i
n_Companies_Code_

Financial reporting Council: The UK Corporate Governance Code, July 2018

2018-UK-Corporate-
Governance-Code-F

Financial reporting Council: Guidance on Board Effectiveness, July 2018

2018-Guidance-on-
Board-Effectiveness-

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Date	Item	Committee Objective	Author
Feb 2023	Together for Nottingham Plan update including Theme 1 (MTFS) & Performance Management	Assurance on progress, benefit realisation, controls, associated risks and their management	D Middleton J Rhodes
	Treasury Mgt Strategy & Capital Strategy	Assurance on setting Council policies to best manage Treasury Management & Capital risks	D Middleton
	Procurement of External Audit 2023-2028 update	Assurance that arrangements for statutory inspection of financial statements are in place	S Shah
	External Audit update	Consider the update from External Audit and assurance on management response to any issues identified	A Smith
	Internal Audit Update including Limited Assurance audits and High Priority Recommendations	Consider reports on the effectiveness of internal controls supporting the Head of Audit & Risk's opinion and seek assurance on the implementation of agreed actions	S Shah
	Review of Accounting Policies 2022/23	Assurance that appropriate arrangements are made to comply with statutory guidance	D Middleton
	Service Report on Progress following Limited Assurance IA Report	Assurance on improvements planned and made and how these will be sustained	S Oakley
	Exemption from Contract Procedure Rules Q3	Oversight of procurement dispensations and assurance on their future procurement process	S Oakley
	Operation of the Audit Committee	Consider the future needs of the Audit Committee, including support, recommendation tracking etc	S Shail N Barnard
Mar 2023	TfN workstream lead Theme 6 (Organisation & Culture)	Assurance on progress, benefit realisation, controls, associated risks and their management	T Hayre-Bennett
	Council Plan & Corporate Performance Assurance & TfN workstream lead Theme 8 (Council Plan)	Assurance on progress, benefit realisation, controls, associated risks and their management	J Rhodes

Date	Item	Committee Objective	Author
	TfN workstream lead Theme 5 (Constitution- Governance and Decision Making)	Assurance on progress, benefit realisation, controls, associated risks and their management	M Townroe
	Progress on S114 Action Plan	Oversight of progress and management for significant issue	
	Implementation of Controls to ensure Decisions include Carbon Impact Assessments	Consider compliance with controls implemented to ensure relevant decisions are supported by a Carbon Impact Assessment	C Common
	Health & Safety Annual Assurance	Assurance that cross-cutting corporate arrangements are working well and any significant risk and issues are being actively managed.	P Millward
	HR & EDI Annual Assurance	Assurance that cross-cutting corporate arrangements are working well and any significant risk and issues are being actively managed	T Hayre-Bennett
TBC	Final Statement of Accounts, Annual Governance Statement & External Audit Report 2019-20 2020-21	Consider the outcome of the External Audit and assurance on management response to issues identified Consider any concerns arising from the financial statements or from the governance statement that need to be brought to the attention of the Council	D Middleton S Shah A Smith
TBC	Financial Accounts Training	Audit Committee Performance	D Middleton
TBC	Draft Statement of Accounts 2021-22 & Interim AGS 2021-22	Consider any concerns arising from the financial statements or from the governance statement that need to be brought to the attention of the Council	D Middleton
TBC	AGS Process 2022-23	**TBC**	S Shah
TBC	Final Statement of Accounts 2021-22 & Final AGS 2021-22 (subject to audit)	Consider any concerns arising from the financial statements or from the governance statement that need to be brought to the attention of the Council	D Middleton

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

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