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AUDIT COMMITTEE
Agenda

Date	Monday 17 January 2022
Time	6.00 pm
Venue	Crompton Suite, Civic Centre, Oldham, West Street, Oldham, OL1 1NL
Notes	1. DECLARATIONS OF INTEREST- If a Member requires any advice on any item involving a possible declaration of interest which could affect his/her ability to speak and/or vote he/she is advised to contact Paul Entwistle or Constitutional Services in advance of the meeting.

2. CONTACT OFFICER for this Agenda is Constitutional Services Tel. 0161 770 5151 or email constitutional.services@oldham.gov.uk

3. PUBLIC QUESTIONS – Any member of the public wishing to ask a question at the above meeting can do so only if a written copy of the question is submitted to the Contact officer by 12 Noon on Wednesday, 12 January 2022.

4. FILMING - The Council, members of the public and the press may record / film / photograph or broadcast this meeting when the public and the press are not lawfully excluded. Any member of the public who attends a meeting and objects to being filmed should advise the Constitutional Services Officer who will instruct that they are not included in the filming.

Please note that anyone using recording equipment both audio and visual will not be permitted to leave the equipment in the room where a private meeting is held.

Recording and reporting the Council's meetings is subject to the law including the law of defamation, the Human Rights Act, the Data Protection Act and the law on public order offences.

MEMBERSHIP OF THE AUDIT COMMITTEE IS AS FOLLOWS:
Councillors Ahmad, Alyas, Briggs, Dean, C. Gloster, Islam (Vice-Chair), Salamat, Surjan and Arnott

Item No

1 Apologies For Absence

2 Urgent Business

Urgent business, if any, introduced by the Chair

3 Declarations of Interest

To Receive Declarations of Interest in any Contract or matter to be discussed at the meeting.

4 Public Question Time

To receive Questions from the Public, in accordance with the Council's Constitution.

5 Minutes of Previous Meeting (Pages 1 - 10)

The Minutes of the meeting of the Audit Committee held on 2nd November 2021 are attached for approval.

6 2020/21 Annual Statement of Accounts (Pages 11 - 36)

7 Compliance with the CIPFA Financial Management Code (Pages 37 - 146)

8 Treasury Management Strategy Statement 2022/23 (Pages 147 - 198)

9 2021/22 Internal Audit and Counter Fraud Progress Report (Pages 199 - 208)

10 Proposed Audit Committee Work Programme for 2021/22 and early 2022/23 (Pages 209 - 214)

11 Exclusion of the Press and Public

That, in accordance with Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business on the grounds that they contain exempt information under paragraph 3 of Part 1 of Schedule 12A of the Act, and it would not, on balance, be in the public interest to disclose the reports.

12 Update on the Annual Governance Statement for 2020/21 and New Issues (Pages 215 - 232)

13 Senior Information Risk Owner Update (Pages 233 - 238)

AUDIT COMMITTEE
02/11/2021 at 6.00 pm

Present: Councillor
Councillors Ahmad, Alyas, Dean, C. Gloster, Islam (Vice-Chair), Salamat and Arnott (Substitute)

Also in Attendance:

Anne Ryans	Director of Finance
Mark Stenson	Assistant Director of Corporate Governance and Strategic Financial Management
John Miller	Finance
Karen Murray	Mazars External Auditors
Kaidy McCann	Constitutional Services

1 **APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillors Surjan, Briggs and Lancaster. Councillor Arnott attended as a substitute.

2 **URGENT BUSINESS**

There were no items of urgent business received.

3 **DECLARATIONS OF INTEREST**

There were no declarations of interest received.

4 **PUBLIC QUESTION TIME**

There were no public questions received.

5 **MINUTES OF PREVIOUS MEETING**

RESOLVED that the minutes of the meeting of the Audit Committee held on 9th September 2021 be approved as a correct record.

6 **PROJECT GOVERNANCE PROCESS - ALEXANDRA PARK ECO CENTRE**

The Committee gave consideration to a report of the Director of Finance which informed them of the Gateway review process for a major capital project, the Alexandra Park Eco Centre. The report provided a specific example of the Council's governance processes.

Members were informed that the Council had set in place a robust governance process for each of the projects within the Creating a Better Place Programme as well as other major capital schemes. Following a request from the Audit Committee, this report set out how a major project (the Alexandra Park Eco Centre project) had complied with the governance process. In particular, it presented how the project was managed on a daily/weekly basis, and importantly, the approvals it had been required to obtain as it evolved to the point where a main contractor was about to be appointed.

It was important that a large capital project such as the Alexandra Park Eco Centre was subject to a rigorous governance process, given the large sums of public money that such a project expended.

The governance process included the following:-

- Establishment of a Project Board - The Alexandra Park Eco Centre Project Board met monthly and was chaired by the designated Senior Responsible Officer – the Head of Regeneration and Development. Other members of the Board included the client-side Project Manager and representatives from the Council's Finance, Legal, Procurement and Environmental Services departments.
- Day to Day/Weekly Management - an officer working group that met on a weekly basis. At those meetings, issues that had arisen over the previous week were discussed and solutions agreed. If necessary, decisions/issues would be referred to the next Project Board meeting.
- Council Approvals – due to the complexity of the Eco Centre project and that projects could not progress without Council approval, approval had to be sought at various stages from a range of sources which included the Head of Regeneration and Development, the Director of Economy (both within their delegated authority levels) and Cabinet. In the run up to Cabinet approval, reports had been considered by various officer groups, the Corporate Property Board, and the Capital Investment Programme Board.
- Gateway Reviews – Strategic Outline and Full Business Cases – in order for the project to progress, both a Strategic Outline and Full Business Case needed to be approved. Each of these were considered by Gateway Panels comprising of senior officers and other staff members who have not had a direct input into the given project. This would allow the opportunity for an Independent Review and challenge.

Members asked for and received clarification on the following:

- It was felt that the public expectations of projects were low and majority of residents felt fed up by the time the projects would be completed. It was explained that beginning of projects were very difficult due to hurdles in the process. It was imperative to get the contracts in place as projects could take years to complete. However, it was important to get those projects right for the Borough which included public consultation.
- Potential for projects to overrun on time or money. It was noted that the Finance Team would engage at the first and each monthly monitoring, if a project was not on track then the relevant Officer would be brought to inform the

Capital Improvement Programme Board to explain the reasons for the delay or extra costs. Contingency plans were in place for all projects. However, if the contingency plan was not adequate then the project would be sent to Scrutiny for review.

- Contractor value for money. It was noted that external cost consultants were used to advise on large specialist projects and internal cost consultants for smaller projects.
- Did projects need to be more realistic? It was noted that the Council had a lot of ambition and knew it would have to be prepared and realistic. The Council had submitted significant bids to Government with some put in at risk. However, the focus would be on those projects that meet the priorities of the Council.

RESOLVED that the governance process that a large capital project such as the Alexandra Park Eco Centre was required to adhere to be noted.

7 **2020/21 ANNUAL STATEMENT OF ACCOUNTS**

The Committee gave consideration to a report of the Director of Finance which presented an update to the current position regarding the audit and approval of the 2020/21 Statements of Accounts and an update on the outstanding audit issues presented previously to the Committee.

Members were informed that the Statement of Accounts was presented to the Committee on 29th July 2021 for approval. However, there was still work outstanding on the Council's group accounts and the IT audit. The External Auditors also needed to have assurance with regard to the audit of the Greater Manchester Pension Fund (GMPF). As such, the final approval of the accounts was delegated to the Vice Chair of the Audit Committee after consultation with the Director of Finance and on receipt of advice from the External Auditor. The audit had now been concluded and the accounts were signed off on the 30 September 2021 in line with the statutory deadline. It was noted that the Statement of Accounts had not significantly changed since the presentation to the Committee on 29 July 2021.

Members were informed that Mazars LLP was yet to complete work on the Value for Money (VFM) opinion in respect of the Council's arrangements for the year ended 31 March 2021. This work was still ongoing and at the time of preparing the report, the auditors had not identified any significant weaknesses in arrangements that required them to make a recommendation. However, they would continue to undertake work on the Council's arrangements and update the Audit Committee. It was noted that the audit process could not be fully finalised until all the VFM work and the Whole of Government Accounts (WGA) audit was completed.

RESOLVED that the content of the report and the Auditors letter "Conclusion of Pending Matters – Audit Completion Report" be noted.

8 **OLDHAM MBC - EXTERNAL AUDIT PROGRESS REPORT OCTOBER 2021**

Consideration was given to a report of Mazars LLP which provided an update on the progress in delivering their responsibilities as the External Auditors.

Members were informed that the audit of the financial statements had been completed and the unqualified audit opinion had been signed on the 30th September 2021 in line with the deadline for 2020/21. Mazars' final audit completion letter was issued at the conclusion of the audit updated the Committee on the outstanding items listed in the Audit Completion Report presented to previous meeting.it had also highlighted one additional uncorrected audit adjustment related to the group consolidation and three additional recommendations arising from the completion of Mazars' IT audit work.

It was explained that two elements of the 2020/21 audit work were still to be completed which was the Council's value for money arrangements and the Council's Whole of Government Accounts submission. It was noted that the value for money arrangements would be presented to the next Audit Committee.

RESOLVED that the report be noted.

9 **MAZARS LLP EXTERNAL AUDIT RECOMMENDATIONS**

The Committee gave consideration to a report of the Director of Finance which set out the Council's response to the recommendations highlighted in the Mazars LLP draft Audit Completion report for 2020/21 and subsequent letter entitled 'Conclusion of Pending Matters – Audit Completion Report.

The audit work identified some minor matters which resulted in four low priority recommendations. The four recommendations and the Councils response were as followed:

- Housing Benefit system to General Ledger reconciliations – the Council had reviewed and updated the Housing Benefit reconciliation timeframe. It was agreed with the Council and Unity Partnership that an action plan would be put in place to ensure that all reconciliations were undertaken in a timely manner.
- The consolidation of the Council's group entities - As part of the closedown process for 2021/22, the Council had included additional checks and reconciliations in its closedown timetable to ensure that all transactions and reconciling items were matched between the Council, MioCare CIC and Unity Partnership Ltd.

- IT general controls associated with access to Agresso – The Council would review the sign on arrangements for non-Single Sign On (SSO) users whilst migrating as many users as possible over to SSO. Password controls would be tightened up for non-SO users so that passwords would expire after 90 days. The Agresso functionality in relation to password security would also be reviewed to determine whether enhanced controls could be mandated to non-SSO users.
- The IT Service Continuity Plan – there was an active IT disaster Recovery procedure in place held by Unity IT that would see the restoration of IT services in a catastrophic event This plan would be linked to the overall Business Disaster Recovery Plan. The recovery would see a complete rebuild of infrastructure, which is then populated with the data back-ups. Where required, Service Continuity Plans would be invoked while the infrastructure was being restored. The current disaster recovery solution could not easily be tested outside of assuring the quality of data back-ups. However, the process was under change as part of the migration to Cloud/SaaSbased solutions. This would see the high availability and a more robust disaster recovery solution in place for Agresso and all other Council systems.

RESOLVED that:

1. the responses to the recommendations highlighted by the Council's external auditors, Mazars LLP, in the draft Audit Completion Report and subsequent letter entitled 'Conclusion of Pending Matters – Audit Completion Report be noted.
2. how the Council has implemented the recommendations be noted.

10 **UPDATE ON EXTERNAL AUDIT MATTERS**

The Committee gave consideration to a report of the Assistant Director of Corporate Governance and Strategic Financial Management which provided Members with an update on matters relating to both the future oversight of external audit within Local Government and matters of interest from Public Sector Audit Appointments (PSAA), who oversee the appointment and high-level quality of external audit provision.

Members were given an update on the latest developments within external audit regulation following the production of the Redmond Report, and the recommendations which were made. It was highlighted that the regulation of external audit overseeing Local Government required reform. One of the most significant recommendations concerned the impact of abolishing the Audit Commission and the impact it had on overseeing external audit in both Local Government and the NHS. The preferred approach of government in response to the Redmond Report was to propose the inclusion of a separate unit to oversee public audit within the Audit Regulation and Governance Authority (ARGA) to provide oversight of both private and public sector audit. This was not fully in line with the Redmond report which recommended the creation of an independent body to oversee Local Government and NHS audit. ARGA was to be the successor body to the Financial Reporting Council. As well as concerns with Local Authority audit, there were also matters on the audit of private companies which required future regulatory reform. Whilst matters on the final design of ARGA were under consultation it was generally accepted this would happen and was broadly supported. One specific challenge it would need to manage was balancing up any conflict on approach between private and public audit.

Members were updated on the proposed procurement exercise which, subject to Local Authorities exercising their right to opt in, was to be undertaken by the PSAA to appoint their external auditors from 1 April 2023. It was recommended by the Director of Finance and the Assistant Director of Finance for Corporate Governance and Strategic Financial Management that the Council should opt into the procurement exercise undertaken by the PSAA. It was consistent with the principle recommended in the Redmond Review that Local Authorities should not appoint their own auditor. In terms of price, there was a likely benefit from a bulk procurement, and it was uncertain if Oldham were to undertake its own procurement it would attract an appropriate external auditor. As Redmond highlighted in the review there were only limited participants in the market prepared to undertake Local Authority audit.

The Committee was provided an update on the overall reported performance of external audit opinions issued for Local Authority accounts before the Statutory Deadline of 30 September 2022. It was highlighted that Oldham Council was one of the 9% of Authorities who had received the certified audit opinion.

Members asked for and received clarification on the following:

- Filling the independent Chairperson on the Committee. Members were advised that the position had been advertised three times and had not gained any interest. It was known that this was where Oldham was lacking.

RESOLVED that the developments outlined in this report be noted.

11 **TREASURY MANAGEMENT MID-YEAR REVIEW REPORT 2021/21**

Consideration was given to a report of the Finance Manager (Capital and Treasury) which advised Members on the performance of the Council’s Treasury Management function for the first half of 2021/22 and provided a comparison of performance against the 2021/22 Treasury Management Strategy and Prudential Indicators.

Members were informed that the Council was required to consider the performance of the Treasury Management function in order to comply with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017). The report set out the key Treasury Management issues for Members' information and review and outlined the following:

- An economic update for the first six months of 2021/22;
- 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 2021/22;
- A review of the Council's borrowing strategy for 2021/22;
- Why there had been no debt rescheduling undertaken during 2021/22; and
- A review of compliance with Treasury and Prudential Limits for 2021/22.

RESOLVED that:

- The Treasury Management activity for the first half of the financial year 2021/22 and the projected outturn position be commended to Cabinet.
- Amendments to both Authorised Limit and Operational Boundary for external debt as set out in the table at Section 2.4.5 of the report be commended to Cabinet.
- Amendments to the Capital Financing Requirement (CFR) as set out in the table at section 2.4.5 be commended to Cabinet.

12 **REVISION TO THE RESERVES POLICY FOR 2020/2021 TO 2021/22**

Consideration was given to a report of the Director of Finance which presented the Committee with the revision to the Reserves Policy of the Council for the financial years 2020/21 to 2021/22.

Members were reminded that the Reserves Policy for 2020/21 to 2021/22 was considered at the meeting held on 29th July 2021. The report set out an amendment to the use of one of the reserves, the Health and Social Care Integration Reserve with a value of £10.300m. The reserve of £10.300m was established to provide resources to support further integration between health and social care providers in line with Government policy. Its use was to be approved by Members after a review and agreement by the Strategic Director Commissioning of Oldham Council / Chief Operating Officer of Oldham Clinical Commissioning Group (CCG). Due to the changes to Council management arrangements and the changes to the operation of the Oldham CCG, a report was presented to and approved by the Commissioning Partnership board of 21 October 2021 to revise the use of the reserve and to amend the process for the approval of the reserve. It was proposed to split the reserve into two elements of £5.300m and £5.000m.

Members were informed that whilst some of the £5.300m had already been utilised, any future use of the reserve would be delegated to Commissioning Partnership Board having received a recommendation from the new Oldham Health & Care System Board. The remaining £5.000m would be delegated jointly to the Council's Director of Finance and the CCG's Chief Finance Officer as it was envisaged that the resource would be added to the pooled budget managed via the Section 75 Agreement between the Council and Oldham CCG. This would enable the respective officers to finalise the technical requirements in order to utilise the funds and confirm phasing arrangements.

RESOLVED that the revision to the Reserves Policy for 2020/21 to 2021/22 be agreed.

13 **2021/22 AUDIT AND COUNTER FRAUD PROGRESS REPORT**

The Committee gave consideration to a report of the Assistant Director of Corporate Governance and Strategic Financial Management which provided Members with a high-level progress report on the work of the Audit and Counter Fraud team for the 2021/22 financial year.

Members were informed that the team had prioritised work on the Fundamental Financial Systems (FFS) reviews related to 2020/21 transactions and work to support the 2021/22 audit of the financial accounts. Both planning and field work had commenced in a number of areas for the first stage FFS reviews for 2021/22. In addition to that work, highlights of the Audit and Counter Fraud Team included:

- Contributing to reviewing controls around processing grants arising from the Government's COVID-19 response, including the Local Support Grant regime, and continued support around Business Grants reviews and queries.
- Carrying out investigations around potential fraud and error on Business Grants.
- Reviewing and certification of European grants.
- The Counter Fraud and Direct Payments Audit Teams (Adults and Children) have continued to deliver outcomes which have generated £1,094,080 and £55,315 (respectively) during the 2021/22 financial year.

It was noted that the team also provided services around postal votes assurance checks for the May 2021 local election and Greater Manchester Mayoral election. The Internal Audit and Counter Fraud team reviewed postal votes around accuracy and controls in place prior to postal votes being delivered.

Members asked for and received clarification on the following:

- Employment of additional staff within the team. It was noted that it would depend on a pint of balance however, with more staff it would be likely to discover more fraud.

RESOLVED that the progress achieved and performance by the Audit and Counter Fraud Team be accepted and noted.

14 **PROPOSED AUDIT COMMITTEE WORK PROGRAMME FOR 2021/22 AND EARLY 2022/23**

The Committee received a copy of the proposed Audit Committee Work Programme for 2021/22 and early 2022/23.

RESOLVED – That the proposed Audit Committee Work Programme for 2021/22 and early 2022/23 be approved.

15 **EXCLUSION OF THE PRESS AND PUBLIC**

RESOLVED that, in accordance with Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business on the grounds that they contain exempt information under paragraphs 3 of Part 1 of Schedule 12A of the Act, and it would not, on balance, be in the public interest to disclose the reports.

16 **UPDATE ON THE ANNUAL GOVERNANCE STATEMENT FOR 2020/21 AND NEW ISSUES**

Consideration was given to a report of the Assistant Director of Corporate Governance and Strategic Financial Management, which updated Members of the Audit Committee on the progress made to reduce the risk of issues arising for the Council to address, where matters were identified as areas requiring improvement in internal control within the Annual Governance Statement for 2020/21.

RESOLVED that the contents of the report be noted.

17 **PARTNERSHIP RISK DASHBOARD**

Consideration was given to a report of the Director of Finance which linked into previous reports submitted to the Committee throughout the financial year 2020/21 which had highlighted the potential risks to the Council from poor supervision of companies/ partnerships of which it had ownership. Those reports highlighted how governance oversight, including that of the Audit Committee at selected Councils, had failed to identify this risk in respect of these third-party entities resulting in significant financial loss. The Committee requested the preparation of reports analysing the potential risks to the Council from the partnerships in which it has an interest for its consideration at least every 6 months. The report provided an update to the report previously submitted to this Committee on 25 March 2021.

RESOLVED that the contents of the report be noted.

The meeting started at 6.00 pm and ended at 7.38 pm

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Oldham Council

Report to Audit Committee

2020/21 Annual Statement of Accounts

Portfolio Holder: Councillor Abdul Jabbar MBE – Deputy Leader and Cabinet Member - Finance and Low Carbon

Officer Contact: Anne Ryans – Director of Finance

Report Author: Lee Walsh – Finance Manager (Capital and Treasury)
Ext. 6608

17 January 2022

Reason for Decision

The Audit Committee is charged with scrutiny and approval of the Statement of Accounts. This report presents an update on the current position regarding the audit and approval of the 2020/21 Statement of Accounts and an update on the outstanding audit issues presented previously to the Committee. It also advises of the arrangements for the procurement of an auditor for the period 2023/24 to 2027/28 and proposed changes to audit deadlines.

Executive Summary

The report presents an update on the Council's Statement of Accounts for the financial year 2020/21.

Members will recall that at the meeting of the Audit Committee on 2 November 2021, they were updated on the completion of the Accounts and notified that the accounts were signed off on 30 September 2021 in line with the statutory deadline. As noted at the meeting there were still two outstanding items in relation the audit process for 2020/21, the:

a) Value for Money (VFM) opinion
b) Whole of Government Accounts (WGA)

This report updates Members that one matter, the Value for Money opinion, has been concluded. The VFM opinion considers the three reporting criteria of:

a) Financial Sustainability
b) Governance
c) Improving Economy, Efficiency and Effectiveness

On all three areas, the VFM opinion included within the Auditor's Annual Report concluded that no risk of significant weaknesses in arrangements had been identified and that there were no actual weaknesses in arrangements identified.

The Whole of Government Accounts is still outstanding and will be completed early in 2022.

The report also provides an update on the:

- Procurement of the Council's External Auditors for the period 2023/24 to 2027/28 and the Council's decision to accept the Public Sector Audit Appointments (PSAA) invitation to opt into the sector-led option for the appointment of external auditors to principal Local Government and Police Bodies for five financial years from 1 April 2023 as approved at the Council meeting on 15 December 2021.

- Changes to the deadline for publishing audited Local Authority accounts to 30 November 2022 for the 2021/22 accounts and 30 September for 5 years from 2023/24 to 2027/28.

Recommendation

Audit Committee members are recommended to note the content of the report and the Auditor's Annual Report for the year ending 31 March 2021 which encompasses the Council's Value for Money Opinion.

1 Background

1.1 The Council is required to prepare a Statement of Accounts for each financial year in accordance with statutory timelines and accounting practices. The accounts are subject to scrutiny and approval by the Council's Audit Committee.

1.2 The Council submitted its draft financial statements to the External Auditors, Mazars LLP, on 6 June 2021 which was a little later than expected due to the impact of the pandemic. In order to facilitate the audit process, the Council made working papers available to the auditors prior to the handover of the Statement of Accounts. The public inspection period began on 17 June and concluded on 28 July 2021.

1.3 The draft Statement of Accounts was presented to the Audit Committee for scrutiny on 29 June 2021. Following review by Mazars LLP the audited Statement of Accounts was considered at Audit Committee on 29 July 2021. This gave Members the opportunity to consider the key issues, understand any movements from the draft accounts and ask officers and the External Auditor any relevant questions. Members also considered the draft Audit Completion Report (ACR) prepared by the External Auditor.

1.4 However, at the meeting on the 29 July 2021, there were some outstanding items that had yet to be completed. The outstanding items that related to areas where the Council could assist with the final audit queries were:

a) Work on the consolidation of the Council's Group Accounts
b) The completion of work on the IT audit

However, before Mazars could finalise the audit of the Council's pension fund liability they required assurance with regard to the audit of the Greater Manchester Pension Fund (GMPF). This item was beyond the influence of the Council.

1.5 Members were, however, content to accept the amended set of financial statements as at 29 July 2021 and delegated the final approval of the Accounts to the Vice Chair of the Audit Committee after consultation with the Director of Finance on receipt of advice from the External Auditors.

1.6 Following the completion of the outstanding work, and in line with the authority delegated by Audit Committee, the Vice Chair of the Audit Committee approved and signed the Statement of Accounts on 30 September 2021 after consultation with the Director of Finance and after advice from the External Auditors. This was in line with the statutory deadline and enabled the Council to be one of only 9% of Local Authorities to have its accounts approved by the deadline.

2 Current Position

2.1 Mazars LLP has now completed work on the Value for Money (VFM) opinion in respect of the Council's arrangements for the year ended 31 March 2021 and on 17 December issued the Auditors Annual Report (attached as Appendix 1). The Council can report that the auditor, Mazars LLP, did not identify any significant weaknesses in arrangements that require them to make a recommendation.

2.2 The VFM opinion is assessed on 3 reporting criteria:

1) Financial Sustainability
2) Governance

3) Improving Economy, Efficiency and Effectiveness

2.3 On all three areas, the VFM opinion included within the Auditor's Annual Report concluded that no risk of significant weaknesses in arrangements had been identified and that there were no actual weaknesses in arrangements identified.

2.4 It is important to note that the audit process cannot be fully finalised until the Whole of Government Accounts (WGA) audit is completed. The WGA audit cannot be undertaken yet and is programmed for early 2022.

2.5 Following the conclusion of the WGA audit work, the Council will advertise the completion of the 2020/21 audit process on its website and update Members of the Audit Committee.

<u>Procurement of the Council's External Auditors 2023/24 to 2027/28</u>

2.6 Members will recall that at the last Audit Committee, a report provided an update on the appointment regime for the Council's External Auditors. This advised that:

a) The current auditor appointment arrangements cover the period up to and including the audit of the 2022/23 accounts. The Council, as with the vast majority of other Councils, opted into the 'appointing person' national auditor appointment arrangements which were established by Public Sector Audit Appointments (PSAA) for the period covering the accounts for 2018/19 to 2022/23.

b) It is now necessary to consider the appointment of an auditor for the next five year period. In this regard, PSAA is now undertaking a procurement exercise for the next appointing period, covering audits for the 2023/24 to 2027/28 financial years.

c) There was a requirement during Autumn 2021 for the Council alongside all Local Government bodies to make important decisions about their external audit arrangements from 2023/24, to either opt into the PSAA scheme or arrange their own procurement and make the appointment themselves.

2.7 The Audit Committee agreed that it would be appropriate to opt into the PSAA arrangements. However, the PSAA requirement was that a decision of full Council was required.

2.8 At the Council meeting on 15 December 2021, Council approved the recommended approach that the sector-wide procurement conducted by PSAA was the best option for the Council because:

- collective procurement reduces costs for those submitting bids and for individual authorities compared to a multiplicity of smaller local procurements;
- if the Council does not use the national appointment arrangements, an auditor panel with an independent chair and independent members to oversee a local auditor procurement exercise would have to be appointed together with arrangements for the ongoing management of the audit contract;
- it is the best opportunity to secure the appointment of a qualified, registered auditor - there are only nine accredited local audit firms, and should the Council undertake our own procurement exercise, the Council would be drawing from the same limited supply of auditor resources as PSAA's national procurement; and

- supporting the sector-led body helps to ensure there is a continuing and sustainable public market into the medium and long term.

2.9 Following the decision of the Council, the PSAA has been advised of the Council's decision and all relevant information has been supplied to complete the opt-in exercise. The Audit Committee will be updated at future meetings on the appointment process and award of contract for the years 2023/24 to 2027/28.

<u>Audit Deadlines</u>

2.10 In March 2021 new regulations came in force to extend the deadline for publishing audited Local Authority accounts to 30 September (previously 31 July) from 2020/21, a change which the Government committed to review after 2 years.

2.11 The Intention was to revert back to the previous deadline of the 31 July. However, due to the extent of ongoing delays and capacity issues in the delivery of audited accounts for 2020/21, the decision to revert back to the previous deadline is considered to be both unrealistic and counterproductive, especially as the backlog of delayed 2020/21 audits will likely have knock-on effects for future years.

2.12 Therefore, subject to a consultation, the Government proposes to introduce secondary legislation to extend the deadline for publishing audited Local Authority accounts to 30 November 2022 for the 2021/22 accounts. Following this, and to provide certainty for the next contract period under the procurement arrangements being managed by PSAA, the audited accounts deadline will revert to 30 September for 5 years from 2023/24 until 2027/28. This will then be further reviewed at that point.

2.13 In the consultation, it is proposed that the deadline for preparing draft accounts will remain at 31 May, as the majority of Local Authorities are continuing to meet this requirement and any changes would have implications for the Whole of Government Accounts. The Audit Committee will be updated at a future meeting once the consultation is completed, and any changes are approved under legislation.

3 Options/Alternatives

3.1 The Audit Committee members can either choose to note the content of the report and the Auditor's Annual Report for the Year ending 31 March 2021 or request further information.

4 Preferred Option

4.1 The preferred option is that Audit Committee notes the content of the report and the Auditor's Annual Report for the year ending 31 March 2021.

5 Consultation

5.1 Consultation has taken place with the Council's External Auditors, Mazars LLP, in addition, members of the public had the opportunity to inspect the Council's Statement of Accounts and supporting documents. The 30-day public inspection concluded on 28 July 2021.

5.2 The draft Statement of Accounts for the financial year 2020/21 was presented to the Audit Committee meeting of 29 June 2021 which was a key element of the consultation process. Formal presentation of the accounts to Members of the Audit Committee at the meeting on 29 July 2021 allowed the opportunity for a further review and scrutiny prior to the approval of the accounts. All questions and issues raised by Members were answered to the satisfaction of the Audit Committee.

5.3 In line with the Council's Financial Procedure Rules, the Accounts were also presented for noting to Cabinet on 15 November 2021 and Council on 15 December 2021.

5.4 Council agreed to opt into arrangements for the audit of the accounts for the period 2023/24 to 2027/28 on 15 December 2021.

6 Financial Implications

6.1 Dealt with in the body of the report.

7 Legal Services Comments

7.1 There are no Legal implications.

8 Co-operative Agenda

8.1 Improving the quality and timeliness of the financial information available to citizens of Oldham supports the co-operative ethos of the Council.

9 Human Resources Comments

9.1 There are no Human Resource implications.

10 Risk Assessments

10.1 There are no risk implications as a result of this report.

11 IT Implications

11.1 There are no IT implications as a result of this report.

12 Property Implications

12.1 There are no Property implications.

13 Procurement Implications

13.1 There are no Procurement implications.

14 Environmental and Health and Safety Implications

14.1 There are no Environmental and Health & Safety implications as a result of this report.

15 Equality, Community Cohesion and Crime implications

15.1 There are no Equality, community cohesion and crime implications.

16 Equality Impact Assessment Completed?

16.1 Not Applicable

17 Key Decision

17.1 No

18 Key Decision Reference

18.1 Not Applicable.

19 Background Papers

19.1 The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act:

File Ref:	Background Papers are provided at Appendix 1.
Officer Name:	Lee Walsh
Contact No:	0161 770 6608

20 Appendices

20.1 Appendix 1 – Auditor's Annual Report – Oldham Metropolitan Borough Council for the year ending 31 March 2021

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Appendix 1

Auditor’s Annual Report

Oldham Metropolitan Borough Council – year ended 31 March 2021

December 2021

mazars

Contents

01

Section 01:

Introduction

1. Introduction

Purpose of the Auditor’s Annual Report

Our Auditor’s Annual Report (AAR) summarises the work we have undertaken as the auditor for Oldham Metropolitan Borough Council (‘the Council’) for the year ended 31 March 2021. Although this report is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice (‘the Code’) issued by the National Audit Office (‘the NAO’). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.

Opinion on the financial statements
We issued our audit report on 30 September 2021. Our opinion on the financial statements was unqualified.

Value for Money arrangements
In our audit report issued we reported that we had not completed our work on the Council’s arrangements to secure economy, efficiency and effectiveness in its use of resources and had not issued recommendations in relation to identified significant weaknesses in those arrangements at the time of reporting. Section 3 confirms that we have now completed this work and provides our commentary on the Council’s arrangements. No significant weaknesses in arrangements were identified and there are no recommendations arising from our work.

Wider reporting responsibilities
We have not yet received group instructions from the National Audit Office in respect of our work on the Council’s WGA submission. We are unable to commence our work in this area until such instructions have been received.

02

Section 02:

Audit of the financial statements

Page 23

2. Audit of the financial statements

The scope of our audit and the results of our opinion

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs).

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2021 and of its financial performance for the year then ended. Our audit report, issued on 30 September 2021 gave an unqualified opinion on the financial statements for the year ended 31 March 2021.

Our Audit Completion Report, presented to the Council's Audit Committee on 29 July 2021, and our follow up Audit Completion Letter provides further details of the findings of our audit of the Council's financial statements. This includes our conclusions on the identified audit risks and areas of management judgement, internal control recommendations and audit misstatements identified during the course of the audit.

03

Section 03:

Commentary on VFM arrangements

3. VFM arrangements – Overall summary

Approach to Value for Money arrangements work

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:

- **Financial sustainability** - How the Council plans and manages its resources to ensure it can continue to deliver its services
- **Governance** - How the Council ensures that it makes informed decisions and properly manages its risks
- **Improving economy, efficiency and effectiveness** - How the Council uses information about its costs and performance to improve the way it manages and delivers its services

At the planning stage of the audit, we undertake work so we can understand the arrangements that the Council has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements. Where we identify significant risks, we design a programme of work (risk-based procedures) to enable us to decide whether there is a significant weakness in arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses. We did not identify any risks of significant weaknesses through our work on Value for Money arrangements.

Where our risk-based procedures identify actual significant weaknesses in arrangements, we are required to report these and make recommendations for improvement. There are no significant weaknesses to report.

The table below summarises the outcomes of our work against each reporting criteria. On the following page we outline further detail of the work we have undertaken against each reporting criteria, including the judgements we have applied.

Reporting criteria	Commentary page reference	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability	**9-10**	No	No
Governance	**11-12**	No	No
Improving economy, efficiency and effectiveness	**13-14**	No	No

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

Background to financial sustainability in 2020/21

The Council entered the 2020/21 financial year as the first national lockdown began and immediately faced a significant operational impact to respond to the range of challenges presented by the pandemic. As part of the national response to Covid-19, central government made a series of policy announcements which impacted on the Council. Consequently the Council was at the forefront of efforts to protect local residents, including the most vulnerable, and to support local businesses.

Some of the Government's initiatives to respond to the covid-19 pandemic were supported by additional funding, and so the Council received significant additional funding in 2020/21. This included general grants to support its Covid-19 response of £28.1m, specific grants of £21.8m of which the Council had discretion over to determine the use of £17.3m, and compensation for business rate reliefs of £25.1m, alongside significant funding provided to support local business in line with the government's national initiatives. This funding helped the Council to support residents and businesses through the year, and provided immediate funding to help mitigate some of the financial pressures caused by the pandemic. The Council's financial sustainability challenges from the Covid-19 pandemic will continue through the medium term and this places considerable pressure on the Council to maintain effective financial sustainability arrangements.

The Council's financial planning and monitoring arrangements

In February 2020 the Council set a balanced budget for the 2020/21 financial year with a total net budget for Council services of £233.5m. This required an increase in Council Tax of 2.99% (including 2% Adult Care precept). Throughout the year the Council regularly updated its budget forecast, enabling budgets to remain up-to-date in the fast-changing and uncertain operating environment of the pandemic. The final net budget reported for the year was £296.7m. Within the original budget approved in February 2020, the Council had identified a budget reduction (savings) requirement of £18.1m alongside a range of initiatives and measures to deliver these reductions.

The Council's financial planning and budgeting arrangements are well established and include a wide range of activities and consultations. The budget setting process includes engagement with senior Council officers and incorporates discussion about the delivery of statutory services/priorities and the impact on resources. Where additional resources are required these are scrutinised and challenged before they are included in the budget estimates. Workshops with officers and members are a key part of the budgeting arrangements, and these are detailed and extensive.

The Council reported its revenue outturn position for 2020/21 as an overall underspend of £2.1m. During the year, the Council provided regular reports of its financial position to Cabinet between months 3 (June 2020) and 9 (December 2020). We have reviewed a sample of the reports presented for 2020/21. These reports were detailed and comprehensive and incorporate monitoring of the revenue budget, the capital programme and a wide range of other financial measures. The Council follows an established timetable for reporting to Cabinet which includes reporting to directorate management teams and the strategic management team.

The Council's arrangements for identifying, managing and monitoring funding gaps and savings

The Council produces a Medium Term Financial Strategy (MTFS) each year alongside its annual budget. The MTFS sets out the resources available to deliver the Council's overall commitment to provide services that meet the needs of people locally over a five year period.

A key part of the MTFS is to highlight the budget issues that need to be addressed by the Council in each of the years covered. It reflects assumptions made to allow forecasting of the level of available resources from all sources together with the budget pressures relating to both capital and revenue spending. It also assesses the adequacy of reserves held which may impact on the Council's resources.

The Council's budget setting process, which begins in the summer, is a detailed and comprehensive process. There is detailed consultation and discussion with officers and members on the assumptions and principles on which the budget is to be based. As part of the budget setting process, the Council explicitly identifies its budget reduction requirements for the following years through detailed consideration of the budgetary pressures, funding estimates, and impact of national and local initiatives and policies. A range of officer workshops are held to review proposals for budget reductions with each proposal supported by evidenced assessments of deliverability. Proposals are subject to consultation with staff, officers and members and are presented to meetings attended by Cabinet & Deputy Cabinet Members and senior officers, Overview & Scrutiny, and Cabinet before submission to, and approval at, Full Council. We reviewed a range of the budget preparation documents and meetings held as part of the budget setting process. Our review confirmed that the documents were comprehensive and detailed and the workshops and meetings were timely and delivered the intended outcomes to assist with the budget preparation.

The budget reduction requirement identified in the MTFS 2020/21 to 2024/25 for 2021/22 was £23.2m with a further £26m required in the following two years. In setting the 2021/22 budget and MTFS, the budget reduction requirement for the period 2021/22 to 2023/24 was £30m after the use of £29m of reserves and after applying other budget reduction schemes. The budget reports for each year are clear on the means by which the savings will be delivered and clearly articulate the size of the challenge the Council faces in the medium term.

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria - continued

Council's arrangements and approach to 2021/22 financial planning

The Council's arrangements for the 2021/22 budget setting process have largely followed the arrangements in place for 2020/21.

The budget for 2021/22 was approved at the March 2021 Council meeting. The Council set a balanced budget with a total net budget for Council services of £254.2m with an increase in Council Tax of 2.99% (including 2% Adult Care precept). The budget included £8.8m of recurrent budget reductions and £16.8m use of reserves.

We have reviewed the supporting evidence relating to the preparation of the 2021/22 budget and these demonstrate that the arrangements are consistent with the previous year, detailed and robust and properly applied.

Based on the above considerations we are satisfied there is not a significant weakness in the Council's arrangements in relation to financial sustainability.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria

The Council's risk management and monitoring arrangements

The Council has a well established risk management system in place and embedded in the governance structure of the organisation. The Council refreshed its Risk Management Strategy in 2019/20 and during 2020/21 this was implemented and integrated into the Council's agreed service planning arrangements. The risk management arrangements incorporate service and directorate risk registers informed by detailed assessments of the key risks impacting on each area. These detailed registers inform the Council's corporate risk register which sets out the key strategic and corporate risks. The risk registers apply a risk score both before and after mitigation measures and enable the Council to manage the risks actively and take action where necessary. We have reviewed the risk management strategy along with examples of service risk registers and the corporate risk register. Our review confirms the strategy is clear and detailed, and the registers appear comprehensive, containing sufficient and appropriate detail for Council officers and members.

The Council reports its risk registers through its governance framework, culminating in regular reports to the Audit Committee. Our attendance at the Audit Committee meetings has confirmed that the Committee understands its role in the risk management framework. It provides challenge to management on the risk registers and corresponding risks and mitigating actions.

The Council has a team of internal auditors, led by the Assistant Director of Corporate Governance and Strategic Financial Management, who provide assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud. The annual Internal Audit plan is ordinarily agreed with management at the start of the financial year and is reviewed by the Audit Committee prior to final approval. In 2020/21, the Covid-19 pandemic impacted significantly on Internal Audit's plans and a revised and updated plan was presented to the Committee in September 2020. The audit plan is based on an assessment of risks the Council faces and is determined to ensure there is assurance on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. The planned work is supplemented by ad hoc reviews in respect of suspected irregularities and other work to respond to emerging risks and issues. We have reviewed the Internal Audit plans for 2020/21 and 2021/22 and confirmed they are consistent with the risk based approach. The Council has comprehensive anti-fraud and corruption policies which are updated as required and during 2020/21 the whistleblowing policy was updated. In 2020/21 a significant focus of the Council's anti-fraud work was in implementing processes to minimise any loss on business grants by putting in place checks to minimise fraud/ loss before payments were made to businesses.

Internal Audit progress reports are presented to each Audit Committee meeting, including follow up reporting on recommendations from previous Internal Audit reports. From our attendance at meetings, we are satisfied this allows the Committee to effectively hold management to account. At the end of each financial year the Head of Internal Audit provides an opinion based on the work completed during the year. For 2020/21 the Head of Internal Audit concluded that an adequate level of assurance could be given that the Council's overall framework of governance, risk management and control remains appropriate and has been complied with. Whilst this reflected the significant impact of the pandemic, the annual report highlighted the significant improvements that continued to be made in key control areas.

Throughout the year we have attended all Audit Committee meetings. These meetings have received regular updates on both internal audit progress and risk management. Audit Committee members engage with the reports and challenge the papers and reports which they receive from management, internal audit and external audit.

Council arrangements for budget setting and budgetary control

The 2020/21 Budget Report was approved in February 2020, setting out the estimates of the financial challenge for the financial year 2021/22. During 2020/21, this was updated regularly and the likely financial position for 2021/22 was reported to Cabinet. Monthly financial monitoring reports were prepared for 2020/21 which highlighted key issues which may impact on 2021/22, with the financial monitoring reports presented to senior managers, Members and then to Cabinet for approval. During the summer months of 2020, there were a series of officer and member workshops to consider the updated financial position and to agree budget reduction proposals for consultation with staff and the public. Members were engaged closely in discussions about the level of Council Tax increase and, through this engagement, the Council changed from its original approach so the proposed general increase in Council tax was reduced from 1.99% to a final position of 0.99%.

The Council has well established budget monitoring arrangements in place. The Finance service is configured to align to the Council's management portfolio structure. Members of the Finance Team are assigned to specific service areas and work closely with cost centre managers to review, discuss and agree the financial pressures/ issues impacting on specific service areas. At the end of each month, a Portfolio dashboard is prepared which contains all relevant financial information. Forecasts are produced for cost centres, service areas and the whole Portfolio. These are discussed and agreed with relevant Directors and managers.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

Council arrangements for budget setting and budgetary control (continued)

There is a detailed budget monitoring timetable to which the Finance service works to ensure that reports are timely. Overall financial monitoring reports are prepared encompassing the whole Council position for both Capital and Revenue. During 2020/21, these budget monitoring reports were prepared for Cabinet for months 3 through to 9. The format of the report has been subject to review to ensure relevant information was available. As a result, in 2020/21, the reports were adapted to report on the impact of COVID including information on specific grants including business grants and other grants where the Council acted as an agent.

Budget monitoring reports were also presented to the Performance and Value for Money Overview and Scrutiny Committee for consideration. In addition, during 2020/21 a new group (the Financial Assistance to Business Group) made up of senior officers and the Leader and two Deputy Leaders was established to ensure Members were sighted on the grants received by the Council.

Council decision making arrangements and control framework

The Council's decision making arrangements are established in the Council Constitution. Decisions are either made by members (Council, Cabinet, or other decision making committees) or delegated to Cabinet portfolio leads, or officers.

All Cabinet and Key Decision reports include Statutory Officer Comments and Risks, and an assessment of financial impacts and other key impact areas such as human resources, IT and property. The Council has a range of overview and scrutiny committees that challenge and scrutinise Council decisions.

During 2020/21 the Council adapted its decision making arrangements to respond to the challenges of Covid-19, adopting a 'Gold', 'Silver' and 'Bronze' meeting structure to ensure decisions were made at an appropriate level. This structure included the Council and its relevant partners. The structure enabled the Council to proactively manage its emerging risks and to take properly informed decisions in an appropriate timescale.

The Council operates an Audit Committee which has the appropriate status in the organisation to challenge management and obtain assurance on the operation of the internal control framework. The Committee has an agreed workplan and where necessary asks management to report on specific internal control issues. The Audit Committee met regularly throughout the year and routinely considered key reports on internal controls.

During the year the Committee identified that it required additional assurance on the Council's partnership arrangements. Consequently a partnership dashboard was developed which identified and reported the potential risks to the Council from its partnership arrangements.

Based on the above considerations we are satisfied there is not a significant weakness in the Council's arrangements in relation to governance.

3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria

The Council's arrangements for assessing performance and evaluating service delivery

The Council prepares performance monitoring and financial monitoring reports which are presented to senior management, Cabinet and Overview & Scrutiny Committee. The overarching financial monitoring position is included in the performance reports. During 2020/21, financial monitoring reports provided information about the financial pressures being experienced. This highlighted new or increased service demand in some areas. These reports also focused on the impact of Covid-19, including the impact of the many government initiatives and policies on the Council's financial and operational performance. These reports are also used to identify service delivery challenges, for example where increased costs are incurred to address service backlogs or underlying underperformance. Where such issues are highlighted through financial monitoring, the resources required as an investment to address this are identified. During 2020/21, many of the performance indicators were suspended due to the focus on Covid-19 pressures. Performance reporting was therefore revised to take account of the circumstances.

The Council agrees and establishes a range of performance indicators for all directorates. These indicators are reviewed by services and reported initially to senior officers so that issues requiring action are understood including additional investment. Corporate performance reports are reported to senior management and members. During 2020/21, performance monitoring reports were prepared for the Performance and Value for Money Overview & Scrutiny Committee. We have reviewed a sample of these reports and this confirmed that they clearly articulate the Council's performance and contain appropriate and detailed information.

The Council has a business planning process which requires detailed business plans to be agreed with respective Cabinet Members. Key performance indicators and measures then are encompassed within the corporate performance report. The Directorate plans are managed and monitored using a standard format.

During 2020/21 as a result of the impact of Covid-19 the Council decided to roll over the business plans from 2019/20 and monitor performance against these. At the end of 2020/21, a new business planning cycle was initiated aligned to the risk management framework. The preparation for the new business planning programme took place during 2020/21 with business plans finalised forwards the end of 2020/21 for action in 2021/22. The business planning process was updated during 2020/21 so that in 2021/22 the reports would have a greater focus on benchmarking Council performance against comparators.

In addition to the corporate performance reporting, the Council has a range of internal performance and management information dashboards which enable it to evaluate performance and identify areas for improvement. We have reviewed a sample of these dashboards and this confirmed that they clearly articulate the Council's performance and are appropriate for managing performance.

The Council's arrangements for effective partnership working

The Council monitors its delivery on key partnerships including an ongoing assessment of risk as set out in the Partnership Dashboard which reports regularly to the Audit Committee. This identifies both current issues and emerging issues, for example, where there are plans to set up new partnerships to deliver key future priorities. As at 31 March 2021 the assessment of risk on partnerships operated by the Council was reported as low. The Council's key partnerships include Oldham Clinical Commissioning Group (CCG) and its two wholly owned subsidiary companies, MioCare Community Interest Company and Unity Partnerships Ltd.

The two Council owned companies both work closely with the Council as its significant customer. There are key governance arrangements in place within the Council to ensure efficient oversight of the companies including annual reports to Scrutiny Committees and the Council appointing Members to the company Boards.

During 2020/21 the Council continued to work closely with the CCG to manage services with the significant impact of the Covid-19 pandemic on health and social care. The Council is party to a pooling of funds with the CCG and operates joint scrutiny arrangements to oversee the joint working arrangements. During 2020/21 some joint management responsibilities were in place across the Council and the CCG.

The Council has a joint Commissioning Partnership Board on which the Leader and Cabinet Members for Adult Social Care represent the Council. This Board oversees the pooled fund agreement and receives financial performance reports relating to the arrangement.

The Council's arrangements for procurement and commissioning services

The Council's Constitution contains a chapter on the Contract Procedure Rules. This sets out the detailed process that the Council must follow when procuring goods or services. We have reviewed the procedure rules and this confirms that they are comprehensive and cover the procedures, the quotation and tender process, using frameworks, post tender evaluation and contract monitoring procedures.

Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria - continued

The Council's arrangements for procurement and commissioning services (continued)

The Council has an experienced Commercial Procurement Unit leading on procurement and commissioning. The team appoints 'Category Leads' who work closely with commissioners to develop the forward view pipeline over the medium term. This enables the Council to be able to plan its procurement and commissioning activities well in advance. We reviewed the pipeline and confirmed it was detailed and comprehensive and facilitated the Council's proactive management of its procurement over the medium term.

The category lead role includes working with commissioners to develop the specifications, identifying opportunities for possible collaboration or amalgamation of contracts, engaging with the market, developing KPIs, reviewing contract management information, maintaining an active dialogue with suppliers, and ensuring that the contracts stay up to date through the contract period.

Where contract management information suggests that contracts are not being delivered to the specification, the Council engages with suppliers to put in place improvements. Maintaining a routine dialogue with suppliers is crucial in managing the relationship and in ensuring disputes and disagreements are minimised or avoided.

The Council established the expected outcomes and benefits from procurement in a series of key performance indicators in each contract. These are tailored specifically to the specification of each contract and are actively monitored to ensure the benefits are being delivered. Regular dialogue between the category leads and the Council's commissioners and suppliers ensures the delivery benefits are up to date and remain appropriate through the contract, and that any innovation or efficiencies identified is included in updated contract terms. We reviewed a sample of procurement monitoring reports and key performance indicators and confirmed that they were detailed and appropriate.

Based on the above considerations we are satisfied there is not a significant weakness in the Council's arrangements in relation to improving economy, efficiency and effectiveness.

04

Section 04:

Other reporting responsibilities and our fees

Page 33

4. Other reporting responsibilities and our fees

Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to the law; and
- issue an advisory notice.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections, but a member of the public brought to our attention a non-material matter which we are considering.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data, and to carry out certain tests on the data. We have not yet received group instructions from the National Audit Office in respect of our work on the Council's WGA submission. We are unable to commence our work in this area until such instructions have been received.

4. Other reporting responsibilities and our fees

Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Audit Committee in June 2021. With the exception of the work on the Council's Whole of Government Accounts submission, as highlighted on page 16 we have completed our work for the 2020/21 financial year, and based on the work completed to date we can confirm that our fees are as follows:.

Area of work	2019/20 fees	2020/21 fees
Planned fee in respect of our work under the Code of Audit Practice	£104,428	£104,428
Recurrent scope changes: Additional testing on Property, Plant & Equipment and Defined Benefit Pensions Schemes as a result of changes in regulatory expectations	£17,750	£17,750
In-year scope changes: Additional testing as a result of the implementation of new auditing standards: ISA 220 (Revised): Quality control of an audit of financial statements; ISA 540 (Revised): Auditing accounting estimates and related disclosures; ISA 570 (Revised) Going Concern; and ISA 600 (Revised): Specific considerations – audit of group financial statements	£4,500	£2,000
Additional requirements for Oldham MBC: Other additional costs related to Enhanced Audit Reporting, Financial Instruments and Operating Leases	£7,500	£4,500
Value for money work: Additional work arising from the change in the Code of Audit Practice	-	£10,000
Total fees	**£134,178**	**£138,678**

Fees for other work

We confirm that we have not undertaken any non-audit services for the Council in the year.

Karen Murray, Engagement Partner

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*where permitted under applicable country laws.

Oldham Council

Report to AUDIT COMMITTEE

Compliance with the CIPFA Financial Management Code

Portfolio Holder: Cllr Abdul Jabbar MBE, Deputy Leader and Cabinet Member for Finance and Low Carbon

Officer Contact: Anne Ryans, Director of Finance

Report Author: Anne Ryans, Director of Finance

17 January 2022

Reason for Decision

This report presents information which highlights the Council's compliance with the Financial Management Code issued by the Chartered Institute of Public Finance and Accountancy.

Executive Summary

In response to the financial challenges being faced by a number of Local Authorities, towards the end of 2019 the Chartered Institute of Public Finance and Accountancy (CIPFA) issued the CIPFA Financial Management Code (FM Code) which is designed to support good practice in financial management and to assist Councils in demonstrating financial sustainability. However, it was not until mid-2020 that the guidance notes to support this document were issued which provided a more comprehensive description of the requirements and how these could be demonstrated. Due to the timing of the issue of the documentation, the financial year 2020/21 was a shadow year to allow time for Authorities to demonstrate how they were working towards full implementation of the Code. The first full year of compliance with the FM Code is therefore 2021/22.

The FM Code applies a principles-based approach. It does not prescribe the financial management arrangements that Local Authorities should adopt. Instead, it requires that a Local Authority ensures, and is able to demonstrate, that it satisfies the principles of good financial management for an authority of its size, responsibilities and circumstances.

The Code has six underlying principles designed to focus on robust financial management as a way of achieving both short-term financial resilience and long-term financial sustainability.

Since the detailed guidance notes were issued, the Finance Team has reviewed the Code and the Council's compliance a number of times. As outlined in this report, this up-to-date detailed position statement (at Appendix 1) shows the Council is well placed with generally good Code compliance. The report sets out the requirements of the seven sections of the Code and its seventeen standards, highlights where there is compliance and where some revisions and/or changes to practice are required in order to address the Code in full. The FM Code is presented at Appendix 2.

From a financial management perspective, there are three key issues about which Members may wish to have regard:

a) the External Audit opinion on the Statement of Accounts upon which the Audit Committee has been fully updated. This gives Members of the Committee assurance about the high standard of accounting practice.
b) the issuing by the External Auditor on 17 December 2021 of the Auditors Annual Report on the financial year 2020/21 which included commentary on the audit of the financial statements as well an opinion on the Council's Value for Money (VFM) arrangements. With regard to the VFM opinion it advised that in relation to the criteria examined, that no risk of significant weaknesses in arrangements had been identified and that there were no actual weaknesses in arrangements identified.
c) Where areas of development have been identified, work is in train to address the issues.

Recommendation

The Audit Committee is recommended to note the level of compliance with the CIPFA Financial Management Code and the issues that require further development.

The CIPFA Financial Management Code

1 Background

1.1 In response to the financial challenges being faced by a number of Local Authorities, towards the end of 2019, the Chartered Institute of Public Finance and Accountancy (CIPFA) issued the CIPFA Financial Management Code (FM Code). This Code is designed to support good practice in financial management and to assist Councils in demonstrating financial sustainability. However, it was not until mid-2020 that the guidance notes to support this document were issued which provided a more comprehensive description of the requirements and how these could be demonstrated. Due to the timing of the issue of the documentation, the financial year 2020/21 was a shadow year to allow time for Authorities to demonstrate how they were working towards full implementation of the Code. The first full year of compliance with the FM Code is therefore 2021/22.

1.2 Since the detailed guidance notes were issued, the Finance Team has reviewed the Code and the Council's compliance a number of times. The Team has taken opportunities to promote improvements and developments to enhance compliance. Unfortunately, the COVID-19 pandemic has slowed the work as attention has had to be focused on the response to the national emergency, but nonetheless, as outlined in this report, this up-to-date position statement shows the Council is well placed with regard to Code compliance. Appendix 1 to the report sets out in detail the requirements of the Code, highlights where there is compliance and where some revisions and/or changes to practice are required in order to address the Code in full.

2 Current Position

2.1 The Financial Management Code (FM Code), as presented at Appendix 2, sets out the principles by which Authorities should be guided in managing their finances and the specific standards that they should, as a minimum, seek to achieve. It is designed to be flexible to the nature, needs and circumstances of individual Authorities. It enables each Authority to determine the extent to which it complies with the FM Code and to identify any action it may wish to take to better meet the standards set out in the Code. It is CIPFA's intention is that the FM Code has the same scope as the Prudential Code for Capital Finance in Local Authorities (CIPFA, 2021), which promotes the financial sustainability of Local Authority capital expenditure and associated borrowing. Therefore, whilst the FM Code does not have legislative backing, it applies to all organisations in the Local Government sector.

2.2 The FM Code applies a principles-based approach. It does not prescribe the financial management arrangements that Local Authorities should adopt. Instead, the FM Code requires that a Local Authority ensures, and is able to demonstrate, that it satisfies the principles of good financial management for an authority of its size, responsibilities and circumstances.

2.3 The FM Code has six underlying principles and these have been designed to focus on robust financial management as a way of achieving both short-term financial resilience and long-term financial sustainability. The principles are as follows:

a) Organisational **leadership** – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.

b) **Accountability** – financial management is based on medium-term financial planning, which drives the annual budget process supported by effective risk management, quality supporting data and whole life costs.

c) Financial management is undertaken with **transparency** at its core using consistent, meaningful and understandable data, reported with appropriate frequency and with evidence of periodic officer action and elected member decision making.

d) Adherence to professional **standards** is promoted by the leadership team and is evidenced.

e) Sources of **assurance** are recognised as an effective tool mainstreamed into financial management and include political scrutiny and the results of external audit, internal audit and inspection.

f) The long-term **sustainability** of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources.

2.4 In order to test conformity with the six principles, the FM Code translates these principles into financial management standards. These address the aspects of an Authority's operations and activities that must function effectively if financial management is to be undertaken robustly and financial sustainability is to be achieved. In total there are seventeen standards which are presented in the seven sections of the Code as follows:

1) The responsibilities of the Chief Financial Officer and leadership team;
2) Governance and financial management style;
3) Medium to long term financial management;
4) The annual budget;
5) Stakeholder engagement and business plans;
6) Monitoring financial performance;
7) External financial reporting.

2.5 Sections 1 and 2 address important contextual factors which need to be addressed in the first instance if sound financial management is to be possible. Sections 3 to 7 address the requirements of the financial management cycle starting with Section 3 which states the need for a long-term approach to the evaluation of financial sustainability and concluding with Section 7, which shows how high-quality financial reporting supports the financial management cycle by ensuring that it rests on sound financial information.

2.6 The Council should be able to provide evidence that financial management arrangements have been reviewed against the standards and that such action as may be necessary has been taken to comply with them. The CIPFA guidance notes aim to assist by exploring in more detail the themes addressed in the FM Code and by providing suggestions and ideas as to how it can be implemented in practice. These guidance notes have been used as a benchmark against which compliance has been demonstrated. Appendix 1 therefore sets out the seven sections and the seventeen standards within them (A to Q) together with a detailed commentary as to how the Council complies. The FM Code is presented at Appendix 2.

2.7 As can be seen, the detailed commentary of compliance shows the good practice in the Council. Some of the evidence provided appears in more than one area given the nature of the standards. A number of areas for improvement are also highlighted. The seven Sections and seventeen Standards are presented below together with a summary of key issues where some action is required.

1) Responsibilities of the Chief Finance Officer and the Leadership Team (Standards A to B)

STANDARD A - The Leadership Team demonstrates that the services provided by the Authority provide Value for Money

It is evident from Appendix 1 that there is general compliance with the Code. This is reinforced by the receipt by the Council on 17 December 2021 of the Auditors Annual Report on the financial year 2020/21 from the Council's External Auditors (Mazars LLP). This included commentary on the audit of the financial statements as well an opinion on the Council's VFM arrangements. In relation to each of the three areas examined for the VFM opinion, the comments were positive. The findings were that no risk of significant weaknesses in arrangements had been identified and that there were no actual weaknesses in arrangements identified.

However, highlighted as an area for improvement, and also highlighted in the Annual Governance Statement is contract management arrangements. The Director of Finance has been working with the Procurement Team colleagues to take forward some improvements across services. This work will continue over the remainder of 2021/22.

STANDARD B – The Authority complies with the CIPFA Statement on the Role of the Chief Finance Officer (CFO)

Until recently it has been a challenge to demonstrate full compliance with this standard specifically with regard to the management arrangements for the CFO (the Director of Finance in Oldham) which did not align with the requirements of the CIPFA Publication The Role of the CFO in Local Government. However, the Chief Executive has recently changed the line management arrangements of the CFO so that the post holder reports directly to the Chief Executive, is a member of the Management Board (the current officer Leadership Team) with a status at least equivalent to other members. The Authority is now compliant with this requirement.

2) Governance and Financial Management style (Standards C to E)

STANDARD C - The Leadership Team demonstrates in its actions and behaviours responsibility for governance and internal control

Compliance in this area is generally good. One issue that needs to be addressed is with regard the recruitment of independent members of the Audit Committee including an independent Chair of the Committee. Despite a number of recruitment campaigns, the Council has been unable to recruit suitable candidates. This has been discussed at the Audit Committee many times. It was agreed at the last meeting of the Committee to renew recruitment efforts in 2022.

STANDARD D - The Authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government Framework 2016

The information contained in Appendix 1 advises full compliance with this requirement. In this regard, the production of a suitable Annual Governance Statement (AGS) is a key piece of evidence that the Authority complies with the FM Code. As Members will be aware, the AGS of the Council is presented alongside the Statement of Accounts and provides details of how the Authority meets each element of the CIPFA/ SOLACE Framework. Updates on the AGS are provided to the Audit Committee on a quarterly basis.

STANDARD E - **The Financial Management Style of the Authority supports Financial Sustainability**

There is general compliance with this Standard but there are several areas for improvement that have been identified:

- There is a need for improvement in general financial skills across the organisation with the refreshing of financial skills training for non-finance officers at all levels of the Council. A programme of activity is planned before the end of 2021/22. Similarly, there is a need for additional training for Members which is also planned for early 2022.
- There is an opportunity to better align finance and performance reporting (this features in several of the Standards), and work is taking place to move this forward.
- Whilst some improvements have been made to payroll and pensions administration, there remain areas for development with programmes of action in place to address identified weaknesses. The Audit Committee has been advised of the challenges and the work is in train.
- The overall level of income collection requires improvement. A particular area of focus is Council Tax and Business Rates where a number of initiatives have been implemented to improve performance. The Finance Team has also initiated a programme of action to try to improve the collection of sundry debt and progress is being monitored.

3) Medium to long term financial management (Standards F to I)

STANDARD F – The Authority has carried out a Credible and Transparent Financial Resilience Assessment

There is general compliance with this Standard but there are several issues which require comment:

- The Council has not specifically undertaken a defined review of financial resilience but has relied on the expertise of the CFO to review, assess and report on key areas of financial resilience, through to the senior managers, Members, the Audit Committee and through budget and financial monitoring reports. However, an external review which looked at a number of issues including the Council's budget setting processes, has advised that the approach has been technically sound.
- A key requirement for the Council which has been highlighted by the CFO for several years is that the Council must reduce its reliance on the use of one- off resources for budget setting and reduce its cost base to match to the level of resources available. The transformation programme upon which the Council has embarked, must be accelerated and progress to support the budget process and deliver sustainable budget reductions. This is a key strand of the work programme in delivering savings for 2022/23 but more specifically the 2023/24 budget process.
- Another area requiring action is the continued overspending in the key services of Adults and Children's Social Care. These are services with high demand and COVID has impacted on these areas the most. Nonetheless work continues to address the underlying issues.
- Also linked to this standard is the further development of the use of performance management information. Whilst there is some good practice, there are opportunities to widen the scope of the existing work and to align this more fully with financial management information in order to support improve efficiency and drive change.

STANDARD G - The Authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members

The information contained in Appendix 1 advises of full compliance with this requirement.

STATEMENT H - The Authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities

The information contained in Appendix 1 advises of full compliance with this requirement

STATEMENT I - The authority has a rolling multi-year Medium Term Financial Plan consistent with sustainable service plans

There is general compliance with this Standard but there are several issues which require comment:

- The Council prepares a multi-year Medium Term Financial Strategy (MTFS), but there are opportunities to develop this further by improving techniques and developing sensitivity analysis. This remains an area for further review and consideration in relation to balancing the potential resource requirements against potential benefits of employing different techniques.
- The MTFS has had to be reset in recent years as some of the anticipated savings upon which financial projections were built have not come to fruition, thus rolling forward existing planning targets proved impractical. A corporate challenge which requires further action has been the delivery in full of identified and approved budget reductions.
- There is the opportunity to make better use of benchmarking against other similar Councils and this is a corporate initiative that is being addressed
- As previously highlighted, the Council has used reserves to underpin the budget over recent years and the Finance Team is constantly reviewing the availability of reserves to ensure financial resilience.

4) The Annual Budget (Standards J and K)

STANDARD J - The Authority complies with its statutory obligations in respect of the budget setting process

The information contained in Appendix 1 advises full compliance with this requirement

STANDARD K - The budget report includes a statement by the Chief Finance Officer on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves

The information contained in Appendix 1 advises full compliance with this requirement

5) Stakeholder engagement and business cases (Standards L and M)

STANDARD L - The Authority has engaged with key stakeholders in developing its long-term financial strategy, medium term financial plan and annual budget

There is general compliance although a potential future development is engagement that enables stakeholders to influence any priority setting and the balance between the Council's service delivery aspirations and the level of available resources. This will require further examination in the context of the Council's existing approach to priority-based budget setting.

STANDARD M - The Authority uses a documented option appraisal methodology to demonstrate the VFM of its decisions

Appendix 1 details the Council's processes for option appraisal which conforms to Code requirements. However, a refresh of documented option appraisal guidance is needed. This will be undertaken during the remainder of 2021/22.

6) Monitoring Financial Performance (Standard N and O)

STANDARD N - The Leadership Team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability

There is general compliance with this standard but again the issue of enhancing the linkage between performance data is highlighted as an area for corporate development to improve understanding, planning and efficiency.

STANDARD O - The Leadership Team monitors the elements of its balance sheet which pose a significant risk to its financial stability

Full compliance with this standard would require monthly financial monitoring information to be supplemented by either a full Balance Sheet or information on other key balance sheet elements (in addition to reserves which is already supplied). Balance Sheet detail has in the past been provided alongside financial monitoring reports. In practice this information was found to be of limited use to those outside the Finance Team. The Director of Finance considers that the reviews undertaken by the Finance Service will highlight any issues and risks and that such issues will be brought to the attention of senior managers and Members as appropriate.

The improved presentation of information on the level of debtors/creditors is being considered. The Finance Team has initiated a review of the level of sundry debt in order to focus on reducing such debt and the presentation and review of financial information on debtors is a key development for the coming months.

7) External Financial Reporting (Standards P and Q)

STANDARD P – The Chief Finance Officer has personal responsibility for ensuring that the statutory accounts provided to the local authority comply with the Code of Practice on Local Authority Accounting in the United Kingdom

The information contained in Appendix 1 advises of full compliance with this requirement.

STANDARD Q – The presentation of the final outturn figures and variations from budget allow the leadership team to make strategic financial decisions

The information contained in Appendix 1 advises of full compliance with this requirement.

2.8 In summary, as is evidenced by Appendix 1 and the above commentary, FM Code compliance is generally good and there are no areas of significant concern. All key elements have full compliance and there is some latitude as to the adoption of some of the requirements based on local experience and requirements.

2.9 From a financial management perspective, there are three key issues about which Members may wish to have regard:

a) the External Audit opinion on the Statement of Accounts upon which the Audit Committee has been fully updated. This gives Members of the Committee assurance about the high standard of accounting practices
b) the issuing by the External Auditor on 17 December 2021 of the Auditors Annual Report on the financial year 2020/21 which included commentary on the audit of the financial statements as well an opinion on the Council's Value for Money (VFM) arrangements. With regard to the VFM opinion, it advised that in relation to the criteria examined, that no risk of significant weaknesses in arrangements had been identified and that there were no actual weaknesses in arrangements identified.
c) Where areas of development have been identified and accepted, work is in train to address the issues.

3 Options/Alternatives

3.1 **Option 1** - that the Audit Committee notes the level of compliance with the CIPFA Financial Management Code and the issues that require further improvement.

3.2 **Option 2** – the Audit Committee request further work to be done to highlight compliance with the CIPFA Financial Management Code.

4 Preferred Option

4.1 The preferred option is that the Audit Committee notes the level of compliance with the CIPFA Financial management Code and the issues that require further improvement.

5 Consultation

5.1 Consultation has taken place with officers of the Council to ensure that all the key issues are highlighted to Members of the Audit Committee.

6 **Financial Implications**

6.1 There are no specific financial implications associated with the report. However, compliance with the CIPFA Code is a benchmark of good practice so the information outlined in the report should give Members some confidence about the financial management practice in the organisation. There is work taking place to address areas for further development.

7 **Legal Services Comments**

7.1 None

8. **Co-operative Agenda**

8.1 Compliance with the CIPFA FM Code demonstrates the Council's commitment to Value for Money and hence aligns to the co-operative ethos of the Council.

9 **Human Resources Comments**

9.1 None

10 **Risk Assessments**

10.1 Compliance with the CIPFA FM Code minimises the risk to the Council of financial failure as has been experienced by some other Local Authorities. The continued application of good practice provides assurance to Members about the financial resilience and sustainability of the Council.

11 **IT Implications**

11.1 None

12 **Property Implications**

12.1 None.

13 **Procurement Implications**

13.1 None.

14 **Environmental and Health & Safety Implications**

14.1 None.

15 **Equality, community cohesion and crime implications**

15.1 None.

16 **Implications for Children and Young People**

16.1 None.

17 **Equality Impact Assessment Completed?**

17.1 N/A

18 **Key Decision**

18.1 No

19 **Key Decision Reference**

19.1 N/A

20 **Background Papers**

20.1 The following is a list of the background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents, which would disclose exempt or confidential information as defined by that Act.

File Ref:	Background papers are contained with Appendices 1 and 2
Officer Name:	Anne Ryans
Contact No:	0161 770 4902

21 **Appendices**

21.1 Appendix 1 – Financial Management Code – Evidence of Compliance
Appendix 2 – CIPFA Financial Management Code

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APPENDIX 1

FINANCIAL MANAGEMENT CODE – EVIDENCE OF COMPLIANCE

Requirement	Oldham Council Current Position
Section 1	**The Responsibilities of the Chief Finance Officer and the Leadership Team**
STANDARD A – The leadership team demonstrates that the services provided by the authority provide value for money **Key requirements for Compliance**	The Council's auditors (Mazars LLP) are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The National Audit Office (NAO) issued guidance to auditors for 2019/20 that underpinned the work that was carried out to form this conclusion. The following sub criteria were set out by the NAO: • Informed decision making • Sustainable resource deployment • Working with partners and other third parties For 2019/20, the Council's auditor's provided an unqualified Value for Money opinion. The Auditors also advised that " for 2019/20 the Council has made proper arrangements to deliver financial sustainability in the medium term". However, the financial impact of COVID-19 will have an impact on the Council's financial position and will influence the audit opinion for 2020/21. The Audit VFM requirements for 2020/21 have changed. The audit review requires the demonstration of: • Financial Sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services • Governance - How the Council ensures that it makes informed decisions and properly manages its risks • Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services. The Council received the Auditors Annual Report on the financial year 2020/21 from the External Auditors on 17 December 2021. This included commentary on the audit of the financial statements as well an opinion on the Councils VFM arrangements. In relation to each of the three areas examined for the VFM opinion (outlined above), the comments were positive. The findings

	were that no risk of significant weaknesses in arrangements had been identified and that there were no actual weaknesses in arrangements identified. The four pillars of Value for Money (VFM) are: **Economy** - spending less. The Councils has year after year reviewed its budget in order to produce a balanced budget and agreed budget reductions. The Council has a Procurement function that works to ensure the most competitive prices are obtained for goods and services. **Efficiency** - spending well. The Council aims to use the minimum level of inputs to service delivery whilst maintaining quality. **Effectiveness** - spending wisely. The aims of the expenditure are clearly articulated **Equity** - spending fairly An important consideration for the Council is the attainment of Social Value and this is built into the procurement process. It is important to note that the Council underspent in both 2019/20 and 2020/21 and has maintained its financial resilience, indeed it increased reserves and balances at the end of 2020/21.
The Council promotes economy, efficiency, effectiveness and equity	There is a clear governance structure, with well-defined roles for all senior officers of the Council (currently members of the Management Board). A key requirement of all senior officers is to strive for the achievement of VFM. Effective scrutiny arrangements are in place - the Scrutiny Committees (of which there has been a review for the municipal year 2021/22) plus the Audit Committee have clear terms of reference and work programmes.

	An effective Internal Audit team is in place (see later comments about Internal Audit) External Audit is in place (see above of the role of the External Auditor in the production of a VFM opinion). The Council has opted into national arrangements for the appointment of the External Auditor (via Public Sector Audit Appointments). There is a clearly articulated Corporate Plan/COVID Recovery Plan in place setting out objectives for the delivery of Council Services - a key requirement of which is the attainment of VFM. Service/Business Planning is undertaken annually, with all Business Plans linked through to the Corporate Plan/COVID Recovery Strategy. The Business Planning process was refreshed for 2021/22 with clear linkages in the setting of performance indicators and measures in individual plans through to the Corporate Performance reports presented to Cabinet and also Scrutiny Committees. There is a quarterly progress update on performance to business plan targets which is presented to Cabinet through a report which includes dashboards highlighting process with a Red, Amber, Green ratings identifying where performance is in line with expectations or off track. Prompt remedial action is initiated as required in response to this information and progress is reported upon regularly. Effective financial planning is in place, evidenced by the comprehensive suite of budget reports considered on an annual basis and in-year updates to Members as required. There are linkages between service and financial planning. Issues highlighted in service plans are incorporated into financial plans as required. The Council reduced its revenue financial planning timeframe for 2021/22 to three years (from five) due to the uncertainties around COVID and the short term nature of Government funding announcements (information for the 2021/22 budget round was for one year only. However, this has been revised to five years for the period 2022/23 to 2026/27 even though the timeframe of the Spending Review 21 announced by Government on 27 October 2021 is only three years.
	Clearly evidenced are Financial Regulations - revised January 2020, Contract Procedure Rules, refreshed in June 2021 a Risk Management Strategy approved December 2019 (refreshed in line with delegation in summer 2021). The revised Business Planning process (introduced for 2021/22) directly embedded risk management into its framework and this is monitored quarterly.

	All major projects maintain risk registers which are regularly reviewed and updated. Where necessary, issues highlighted through risk management are escalated through the organisation and remedial action taken as required. Highlighted as an area for improvement, through the review of the Annual Governance Statement is contract management arrangements. The Chief Finance Officer (CFO), the post holder in Oldham Council is the Director of Finance, has been working with the Procurement Team colleagues to introduce some improvements across services. The Council uses benchmarking information to undertake comparative analysis with other Local Authorities. The Council subscribes to LGInform plus and the Performance Improvement Team regularly use this site to gain timely and up to date performance and benchmarking information, particularly when working with key services (this is actively promoted to services to use with reports being shared when needed). Some specific benchmarking analysis has been coordinated by the Finance Service for Adult Social Care activities.
	In January 2020, just before the pandemic, the Council was subject to a Local Government Association Peer Review. The results, reported in March 2020, were generally positive. Due to the pandemic, the response to recommendations was slower than originally planned. A report to the November 2021 Council meeting outlined the Councils response. During 2021/22 the Council's Children's Services have been subject to two external reviews which have not raised adverse comment. During 2021/22 the Council has undertaken a review, using some external support, of its approach to budget setting and the preparation of and delivery budget reductions – under the working title of the Delivering a Sustainable Future programme. Some recommendations for improvement in the embedding of the agenda for transformational change have been made and are being implemented. A programme of activity is in train based around cases for change, the aim of which is to drive efficiency and cost reductions across service areas, but particularly the major spending areas of Adults and Children's Social Care.

	The Council works extensively and successfully with the voluntary, community, faith and social enterprise (VCFSE) sector in Oldham. Voluntary sector leaders have worked closely with the Council to respond to the challenge of COVID, helping and supporting vulnerable groups and individuals. Equality impact assessments (EIAs) are undertaken when considering new policies, activities and services to ensure they do not discriminate against certain groups. Where appropriate, budget reduction proposals contain an EIA, as do Cabinet reports.
	The Council can demonstrate that it has considered alternative service delivery models in order to obtain better value for money. It considers the continued appropriateness of such operational arrangements. The Council has two wholly owned companies, the Unity Partnership Ltd, and MioCare. In 2018 the Council changed the status of Unity from a joint venture partnership to a wholly owned company after a review of operating arrangements. The Council is currently reviewing arrangements with both of these wholly owned companies. The Council has extensive partnership arrangements with the NHS. These have been focussed on service integration and cost reduction via a number of joint initiatives. The Council and the Oldham Clinical Commissioning Group (CCG) have had a pooled budget arrangement in place for several years allowing the utilisation of resources across the Oldham health and social care economy. The working arrangements are currently under revision due to the change in Government policy and the abolition of CCGs with effect from 1 April 2022 and the creation of new Integrated Care Systems. Work is actively taking place to determine the best operating arrangements for Oldham informed by legislative requirements and NHS regional policy. There are fortnightly meetings of CFOs of the Council, Oldham CCG and two provider NHS Trusts to develop system working to deliver efficiencies and system wide savings.
	All services provided by Private Finance Initiative (PFI) & Local Improvement Finance Trust (LIFT) arrangements have identified officers to review and monitor service delivery. A Board joint Member / Officer Board is in place to overview PFI/ LIFT schemes. The Council has a number of smaller formal partnerships which are closely monitored. Where there are Board and similar meetings, a Finance Service representative is in attendance. A report on partnership risk is prepared for the Audit Committee on a regular basis.

STANDARD B – The Authority complies with the CIPFA Statement on the Role of the CFO in Local Government	Evidence of Compliance
	The key requirement to ensure compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Statement is that the CFO should be professionally qualified, should report directly to the Chief Executive and be a member of the leadership team with a status at least equivalent to other members. The CFO was elected to membership of CIPFA in 1988 (after passing professional examinations in 1987) and was elected to Fellowship of CIPFA in 2017. The Chief Executive has recently changed the line management arrangements of the CFO so that the post holder reports directly to the Chief Executive. The CFO is a member of the Management Board (the current officer Leadership Team) with a status at least equivalent to other members. The Authority is now compliant with this requirement.
Five Principles for Compliance **Principle 1** - The Chief Finance Officer in a public service organisation is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest	 As advised above, the Chief Executive has recently changed the line management arrangements of the CFO so that the post holder reports directly to the Chief Executive and is a member of the Management Board with a status at least equivalent to other members. As such the CFO is able to influence the development and implementation of strategies to support the delivery of the Council's strategic objectives. The CFO is able to comment on the financial sustainability of such strategies and ensure that the financial planning arrangements align to the future direction of the Council.
Principle 2 - The Chief Finance Officer must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with	The recent management changes have strengthened the role of the CFO so that the CFO can be actively involved in, and be able to bring influence to bear on, all material business decisions. The CFO has direct responsibility for leading the development and implementation of the financial strategy and ensures that the financial and risk implications of policy initiatives are reviewed and addressed appropriately.

the organisation's financial strategy	The Council has a process whereby all business decisions (a key decision is defined in the Constitution) is subject to a detailed report setting out the clear options including potential risks. The CFO has the opportunity to comment on the wider financial implications and risks in relation to all key decisions and plans for development. Before decisions are made, the financial implications of all new developments/policies are fully evaluated and presented so that they can be clearly understood. Where appropriate, the financial implications are incorporated into the current budget and Medium Term Financial Strategy (MTFS). The CFO also attends and is able to address meetings of the Cabinet and leading Members on appropriate matters.
Principle 3 - The Chief Finance Officer must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively	The Councils financial management procedures and protocols are of a high standard. The Finance Procedure Rules were updated in January 2020 to reflect revised operational arrangements and developments. The Finance Team has a good reputation and is highly regarded within the organisation and by Members. A high standard of financial advice and guidance is provided to officers and Members. Members of the Finance Team meet with budget managers at regular budget monitoring meetings. This is an opportunity to provide one to one coaching and training with regard to budget management. The Finance Team has updated financial skills training material that has been used in previous years and will be launching a new programme of financial skills training sessions before the end of 2021/22. This has been delayed from 2020/21 by the pandemic as other priorities arose. The training will initially be targeted at those areas considered to be the most in need as evidenced by difficulties in controlling expenditure/budgets in 2019/20, 2020/21 which continues into 2021/22. Specific training has been provided for officers in the Children's Services Directorate in response to the financial challenges in that service area. General skills training for Members is currently being organised. Training for Audit Committee members was held in early January 2022 (following training in January 2020) Treasury Management skills training was provided for Audit Committee members in October 2021. Presentations on the budget position of the Council and key factors influencing the financial environment to both officers and members include elements of financial skills training to aid understanding. Training has recently been provided for Policy Overview and Scrutiny Committee Members on the budget process and risks to the financial resilience of Local Authorities.

	The External Audit opinion on the accounts has been good for many years with limited recommendations for improved practices.
Principle 4 - The Chief Finance Officer must lead and direct a finance function that is resourced to be fit for purpose	The Finance Service structure is reviewed regularly to ensure that it is fit for purpose, aligns with organisational requirements and can support its broader development agenda. The most recent review was completed in March 2021 with the revised structure implemented from 1 April 2021. The Finance Service has delivered budget reductions and efficiencies via staffing reorganisations. Whilst the structure is subject to constant review to meet the needs of the organisation, given the financial challenges the Council is facing and the level of transformational change either in flight or required for the future, the Director of Finance considers that the capacity of the service cannot be further reduced.
- The Chief Finance Officer should regularly review the skillsets of all finance staff with senior budget/ financial management responsibility and ensure ongoing appropriate support is provided	An annual review is completed to ensure compliance with CIPFA and Association of Accounting Technicians (AAT) accreditation requirements. Up until 2020/21 all staff also had annual Performance Reviews where personal development needs were identified and suitable support was sourced (2020/21 was an exception due to the pandemic). A new staff management initiative is currently being launched and the Finance Team will be introducing this from January 2022. A training needs assessment is completed annually. Identified training needs are addressed by managers through the use of peer to peer training, other training organised by the Finance Service/Council or external training opportunities. Staff also have one to one's with their line manager - meeting frequency was increased to ensure staff were well supported whilst home working as a result of the pandemic. Meetings also take place as required to deal with specific issues. Staff are encouraged to attend relevant CIPFA, AAT and other relevant accountancy and financial skills training courses to enhance skills and to comply with Continuing Professional Development (CPD) requirements.
- The ratio of qualified staff as a proportion of total finance staff ensures that the finance function has the necessary financial competence	The latest review of the Accountancy Division shows the following: 31% are full Members of a Consultative Committee of Accountancy Bodies (CCAB) accredited organisation e.g., CIPFA 3% have passed all CCAB accredited exams but require portfolio completion to become full members

	5% have passed some of the CCAB accredited exams 5% are current CCAB students 8% hold the CIPFA Business Partnering qualification 24% are full Members of the Association of Accounting Technicians (AAT) 10% have passed all AAT exams but are not full Members of AAT 10% are current AAT students There are also Members of CCAB accredited organisations in the Internal Audit team. In the wider Finance Service, there are staff who have membership of the Institute of Revenues Rating and Valuation and others who have counter fraud and insurances qualifications. As shown above, the ratio of qualified staff and those completing studies, together with the strength of the wider team ensures there is the necessary financial competence within Oldham Council's finance service
Principle 5 - The Chief Finance Officer must be professionally qualified and suitably experienced	The Director of Finance is a CIPFA Fellow and has 34 years post qualification experience and has been in the role of CFO for over 7 years. Fellowship of CIPFA can be evidenced by the CIPFA membership register.
Other Key Requirements for Compliance The Chief Finance Officer must be able to demonstrate adherence to professional CPD requirements on an annual basis	The CFO maintains a record of all CPD activity undertaken. Appropriate courses updating on key activities are attended. The CFO attends discussions and professional update sessions run by CIPFA, the Society of Municipal Treasurers, the Department for Levelling Up, Housing and Communities (DLUHC) and accountancy firms e.g., Mazars, Grant Thornton. The Greater Manchester Association of Municipal Treasurers also provides a monthly opportunity to discuss key developments with peers.
The Chief Finance Officer should promote the highest standards of ethical behaviour in the conduct of financial management	The Director of Finance promotes the highest standards of ethical behaviour reflecting the requirements of the Nolan principles, and ensures that all Codes of Practice are followed in the conduct of financial management. This is supported by CIPFA Fellowship and completion of Continued Professional Development requirements.

The Chief Finance Officer should be able to provide the leadership team with sound advice on the key principles of local government finance	The CFO regularly updates the senior managers on key developments on Local Government Finance which have a bearing on the operation of the Council. The budget forum with leading Members also receives similar updates. Specific briefings are prepared and issued as required to advise of developments such as the Spending Review, Chancellors Budget, White Papers and the Provisional Local Government Finance Settlement. The Finance Team prepares responses to relevant consultation documents and ensures that the consequences of any change arising from the consultation are communicated within the Council as appropriate. Regular briefings are provided to the Deputy Leader and Cabinet Member for Finance and Low Carbon on all key developments.
The Chief Finance Officer should be able to demonstrate a sound system which ensures the authority has access to high standards of technical financial advice	The Finance Team is able to demonstrate high levels of professional competence and technical expertise in Local Government Finance. The CFO recognises that some developments require expertise outside that of Team members and that external advice is sometimes required and will ensure it is engaged as necessary. The Service does have a budget to facilitate the engagement of external technical advice as required and there are processes and procedures are in place in relation to accessing such external advice. The Council has contracts in place for Treasury Management and taxation advice. The Council has engaged external advice for complex capital investment and developments. Staff within the Finance Team attend training courses and updates on appropriate technical accounting issues to ensure skills and knowledge are current.
The Chief Finance Officer should report explicitly on the affordability and risk associated with the capital strategy and where appropriate have access to specialised advice to enable them to reach their conclusions	The report prepared to comply with Section 25 of the Local Government Act 2003 setting out the robustness of the estimates is presented with the budget papers. This considers the risk associated with the financing of the capital strategy and the CFO provides comments as appropriate. The Council's regeneration strategy, Creating a Better Place (CaBP), includes a significant programme of capital expenditure, however the COVID-19 pandemic has had an impact on its delivery. There was a major review of the CaBP programme during 2020. The Finance Team was fully engaged in considering the affordability of the programme. It is acknowledged that there are financial and operational risks in relation to the business activities of the Council. Processes are in place to mitigate such risks.

	Decision making around capital investments follows the guidance of the Prudential and Treasury Codes of Practice and the CIPFA publication, Prudential Property Investment. The Finance Service has had regard to Ministry of Housing Communities and Local Government (MHCLG) now Department for Levelling Up, Housing and Communities (DLUHC) and CIPFA announcements with regard to the Prudential Code and contributed to the recent consultation on the Prudential and Treasury Management Codes. Updated Codes of Practice were issued on 20 December 2021 and the Councils Capital and Treasury Management Strategies for 2022/23 (to be approved in March 2022) meet the new requirements As presented above, the Council has made budgetary provision for the engagement of specialist financial advice as and when required. The Council has a contract for Treasury Management and taxation (including VAT) advisory services.
The Chief Finance Officer must establish the reporting and monitoring processes, and integrate the treasury management indicators into the overall financial planning process	The Council has a set budget monitoring timetable and process which is reviewed annually. This timetable includes the reporting arrangements for the officer leadership team and for Members. Reports to Members and management, include forecasts of revenue and capital expenditure and are scheduled for Months 3 to 9. The final outturn is reported via the final accounts process. The Treasury Management Strategy sits alongside the Revenue Budget report, the Medium Term Financial Strategy and the Capital Strategy and is approved by Council in accordance with statutory requirements ahead of each financial year. The Treasury Management Indicators are reported to the Leadership team, Audit Committee and Cabinet throughout the year. The Capital Strategy includes relevant treasury management indicators. It has not been necessary to highlight any areas of concern in relation to the treasury management indicators.
Professionally qualified staff should evidence ongoing benchmarking against the principles of objectivity, integrity professional behaviour, professional competence, due care and confidentiality	Each qualified staff member completes the necessary CPD requirements which ensures staff are working professionally and with due care and in accordance with the required principles. The Council has an Officer Code of Conduct which is adhered to. Management arrangements within the Finance Team also ensure that the Councils values and behaviours as well as professional standards are promoted and demonstrated.

Section 2	Governance and Financial Management Style
	Evidence of Compliance
STANDARD C – The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control	The leadership team is aware of and promotes the principles of the Committee on Standards in Public life which form the basis of the ethical standards expected of public office holders (the Nolan Principles). These principles: selflessness, integrity, objectivity, accountability, openness, honesty and leadership, underpin the roles and responsibilities of the leadership team and align to the Councils values and behaviours and the officer Code of Conduct.
Key Requirements for Compliance	Principle 7 (Leadership) is key and is encompassed in CIPFA Financial Management Code compliance. It requires the holders of public office to exhibit these principles (the in their own behaviour). The leadership team actively promote and robustly support the principles and is willing to challenge poor behaviour wherever it occurs.
There is a clear framework for governance and internal control across the authority including those entities with which the Authority works in partnership.	Key elements of this framework for which the Council can show compliance are: Constitution – this is regularly reviewed. Training on key elements of the Constitution is provided. Governance Structure – there is a formal governance structure including Committees and reporting lines. This includes the provision for scrutiny of actions of the leadership team. Recognising that this needs a reset, this is currently under review given recent management changes which has realigned some of the governance framework. Terms of Reference – all Committees and Boards etc have clear terms of reference which are regularly reviewed. All Committees etc. have defined membership, a meeting and work plan. Conduct of Meetings – all Committee meetings have an agenda and formal minutes. Scheme of delegation – there is a formal scheme of delegation which is reviewed/ revised if there are organisational changes Robust process and controls – these are in place for all key activities of the Council and are subject to regular review. Any weaknesses will be identified and should be addressed.

	Partnership governance – There are clear and appropriate arrangements in place to oversee partnership working. The risk associated with partnership working is regularly reported to the Audit Committee and a report was included on the agenda of the Performance Overview and Scrutiny Committee on 16 December 2021.
Establishing clear arrangements for assurance and accountability - The Authority has an Internal Audit function that complies with the requirements of Public Sector Internal Audit Standards (PSIAS)	There is a requirement for an external inspection of the Internal Audit function to comply with PSIAS. The Council commissioned CIPFA to undertake this review. The last PSIAS inspection in reported in 2018, provided a good opinion on the activity of the Internal Audit Team with limited areas for improvement. All recommendations have been addressed. The PSIAS report and the Councils response to it was reported to the Audit Committee. External independent inspections to ensure authorities are PSIAS compliant are due every 5 years and the next one for Oldham will be due by 31 March 2023. The Assistant Director of Corporate Governance and Strategic Financial Management continues to conduct the internal "self–assessment" every year, in line with good practice. The outcome of this assessment is reported to the Council's Audit Committee.
- The Head of Internal Audit is able to fulfil their role effectively	The Councils CFO can confirm that the Head of Internal Audit is able to undertake the role in line with the responsibilities set out in the CIPFA Statement of the Role of the Head of Internal Audit. (2019).
- Internal Audit planning, reporting and resourcing	The structure of the Internal Audit Team was last reviewed in 2020 with a revised structure for the whole Finance Service being implemented from 1 April 2021. Following the restructure, the team has been strengthened by the external appointment of a new Head of Internal Audit following the promotion of the previous post holder. The work of the Internal Audit team is planned on a risk based approach. The plan and its progress during the year is reported to the Audit Committee. The officer leadership team considers reports prepared by the CFO and Assistant Director of Corporate Governance and Strategic Financial Management on governance and internal control matters. Where audit reports are prepared on specific matters, discussion takes place with the appropriate Senior Officer and action plans to address recommendations are considered and followed up. The Audit Committee receives regular reports on governance and internal control matters. Where considered required, referrals to Cabinet can be made. The Cabinet Member for

	Finance and Low Carbon receives regular updates on governance and internal control matters and instigates any recommended actions. There is follow up on all recommendations either at officer or Member level. The Internal Audit Team undertakes a comprehensive series of Fundamental Financial Systems reviews to support the Final Accounts process but also to provide assurance on the robustness of systems and to allow any remedial action to be identified and implemented in a timely manner.
- Risk Management	The Finance Service has a Risk and Insurance Team and this team is the corporate lead for Risk Management. The approach to Risk Management was strengthened in December 2019 with a report to Risk Management Strategy report to Cabinet which refreshed the previous strategy and set out how risk management and business planning were to be interlinked. This strategy was refreshed under delegation in the summer 2021. Risk Management is a key element of business planning and project planning. All projects have a risk register which is regularly reviewed and updated as projects progress. Any risks are reviewed by respective project boards. Key challenges are reported through to programme board, senior managers and Cabinet Members as required. All capital projects are set up with a risk contingency as part of the Council's project management framework based on PRINCE2 methodologies Any key financial risks are considered as part of the monthly revenue and budget processes. If necessary and where possible, risk reserves are set aside (if they do not already exist – see comments below about risk reserves). The S25 report which accompanies the Revenue Budget report sets out recommended levels of reserves and balances based on a risk based approach. This risk based approach is discussed and agreed by senior finance officers. The level of reserves and balances is therefore based on an assessment of the possible requirement for additional resources to support increases in demand, to address unforeseen circumstances and risk. Reserves were set aside to address any shortfall in the delivery of budget reductions. There are a number of risk reserves to address areas identified in the Councils Reserves Policy e.g., insurance, flood protection reserve, emergency incident, threat, or hazard reserve.

- The Authority maintains an effective Audit Committee	Oldham Council has an established and effective Audit Committee to support the organisation's audit arrangements, strong financial management and good governance which complies with CIPFA's guidance for Audit Committees (2018). A work programme for the Audit Committee is prepared and presented at each meeting. The programme is updated for each meeting. Refresher training for the Audit Committee members took place in early January 2022 following on from that provided in January 2020 (externally commissioned from CIPFA). The Council has been unable to recruit an independent Chair and independent members of the Audit Committee for some time. Further efforts will be made during 2022, starting with the recruitment of the Chair. This matter has been discussed at the Audit Committee many times. A recent improvement is the instigation of a meeting between the Vice Chair of the Audit Committee and the Cabinet Member for Finance and Low Carbon after each Audit Committee to ensure communication of any concerns of the Committee to the Cabinet and vice versa.
- The Audit Committee receives and monitors the implementation of internal and external audit recommendations. - When threats to the financial sustainability of the authority are identified by auditors, the Audit Committee should ensure that the recommendations are communicated to the leadership team and that the committee are informed of the effectiveness of the leadership team's response	The Audit Committee receives regular and routine reports throughout the year monitoring the implementation of internal and external audit recommendations. The Audit Committee also receives a report which details the mitigations that have been applied to those risks identified in the previous year and also a report on forward planning. Financial sustainability - The Council is committed to ensuring its financial resilience. Reports are presented to the officer leadership team, Cabinet Members and the Performance Overview Scrutiny Committee (formerly the Performance and Value for Money Select Committee) highlighting the issues nationally around financial resilience and how this directly impacts on Oldham Council. Such reports have also been presented to and discussed at the Audit Committee. In November 2021, the Policy Overview and Scrutiny Committee was provided training on the role of the Scrutiny Committee in the budget setting process which focussed on financial sustainability and resilience. The External Auditor's report on the final accounts including any value for money recommendations (and the Councils response) are highlighted and reported to the leadership team, Cabinet and to Council. As advised above, a recent improvement is the instigation of a meeting between the Vice Chair of the Audit Committee and the Cabinet Member for Finance and Low Carbon after each Audit Committee to communicate any concerns of the Committee to the Cabinet and vice versa.

- The Council welcomes and seeks out peer challenge and inspection	The Council engaged in a Local Government Association Peer Review in January 2020. The report on the outcome was received in March 2020, just as the first national lockdown was introduced and as the Council moved to its response to the national emergency arising from the COVID-19 pandemic. The report provided a generally positive opinion. The Council's ability to take forward recommendations and implement change was impeded by the pandemic. However, the formal response to the report was presented to Council in November 2021 (the delay in formal reporting was due to the pandemic).
The Council espouses high standards of governance and internal control	The leadership team ensures that it maintains high standards of governance and internal control in its activities. Linked to the key issues outlined above, there is: - A Code of Conduct for Officers and Members consistent with the Nolan principles – any potential breaches of the Code are investigated promptly with appropriate action taken - A Register of Interests – an up to date register of interests is maintained for the leadership team including those which could potentially influence the ability of the individual to act impartially when making decisions. Appropriate action is taken should any conflict of interest occur. - Constructive Challenge to all decisions and activities in that appropriate mechanisms have been developed and implemented including – engagement with the Authority's internal audit team, engagement with relevant Audit and Scrutiny Committees, engagement with the External Auditors (primarily through monthly meetings with the Director of Finance and other senior finance officers), consultation with key stakeholders prior to making decisions and consultation on new policies plans and strategies. Clearly there are always opportunities for wider consultation and approaches but the Council has a good track record in this regard. - Realism bias – there is a robust analysis of the current position before a decision is taken. This is especially the case with regard to the budget setting process. There are therefore detailed options appraisals before major decisions are taken, clear decision making processes and recording of decisions, the seeking of professional advice (all report include comments from Finance, Legal, Procurement, People Services as well as risk, property comments and impact assessment). Balanced decision making using options appraisal, especially with regard to budget decisions and new policy implementation with financial implications.

The Council creates and maintains a nurturing a culture of governance and internal control	The officer leadership of the organisation has recently changed and this has enabled a greater focus performance and accountability and refreshed the leadership culture of the Council. However, the key principles surrounding the approach to the leadership in the Council have remained unchanged with: - The requirement for the leadership team to demonstrate a high standard of governance and internal control in all its activities - A strive for continuous improvement, recognising areas of challenge and putting in train actions to address concerns. This includes responding to findings of internal audit reviews, external audit recommendations and external inspections. - There is an expectation of compliance with good governance and internal control principles in all the actions of the leadership team and this has been an essential element of the performance appraisal process. A refreshed approach to appraisal is being introduced, however, good governance will remain a key area for review. - The requirement to ensure compliance with new Codes of Practice as they are issued by relevant public or professional bodies - Where there is evidence of poor governance and internal control, this is challenged and addressed.
STANDARD D - The Authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework 2016	The Council applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework 2016. The Annual Governance Statement (AGS) of the Council presented alongside the Statement of Accounts provides details of how the Authority meets each element of the CIPFA/ SOLACE Framework. Updates on the AGS are provided to the Audit Committee on a quarterly basis. The production of a suitable AGS is a key piece of evidence that highlights that the Authority has sought to comply not just with the framework and its own governance arrangements, but also with the CIPFA FM Code. The AGS for 2020/21 was presented to the Audit Committee on 29 June and 29 July 2021 as part of the review process for the Statement of Accounts. It was considered and approved by the Cabinet on 15 November 2021 and Council on 15 December 2021. In accordance with requirements, the AGS includes: - An acknowledge of the requirement for responsibility for ensuring that there is a sound system of governance - Reference to and assessment of the effectiveness of key elements of the governance framework

	- An opinion on the level of assurance that the governance arrangements can provide and confirmation that the arrangements are fit for purpose - An agreed action plan showing actions taken or proposed to deal with significant governance issues - A conclusion on the governance arrangements and a commitment to monitoring maintaining appropriate standards. There are regular updates to the Audit Committee on the action of the Council in response to issues raised in the AGS including how these have been progressed or resolved. The Council has recently updated its Local Code of Corporate Governance and reported this to the Audit Committee for review and consideration. The Committee was content to approve the report. The seven core principles of good governance are encompassed in the values and behaviours of the Council which underpin the work of the Council and its staff and Members.
STANDARD E - The Financial Management Style of the authority supports financial sustainability	**Evidence of Compliance**
Key Requirements for Compliance	
Delivering Accountability	Financial capability is regarded as integral to supporting the delivery of the Authority's objectives. As is highlighted above, the CFO is an active member of the leadership team and is able to bring influence to bear on business decisions of the Authority. The Finance Service is well regarded and is involved in all key areas of the business, the Service being aligned to the management structure of the Council. The Authority does recognise the need for financial skills. An important improvement is the refreshing of financial skills training for non-finance officers at all levels of the Council – a programme of activity is planned before the end of 2021/22.
	The organisation has an effective framework of financial accountability that is clearly understood and applied throughout, from the elected members to senior officers, finance officers and front line service managers.

	Responsibility for budgets and budget management is assigned to individual officers with a hierarchy of responsibility aligned to the management structure. Service delivery in line with the resources available to deliver that service is a clear objective of each manager. Financial monitoring information is produced in a timely manner to enable managers to control their budgets effectively. The Financial Procedure Rules are to be used by all Members and officers. These are available and included within the Council's Constitution. The Scheme of Delegation, which includes financial limits, is set out in the rules of procedure, which is part 4 of the Constitution. The Financial Procedure Rules were most recently updated and approved in January 2020.
	The annual budget setting process enables the Council's leadership team to align resources to services and initiatives in accordance with Council priorities. There is detailed financial monitoring and reporting throughout the year to ensure that overall, the Council delivers at least a balanced position. Any areas of variance are reviewed and action take to address challenges. There is also detailed performance monitoring to ensure outcomes are in line with plans. An opportunity for further development is the better alignment of finance and performance reporting.
	In delivering compliance with accountability and process requirements, the Council operates it financial arrangements so that: - Budgets are accrual-based and calculated robustly. - Financial information systems enable the consistent production of comprehensive, accrual-based, accurate and up-to-date data. The Finance Service has an A1/Agresso financial system programme of development that seeks to improve the information that is easily available to both managers and finance colleagues and improve efficiency and effectiveness. The programme of development has been delayed due to responding to COVID related initiatives but will be accelerated over the coming months - The Councils approach to treasury management is risk based with investments, cash flows, banking, money market and capital market transactions effectively balancing risk and financial performance as demonstrated in Treasury Management reports presented to the Audit Committee, Cabinet and Council - The authority actively manages budgets, with effective budget monitoring arrangements although the Finance Service is not complacent and is always looking to review and improve the information provided

	- The Council has processes to ensure that information about key assets and liabilities in its balance sheet is a sound and identifies when management action is required. There is a regular review of cash, debtors, creditors and reserves. - There is a corporate process to acknowledge and manage risk and to ensure appropriate reporting of risk through internal control governance responsibilities. - The Council has effective assurance arrangements, including an appropriate Internal Audit function and an active Audit Committee considering relevant and timely reports - The Council's financial accounting and reporting arrangements comply with the Code of Practice on Local Authority Accounting in the United Kingdom, and meet relevant professional and regulatory standards - Creditor payment arrangements are accurate, timely and efficient. Whilst some improvements have been made to income collection, payroll, and pensions administration, there remain areas for development with programmes of action in place to address identified weaknesses. The overall level of income collection for Council Tax and Business Rates has been a cause for concern for a number of years. A number of initiatives have been implemented to improve performance but there has been limited success. The Finance Team has initiated a programme of action to try to improve the collection of sundry debt and progress is being monitored. These two areas remain under review by the Director of Finance. Payroll weaknesses have been highlighted in Fundamental Financial Systems reviews undertaken by the Internal Audit team and reported through the Annual Governance Statement and separately to the Audit Committee. The new payroll system implemented in early 2021 has addressed some of the challenges but there is still further work to be done to maximise the benefits of the system. A joint initiative is train with officers of the Finance, HR and Payroll Services working together to resolve the key issues that have been identified. Progress is being closed monitored and reported to the Directors of Finance and Workforce and Organisational Development. Pensions administration has been subject to external review by the Greater Manchester Pension Fund (GMPF) and there are monthly performance comparisons with the ten other GM Councils. The Council is aware of challenges and has worked with the GMPF to addressed highlighted weaknesses. This is being aligned to the work on improvements to the payroll function.

	The Council is able to evidence the integrity of its financial conduct and performance together with financial discipline including compliance with statutory, legal and regulatory obligations to external stakeholders (primarily Council Taxpayers) by: - the timely production of the Statement of Accounts and Annual Governance Statement in accordance with statutory requirements and Codes of Practice - the receipt of a good audit opinion on the accounts for many years - submission of a range of Government returns and grant claims to Central Government in accordance with the timeline required without follow up or query - a positive statement about financial management in the most recent LGA Peer Review
	Each report, business plan, development plan or other documentation with regard to initiatives, that is prepared and submitted for approval at various levels across the Council includes a section on financial implications. Managers and Finance Team members work jointly to identify the financial impact of proposals included for approval – this may be an efficiency saving or a request for additional investment. These financial implications assess the immediate revenue and capital consequences over the current and longer term to enable decision makers to understand the impact of their decisions whilst proving the cost effectiveness of the planned actions.
Supporting Performance	The Finance Team and the wider Council is actively committed to continuous improvement focused on efficient and effective delivery and organisational performance. All services within the Council produce an annual business plan highlighting this commitment and plan performance targets for the year ahead which are reported on through the performance management framework. In this regard, the Council has: - A Medium Term Financial Strategy (MTFS) that aims to ensure financial resilience based addressing local priorities but also on the best estimate of the impact of local and national issues. As advised elsewhere, the Council needs to undertake further to work to fully integrate performance information and financial planning - The key aim of the Finance Team is to ensure efficiency and effectiveness in is operations and through its interaction with Council Services. - Finance staff provide business partner support by interpreting and explaining financial performance and where possible linking this to operational performance as well as advising and supporting on key business decisions. - The responsibilities of budget management are clear. Managers understand they are responsible for delivering services cost effectively and are held accountable for doing so. The Council is clear that decision makers are required to understand and manage the financial implications of their decisions. Training has been provided, although as highlighted, separate additional refresher training is recommended. There is a plan to deliver this training.

	- The MTFS process underpins the achievement of strategic priorities and supports the delivery of Council services. - Forecasting processes and reporting are well-developed and linked into operational management decision making. - The Council pursues opportunities to reduce costs and to improve value for money in its operations including through procurement, commissioning and contract management processes, although there is some scope for improvement in these areas. This is a focus of one of the transformational change programmes of work planned for 2022/23. - The key driver of the Finance function is to ensure efficiency and effectiveness in the use of resources and this is evident in all of the work undertaken by the team and underpins all actions in the Finance Service business plan As advised elsewhere, there are opportunities to further align and integrate financial and performance management. As advised in Section 1, Standard A, the recent receipt of the VFM opinion on the 2020/21 accounts has demonstrated VFM has been achieved in the use of resources.
Enabling transformation	The Finance Team has input into all strategic and operational plans taking into account proactive risk management, clear strategic directions and focus-based outcomes There is integration of financial management into Council strategies to meet future business needs. Its financial management approach supports the change agenda and a culture of customer focus, innovation, improvement and development. The Finance Service actively works with services in taking forward and implementing transformational change.

Section 3	Medium to Long Term Financial Management
STANDARD F- The authority has carried out a credible and transparent Financial Resilience Assessment	**Evidence of Compliance**
Key Requirements for Compliance	The CIPFA FM Code requires the Authority to critically assess its financial resilience. This can be undertaken by external assessment or by the Authority itself. The Council has not specifically undertaken a defined review of financial resilience but has relied on the expertise of the CFO to review, assess and report on key areas of financial resilience, through to the Senior Management Team/Management Board, Members, the Audit Committee and through budget and financial monitoring reports. However, an external review organisation, engaged to support the 2022/23 budget setting process, linked to the Delivering a Sustainable Future initiative, advised that the information provided through the Finance Service was technically sound and it aligned its response and recommendations to those already available to the Council. A key requirement of both internal and external assessment is that in terms of financial resilience, the Council must reduce its reliance on one off resources for budget setting and reduce its cost base to match to the level of resources available. The transformation programme upon which the Council has embarked, must be accelerated and progress to support the budget process and deliver sustainable budget reductions. This is a key strand of the work programme in delivering savings for 2022/23 but more specifically the 2023/24 budget process. The 2019/20 Value for Money opinion delivered by the Councils External Auditor advised that " for 2019/20 the Council has made proper arrangements to deliver financial sustainability in the medium term". However, it is was acknowledged that the financial impact of COVID-19 would have an impact on the Council's financial position and will influence the audit opinion for 2020/21. The Council received the Auditors Annual Report from the External Auditors on 17 December 2021. This included commentary on the audit of the financial statements as well an opinion on the Councils VFM arrangements for 2020/21. In relation to each of the three areas that must be examined when considering the VFM opinion, the comments were positive. The findings were that no risk of significant weaknesses in arrangements had been identified and that there were no actual weaknesses in arrangements identified.

Examination of the Council's current financial position	This is demonstrated by the comprehensive nature of the Medium Term Financial Strategy and Revenue Budget. This sets out the financial pressures to be addressed informed by local intelligence gathering and national developments, together with the anticipated level of resources available to support the budget. This is in turn informed by financial monitoring information which is presented from month 2 (informally) and then formally from month 3 to month 9 with an outturn report prepared to support the Statement of Accounts. The budget gap is presented for the forthcoming financial year and usually the next 4 years (this was reduced to two future years for 2021/22 due to the COVID-19 pandemic and ensuing uncertainty). The Finance Service prepares best, worst and expected case scenarios with regard to the level of budget reductions required and how the budget might be balanced in each of these scenarios. The Capital Strategy and Programme and the linked Treasury Management Strategy are comprehensive and clearly set out the planned level of investment and the financing of that programme, together with the consequent treasury implications. These are then incorporated into the Council's Medium Term Financial Strategy and Revenue Budget.
	The budget process of the Council follows an established format with a timetabled approach. Officers and Cabinet Members are familiar with the operation of the budget review forum which provides a robust challenge to budget proposals before they are issued for public and staff consultation.
	The financial position of the two wholly owned companies within the Councils group is monitored with any challenges to the financial position incorporated within the review of the Councils own financial position. The Senior Officers of both organisations are members of the Senior Management Team/Management Board of the Council. The financial position of the companies is examined by the Councils Scrutiny Committees. If there are any specific issues of concern regarding the operation of these organisations, the Chief Operating Officer of either the Unity Partnership of the MioCare Community Interest Company (CIC) can be, and have been, called to explain the position to the Scrutiny and Audit Committees respectively. The year-end position of the two wholly owned companies is incorporated into the Council's Year End Group position, which is then subject to audit by the Mazars LLP, the Councils External Auditors.
	Key governance documents are in place including the Annual Governance Statement, the Corporate Risk Register and Partnership Dashboard outlining the Councils involvement in and risks

	associated with partnership arrangements. These are reported to Members and senior officers as part of the scrutiny and review process to ensure Members are fully informed have an opportunity for a robust challenge.
The Council's own assessment of its future financial prospects	As has been demonstrated, the financial resilience position of the Council is understood and action is being taken to address identified risks. The key assessment is set out in the Medium Term Financial Strategy together with the approach to address the identified multi-year budget gap. This is informed by the issues and documents referred to in the section above and the professional assessment of the CFO.
The extent to which the Council understands the symptoms of financial stress The extent to which the Council assesses its financial resilience - gets routine financial management right - plans and manages capital resources well - uses performance information effectively - has clear plans to deliver savings - manages reserves well	The symptoms of financial stress applicable to Oldham are evident and are understood. The main issue has been the increased reliance on reserves to support the budget in the absence of an adequate level of budget reduction proposals. This has been highlighted by the CFO to officers and Members and is a key feature of all budget presentations and budget reports. Whilst some areas of the Council have overspent considerably, in 2020/21 and 2021/22, this has been significantly impacted by COVID. However, Adults and Children's Social Care were a source of financial pressure pre-COVID. Action has been introduced to address overspending but this still remains work in progress. The officers and Members of the Council receive a full suite of financial management information to allow informed decision making. The monthly financial monitoring reports present accurate and timely financial information which can be relied upon for decision making. Variances are the year-end are very much in line with those reported throughout the financial year. There are regular updates on financial forecasts to senior officers and Members. There is effective planning for the use of capital resources. The Council has a well-developed Capital Strategy reflecting the priorities of the Council which aligns to the MTFS and complies with the requirements of the Prudential Code for Capital Finance in Local Authorities and the Treasury Management Code of Practice, both of which were updated in December 2021. A challenge to the delivery of the capital programme has been the underspending in relation to planned activity in accordance with the timeframe envisaged. This matter is regularly reported to officers and Members in formal reports. The budgetary impact of the consequent re-phasing of the Capital Programme is incorporated into financial plans and the MTFS. The Council has adopted a Medium Term Property Strategy (MTPS). This incorporates a detailed Asset Management Plan for every group of assets the Council has. This plan was agreed at Cabinet for the term 2018 to 2022. As a result of the COVID-19 pandemic and its impact on current

	and future demand for property, the MTPS is currently under review as part of the Creating a Better Place Strategy. Included within the Creating a Better Place initiative is a specific strand of work that is examining the use of the Councils Assets and aims to maximise the use of those assets. A plan for rationalising assets to minimise expenditure and maximise capital receipts linked to a forward look of the Councils future operating requirements is in place. An issue for development is the use of performance management information. It is used to highlight service pressures but the use of benchmarking information could be increased. Exercises have been undertaken to review costs of Adults and Children's Social Care but a there is scope to plan a more formal series of benchmarking reviews. However, the Council subscribes to LGInform plus and the Performance Improvement Team regularly use this site to gain timely and up to date performance and benchmarking information; particularly when working with key services. Prior to the approval of budget reduction proposals, there are mechanisms in place for their viability to be challenged. For all budget reductions approved, there are clear plans for their implementation together with a mechanism for reporting performance to target through financial monitoring reports. In general terms the Council has performed well in the delivery of budget reductions, although there has been some under delivery. For 2021/22 this has been reported to Members (month 6 report to December 2021 Cabinet) and the financial forecasts for both 2021/22 and 2022/23 revised accordingly. The Council has a Reserves Policy which clearly sets out the purpose of the reserves and the governance around their use. The use of reserves to support specific initiatives is supported. There is also clarity of the use of reserves to support the underlying financial strategy. The Council has used reserves to support the budget process and plans to continue this in 2022/23, 2023/24 and 2024/25, to allow time for transformational activities to embed and deliver savings. The use of reserves over recent years to support the budget has been clearly highlighted to both the Council's officer leadership Team and Members. Any use of reserves during the financial year is subject to review by senior managers on the recommendation of the CFO prior to Member approval. Although there has been use of reserves, there has been the opportunity to replenish reserves at the year end and therefore the financial resilience of the Council has been maintained. This is evidenced through the CIPFA Financial Resilience Index for 2019/20 – the Index for 2020/21 has yet to be released, but given the reserves outturn for 2020/21, the Council will be shown to be financially resilient as it moved into 2021/22.

	The Council is not however, complacent and recognises the significant reliance on reserves in balancing the budget over recent years and that this cannot be sustained in an unplanned manner. The MTFS therefore aims to reduce the reliance on reserves whilst transformational change is embedded.
Financial resilience is tested against best and worst case scenarios which cover a wide range of financial demographic and social challenges	Throughout the budget planning process, the Finance Services presents spending and income estimates and future methods to address budget issues across best, worst and expected scenarios. These scenarios and actions include expected use of specific and other reserves and are directly linked their impact on the financial resilience of the Council. The plans to use reserves is considered acceptable and appropriate on the basis of the delivery of the planned savings informed by the transformation agenda. The recent engagement of an organisation to undertake an external review is testament to the awareness of officers and Members that action is required to sustain the financial resilience of the Council in the future.
The authority uses independent objective quantitative measures to assess the risks to its financial sustainability	The Council's external auditors (currently Mazars LLP) are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. For 2019/20, the Council's auditor's concluded that " for 2019/20 the Council has made proper arrangements to deliver financial sustainability in the medium term" The Council received the Auditors Annual Report on the financial year 2020/21 from the External Auditors on 17 December 2021. This included commentary on the audit of the financial statements as well an opinion on the Councils VFM arrangements. In relation to each of the three areas examined for the VFM opinion, the comments were positive. The findings were that no risk of significant weaknesses in arrangements had been identified and that there were no actual weaknesses in arrangements identified. The most recent CIPFA Financial Reliance Index issued in February 2021, highlighted that the Council was not considered "at risk" from a financial resilience perspective In addition, the Council is subject to periodical peer reviews, of which the most recent challenge took place in January 2020 and which financial management was a key indicator. The comments with regard to the Councils financial resilience and sustainability did not highlight any key concerns.

Decision making by the authority demonstrates a sound understanding of the risks associated with all resources used for service delivery, this includes workforce physical assets and its strategic business partners	All Council decision reports include a specific section on risks so that these can be highlighted to officers and Members. This ensures that informed decisions are taken with awareness of any potential risks to delivery. Any budget reductions approved include an evaluation of associated impact(s) on the Council's strategic business partners and the local economy. In addition, where an equality impact assessment is deemed necessary that process includes a further analysis of associated risks for all stakeholders. All major projects have a risk register which is regularly reviewed and action is taken to address risks if they materialise.
	The Council is mindful of the capacity of is strategic business partners and receives information about their sustainability in order to assist in any decision making with regard to financial support or requirements for alternative delivery mechanisms.
STANDARD G - The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members	The Medium Term Financial Strategy is the key document which sets out the Councils financial sustainability. During 2020/21, two in year update reports were presented to Members to advise of pressures and issues arising from COVID-19 and the uncertainty this caused. These reports informed the MTFS prepared for consideration at Budget Council on 4 March 2021. Using the work undertaken in preparing the MTFS at March 2021, the Council is currently preparing its budget for 2022/23 and MTFS for the period to 2026/27. Detailed briefings have been prepared for Members and a full suite of budget reports is currently in preparation. The Council provides a report to its Members and the Audit Committee on a regular basis detailing its financial resilience and sustainability in the longer term. The preparation of the MTFS incorporates a review of: - all income sources and assessment of volatility - the cost base including overhead costs - the impact of demand and demographics - changes in assets and liabilities of the Council - staffing related pressures - the impact of financial policies, systems and processes - relationships with stakeholders - the future aims and objectives of the Council and how these can be achieved

	For 2022/23 budget setting a range of scenarios have been tested, however, whilst the Finance Team has presented Best, Worst and Likely scenarios to aid financial planning, the Code suggests a more sophisticated approach. The current approach to date has proved adequate given the nature of the financial planning that has taken place. This would not suffice for a more strategic long term view. However, given the uncertainty that has prevailed in the Local Government Finance arena for a several years (exacerbated by COVID-19), the value of any modelling, given the nature of the organisation, is considered to be limited. It is, however, a development which can be taken forward for consideration in 2022/23 as the Finance team incorporates new working practices and greater efficiency aligned to the long-term requirements and vision of the Council. Assumptions / estimates of expenditure and funding across the course of the MTFS period are also shared and compared with other GM Authorities to ensure the Council's approach / methodology is not out of line with other similar Authorities. Also, as part of the budget setting process, the authority produces a Statement of Robustness report which analyses its financial sustainability over the MTFS period. This report is presented to Members and agreed by Council at its annual budget setting meeting The Council has a comprehensive Capital Strategy which is fully compliant with The Prudential Code for Capital Finance in Local Authorities. Briefings to senior officers and Members have been provided on financial sustainability and threats to sustainability. The budget process and the requirement to reduce the base budget of the Council is well understood. The means to achieve financial sustainability via a transformation programme and the implementation of a change programme is receiving support with work in train.
STATEMENT H - The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities	The Authority produces an Annual Treasury Management Strategy, half year progress report and an outturn report which complies with CIPFA Prudential Code for Capital Finance in Local Authorities and the Treasury Management Code of Practice. These reports set out a suite of prudential indicators against which the Council monitors performance in maintaining the affordability and prudence of its capital programme. The CFO prepares an appropriate set of prudential indicators. These are monitored and report on regularly. The prudential indicators are: - Estimates of capital expenditure, actual capital expenditure, estimates of the capital financing requirement, the actual capital financing requirement - Authorised limit, operational boundary, actual external debt and gross debt and the capital financing requirement

- Estimates of financing costs to the net revenue stream and actual financing costs to net revenue stream

The Treasury Management Strategy is presented to the Audit Committee for scrutiny, to Cabinet and Council or approval.

In compliance with the Prudential Code the Council also produces a Capital Strategy. This Strategy document is fully comprehensive and sets out a clear statement of the capital spending intentions of the Council in compliance with the Prudential Code. In accordance with good practice, the capital strategy presents key information as follows:

Capital expenditure including:

- an overview of governance processes for approval and monitoring of capital expenditure
- a long term view of capital expenditure plans
- an overview of asset management planning including the cost of past borrowing, maintenance requirements and planned disposals

Debt, borrowing and treasury management linkages:

- a projection of external debt
- the Authority’s approach the treasury management

Knowledge and Skills

- a summary of knowledge and skills available to the Authority and confirmation that these are commensurate with the Authority’s risk appetite

The Strategy also includes:

- an overview of how the associated risk is managed; and
- the implications for future financial sustainability.

The Council has ensured that is had complied with the statement issued by HM Government in March 2020 and changes to Public Works Loan Board borrowing terms in November 2020, regarding involvement in commercial investment. The 2021/22 capital strategy incorporated the intention of Government to limit commercial investment for yield.

STATEMENT I - The authority has a rolling multi-year Medium Term Financial Plan consistent with sustainable service plans	The Council produces an annual Medium Term Financial Strategy which is approved by Council as part of the formal budget setting process. Up to 2021/22 this covered a 5 year timeframe but was reduced to 3 given the uncertainties arising from COVID-19.
Key requirements for compliance The Authority has sustainable service plans that are consistent with its long term financial strategy and the medium term financial plan	The Council operates a formal annual business planning process, maintained within the Council's corporate performance management software application and all plans are reviewed and approved by the Management Board to ensure they are consistent with and complementary to the overall ambition and financial strategy of the organisation. All business plans are aligned to the key corporate objectives. Appropriately approved key service developments identified in business plans which require additional resources are built into the financial planning process. Key drivers of demand are reflected in the MTFS.
Developing a robust Medium Term Financial Plan from a credible baseline	The Council's MTFS is prepared using the current budget adjusted for known revisions e.g., one off resources or initiatives. This is amended for known pressures, including those included in service plans (reflecting local or national factors) and a projection of the resources available to support the plan. The gap between the two determines the strategy to close the gap.
Understanding and identifying drivers of demand and cost	The MTFS is based on known demand drivers and cost drivers informed by intelligence gathering of local and national trends. The MTFS is based on credible assumptions and forecasts about the economy and relevant socio-demographic trends. Engagement with all services is undertaken to ensure all key issues are included with realistic forecasts. These forecasts and estimates are then analysed and robustly challenged by Senior Members of the Finance team before being included in the MTFS. A PESTLE analysis is suggested. This approach was used by the Finance Team in supporting its budget process as evidenced in budget reports from previous year, but this analysis is not currently produced. It was not considered to be the most effect means to address the financial challenges in Oldham. However, this might be reconsidered as a future development.
Use of sensitivity analysis to explore the impact of the viability of the MTFS	As explained above the Council has used a best, worst and likely scenario planning technique. The use of different techniques has been identified as a potential development.

The role of the Asset Management Plan in the MTFS	The Council has adopted a Medium-Term Property Strategy (MTPS). This incorporates a detailed Asset Management Plan for every group of the Council's assets. This plan was agreed at Cabinet for the term 2018 to 2022. As a result of the COVID-19 pandemic and its impact on current and future demand for property, the MTPS is currently under review as part of the Creating a Better Place Strategy. Included within, the Creating a Better Place initiative is a specific strand of work that is examining the use of the Councils Assets and aims to maximise the use of those assets. A plan for rationalising assets to minimise expenditure and maximise capital receipts linked to a forward look of the Councils future operating requirements is in place. The implications of this strategy are linked to specific budget reductions and capital financing costs, all of which are built into the MTFS.
The Medium Term Financial Plan should make reference to other organisational plans (e.g., workforce planning) and performance measures to demonstrate an alignment between service and financial planning	The Medium Term Financial Strategy is informed by a large number of other organisational plans, policies and performance measures including but not limited to: Oldham Plan and Corporate Plan / Covid Recovery Strategy Cooperative Council Capital Strategy/programme Treasury Management Strategy Income Strategy Medium Term Property Strategy Creating a Better Place Programme Procurement Policy Housing Strategy Get Oldham Working Oldham Work and Skills Strategy Education Provision Strategy Oldham Education and Skills commission/Oldham Education Partnership People Strategy ICT Strategy Green New Deal Strategy The key financial requirement of these strategies /policies are built into the MTFS and Budget setting process to aligned with the implementation of corporate priorities.

The Authority has benchmarked the performance of its services against appropriate comparators	The Council makes limited use of CIPFA benchmarking information as so few Authorities now use this process. The Greater Manchester Association of Municipal Treasurers has undertaken some work to consider the cost of corporate services including Finance Teams in relation to the 10 GM Authorities. This has proved useful but highlights the limitations of benchmarking as is has allowed detailed discussion which has shown difference management arrangements and practices between the 10 organisations. The Council subscribes to LGInform plus and the Council's Performance Improvement Team regularly use this site to gain timely and up to date performance and benchmarking information; particularly when working with key services. The Council does make use of Government Revenue Outturn and Revenue Account nationally released information and considers spending in relation to neighbouring Authorities. The Children's Transformation Board initiated a review spending in Children's Social Care services has undertaken comparative analysis which has supported decision making. Benchmarking reviews have also been undertaken for Adult Social Care services, again to inform areas for investment or opportunities for savings. The Council also holds an active membership of the Special Interest Group of Municipal Authorities (SIGOMA) which through regular officer meetings and circulated datasets provide various national and regional analysis of Council expenditure and funding streams.
To inform the Leadership Team's decisions the authority has a single document tracking progress in the delivery of planned savings over the period of the Medium Term Financial Plan	The Council manages all planned savings / budget reductions through its corporate performance management software solution which has controlled access by individual. All planned savings are monitored through this software platform and reported to Members in summary through the Revenue Monitoring reporting process and also separately in detail through a specific quarterly performance report.
The Authority publishes it plans for the use of reserves over the period of the Medium Term Financial Plan	The most up to date MTFS includes and assessment of the use of reserves to underpin the financial position. This covers the period 2021/22 to 2024/25. There is a regular and on-going review of reserves usage and creation to support the review of financial resilience.

The level of reserves at 31st March in any one year should not be fall below the level previously agreed	The reporting of the planned use of and creation of reserves is undertaken through the financial monitoring report process. The reserves position is included within the MTFS report linked to the report prepared in accordance with Section 25 of the Local Government Act 2003 which is presented to Members as part of the budget process. The actual use of reserves in year can only be determined at the year end and there is flexibility for the CFO around reserves management. The unpredictably of the COVID 19 position led to a variation in the expected reserves position for 2020/21- reserves were increased. Even with the planned future use of reserves, the overall position is capable of being managed so that financial resilience can be achieved. The Council also has balances which have been calculated using a risk based approach to support financial resilience.
Section 4	**The Annual Budget**
	Evidence of Compliance
STANDARD J - The authority complies with its statutory obligations in respect of the budget setting process	The Council produces a detailed annual budget report which in turn is complemented by the Medium Term Financial Strategy, the Treasury Management Strategy, the Capital Strategy & programme, Housing Revenue Account, Council Tax Reduction Scheme and the Statement by the Chief Finance Officer on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves.
Key Requirements for Compliance	
Meeting the statutory requirements for budget setting	The Council meets all such statutory requirements. In accordance with the Local Government Act 2000 Full Council approves the annual budget following the recommendation of Cabinet, together with the associated Council Tax resolutions. All other reports are also presented to full Council for approval. All reports are subject to Member scrutiny and after public, partner, service user and staff consultation. The process allows for consultation comments to be considered and if necessary, reflected in final proposals presented for approval. The timing of the setting of the budget and Council Tax requirement is in accordance with the statutory requirement of the local Government Act 1992 (as amended) i.e., before 11 March preceding the financial year.

	The detailed setting of service budgets includes the provision of standardised costing templates and procedures to ensure consistency across the organisation and also to act as a clear audit trail in case of any future queries.
The setting of a robust and sustainable budget	The S151 Officer uses professional judgement to ensure that the budget is robust and sustainable. A report, separate to the main budget report, is prepared in accordance with Section 25 of the Local Government Act 2003 to report on the robustness of the estimates made in setting the annual budget and on the adequacy of the proposed reserves and balances underpinning the budget estimates.
Responsibility for setting the budget	The responsibility for setting a balanced budget is that of the Director of Finance, working with the rest of the senior management team. A key element is the preparation of the MTFS setting out a robust and sustainable budget for each year covered by the strategy. The Council prepares a detailed MTFS alongside the budget report based on best information available. The Finance Team is constantly reviewing and revising estimates in the MTFS development period to maintain the robustness of the estimates. The Director of Finance is working closely with the Chief Executive in budget setting for 2022/23.
The requirement for spending controls is understood and supported	In response to substantial financial challenges at the start of the COVID-19 pandemic, the Council implemented spending controls during 2020/21. This was supported by senior officers and Members. This requirement has been reviewed with controls being eased to some extent with key elements remaining in place (for example, the requirement for Heads of Service or above to approve all requisitions and invoices in excess of £100).
The Section 114 Notice process is understood	The S151 Officer (Director of Finance) is aware of the requirements, under Section 114 of the Local Government Finance Act 1988, to report if there is or likely to be any unlawful expenditure or if expenditure in a financial year is likely to exceed the resources available to it to meet that expenditure. There is no such requirement in relation to the financial position of Oldham Council for 2021/22. During 2020/21 and again in 2021/22 there have been discussions at officer and Member level of the S114 process and a report was prepared for Audit Committee members outlining developments elsewhere where authorities had either issued a S114 notice or were contemplating issuing such a notice (e.g., Northampton County Council, London Borough of Croydon).

STANDARD K - The budget report includes a statement by the Chief Finance Officer on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves	A report, separate to the main budget report, is prepared to comply with Section 25 of the Local Government Act 2003 to report on the robustness of the estimates made in setting the annual budget and on the adequacy of the proposed reserves and balances underpinning the budget estimates. The report identifies and considers the most significant estimates used to prepare the budget, the potential for these estimates being incorrect and the impact should this be the case. The report includes a recommendation of the level of balances. The Council prepares a Reserves Policy (reviewed at least annually) which informs the use of and creation of reserves. The Revenue Budget report includes a section on the forecast level of reserves available to support the budget process (this is important as the Council has relied on the use of reserves to support its budget over recent years). Leading Members are briefed on the importance of maintaining the adequacy of reserves and strong financial resilience.
Section 5	**Stakeholder engagement and business cases**
STANDARD L - The Authority has engaged with key stakeholders in developing its long term financial strategy, medium term financial plan and annual budget	**Evidence of Compliance**
Key Requirements for Compliance	
Identification of Key Stakeholders	The Council is aware of its key Stakeholders including its two wholly owned companies, Oldham CCG, Council Tax and Business Rate payers, the voluntary sector and other GM Councils/GMCA.
	The two wholly owned companies MioCare CIC and The Unity Partnership Ltd. are fully integrated into budget decision making processes.

Page 85

	Until mid-2021 the Council's Chief Executive was also the Accountable Officer for the Oldham Clinical Commissioning Group with other joint appointments. As a result, there has been and remains full engagement with this major stakeholder. Budget reduction proposals are shared at an early stage and there is work in train to align budget processes with NHS partners to reduce the overall Oldham NHS and Local Authority system financial challenge.
	GMCA & other GM Councils. There are extensive links at officer and Member level for appropriate engagement with such organisations. The Council engages in the GMCA budget consultation process.
	The third sector is a key stakeholder and there is engagement with this sector. There was engagement with the sector on specific budget proposals providing them with the opportunity to comment.
	There was specific public consultation on the 2021/22 budget proposals with a full analysis of the results of the consultation taking into account in final decision making. The Budget Report included a full summary of the results of the public consultation. The Trades Unions were updated on the budget process in November 2020 and again in January 2021. Discussions are taking place with Trades Union representatives on the budget process for 2022/23. There was extensive consultation with staff on budget proposals for 2020/21 and 2021/22 budget setting. Changes were made to implementation proposals as appropriate as a result of consultation comments.
Engaging effectively with Stakeholders	Engagement with budget holders on the budget process is described above. A development required to fully meet the requirements of the FM Code to ensure effective engagement so that stakeholders are able to influence any priority setting and input to the consideration of the balance between its service delivery aspirations and the level of available resources. In this regard, the Leader of the Council and the Chief Executive have over recent weeks, undertaken a range of engagement sessions with Oldham citizens which is enabling the views of Council Taxpayers and the business community to be heard and to be considered in the context of political priorities. Representatives of the local business community are also consulted on the budget and MTFS as standard on an annual basis.

STANDARD M - The authority uses a documented option appraisal methodology to demonstrate the VFM of its decisions	**Evidence of Compliance**
Key Requirements for Compliance	
Does the Authority have a clear, documented option appraisal methodology consistent with IFAC/PAIB Project and Investment Appraisal for Sustainable Value Creation: Principles in Project and Investment Appraisal (Annex C to CIPFA FM Code)	All reports that are considered by Members include an options section together with a recommended option. The Finance Team is involved with the consideration and evaluation of options. This is particularly the case where major capital schemes are under consideration where full due diligence exercises are undertaken. Finance staff prepare the financial modelling of potential options and seek appropriate external advice where necessary. Following the modelling, Finance officers complete the financial case in all outline and full business cases. All business cases especially the financial analysis is completed aligned to the Treasury Green Book. There is a requirement for an options appraisal when considering all major capital schemes as presented in Section 11 of the Capital Strategy. The Council will consider not only financial issues in decision making but also service delivery and other non-financial criteria.
	The Council applies the principles consistent with the IFAC/PAIB document using relevant financial techniques and calculations. Uncertainty is addressed by using adjusted discount rates to compensate for changes to cash flow or a variance to costs, reviewing assumptions and applying sensitivity analysis to assumptions, including optimism bias in all option appraisals, where necessary, seeking the view of external advisors to support the detailed review.
	An improvement to take forward the requirements is to refresh documented option appraisal guidance. This will be undertaken during 2021/22.
The accounting treatment of material decisions is considered and demonstrated as part of the formal option appraisal process	Where appropriate to the decision making and business case planning of a potential project, Finance staff will engage with external advisors and our external auditors for guidance on the accounting and taxation treatment. On all other occasions this analysis is completed internally.

Section 6	Monitoring Financial Performance
STANDARD N - The Leadership Team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability	**Evidence of Compliance**
Key requirements for compliance Timely financial information is available to managers that is clear, accurate, relevant, well-structured and concise.	The Council has a robust budget monitoring process reported throughout the organisation in a timely manner. There is a detailed budget monitoring timetable and reports are produced for multiple audiences on a regular basis in focussed formats - a Directorate dashboard is prepared for presentation to Directors and Directorate Management Teams. Managers also have immediate access to budget monitoring data for which they are responsible (data controlled) via self-service within the Council's financial management system (Agresso). There is the opportunity to present urgent financial information on a more informal basis to enable a quick response to an emerging risk or pressure - meetings of senior managers take place on a weekly/fortnightly basis. Budget monitoring information is aggregated into a corporate report from month 2 to 9 and reported to the senior managers forum (Senior Management Team/ Management Board), Cabinet Members and from months 3, 6, 8 and 9 into a public report considered at Cabinet. Performance management information is compiled on a monthly basis in relation to a series of service performance measures and indicators. These are reported to senior officers and members and presented to Cabinet and the Performance Overview and Scrutiny Select Committee on a regular basis.

All financial monitoring reports present information including: - The name of the budget holder responsible for the budget - Accruals based financial information - The approved budget against which monitoring is taking place - A forecast for the remainder of the budget period	Budget managers receive a budget monitoring report for each cost centre for which they are responsible. This report is emailed out to them on a monthly basis via the financial system. This report includes the name of the budget holder responsible for the information presented within it. It also includes original and revised budgets, profiled budgets against actuals and commitments plus year end forecasts. It is planned to develop this report and the overall financial management information available to managers on an automatic basis during 2021/22 and early 2022/23. Accountants and Senior Accountants meet with budget managers on at least a monthly basis to review the financial position set out in the budget monitoring report. These regular meetings will highlight any emerging issues at the earliest opportunity to enable remedial action to be put in place. Accountants and Senior Accountants will discuss current forecasts and amend in the financial system during the meeting with the budget manager. Following the budget monitoring reviews with budget managers, portfolio dashboards are run in line with the budget monitoring timetable. The dashboards contain financial management information which is produced for each revenue portfolio within the Council. This monitoring report includes details of original and revised budgets, profiled budgets against actuals and commitments plus year end forecasts. An analysis of the use of reserves and the achievements of budget reductions is also completed. An explanation of variances by service is then included analysing the data and presented to the officer Leadership team for review and comment. These dashboards form the basis of the monthly revenue budget monitoring report which is presented to the Senior Management Team/ Management Board and also through to Cabinet on a cyclical basis. The revenue report shows the service financial performance the service budget and the Council budget as a whole and highlights any variances together with actions in train to address the variances. Information on capital projects is provided to project managers on a monthly basis and overarching reports are prepared on the whole programme. These reports, presenting full year forecasts, are presented to the Capital Investment Programme Board on a monthly basis and incorporated in the overarching monthly budget monitoring information. Any areas of key concern, non-delivery, overspending or challenges are highlighted by this process so remedial action can be taken.

	The linkage between performance data requires enhancing. The financial monitoring information refers to performance information that is available but there is no automatic link between the two areas and this something which requires corporate development. There is however regular updates/liaison between the Corporate Performance Team and Finance Team members to consider areas of concern and to ensure that information is presented to managers to enhance understanding and improve planning and efficiency.
Financial monitoring reports for high risk budgets are: - Scrutinised by the leadership team of the organisation on (as a minimum) monthly basis Financial monitoring reports for steady state/low risk budgets are: - Received by budget holders on a monthly basis - Received (in aggregate) by the leadership team on a regular basis	Meetings take place between Finance and Service budget holders on a monthly basis for all high risk areas. All budget monitoring takes place on a monthly basis, however, specific emphasis is given in reports, to those high risk budget areas. These tend to be Adult and Children's Social Care budgets. The monthly revenue budget monitoring report which is presented to the Senior Management Team/ Management Board and also through to Cabinet on a cyclical basis. The revenue report shows the service financial performance, the service budget and the Council budget as a whole and highlights any variances. Areas of significant risk are highlighted in reports As advised above, budget managers receive a budget monitoring report for each cost centre for which they are responsible. This report is emailed out to them on a monthly basis via the financial system. As also detailed above, all budgets are scrutinised by the officer Leadership team on a monthly basis. For 2021/22 reports are being prepared from month 3 to 9. Particular focus is paid to high risk budgets detailing any management actions being taken or required. Cabinet reports are prepared for months 3, 6, 8 and 9.
The authority has arrangements which allow annual service budgets to be recalibrated in response to unforeseen developments	The Financial Procedure Rules included within the Council's Constitution set out the rules and limits for service budgets to be realigned in line with unforeseen developments and service needs. If there was a requirement to address specific financial challenges, appropriate budget adjustments would be made which may require the use of reserves in accordance with the Reserves Policy. Revenue budgets are categorised into controllable and non-controllable budgets. Managers are only able to amend controllable budgets within their prescribed limits and area of responsibility. Non-controllable budgets require corporate approval before any movement can be made.

	As part of the Council's annual budget setting process, budgets are aligned to meet the needs of the Authority at that time with any movements from the previously agreed budget detailed within the annual revenue budget report' The monthly monitoring reports highlight any budget pressures which need to be addressed in the following years budget and this is brought to the attention of Senior Managers and Members through the budget setting process. The month 8 report is considered alongside all budget reports and is a key element of the budget setting process.
There are appropriate arrangements in place for reporting and managing the financial performance of each of the organisation's delivery partnerships and collaborative arrangements	The CFO is a Director of the Unity Partnership Limited and as such receives regular financial management information from Unity. This highlights any key issues. One of the Finance Service Finance Managers liaises on behalf of the CFO on a more operational level and provides an early indicator of any areas of concern. The CFO meets with the Financial Controller, and the Chief Operating Officer of Unity (together with the Finance Service Finance Manager) on a regular basis.
	The CFO meets with the Managing Director and Finance Officer of the MioCare CIC on a regular basis and receives monthly financial information. Given the relationship between MioCare and the Council, financial performance of MioCare links through to detailed budget monitoring of the Community Health and Adult Social Care Directorate. Key issues in relation to the performance of MioCare are regularly reviewed. The role of the lead Finance Officer for MioCare has been realigned so it is a joint post across the Council & MioCare providing a closer working arrangement. Members of the Adult Social Care Finance team liaise with officers from MioCare CIC on a very regular basis.
	The Council and Oldham CCG work together under a Section 75 pooled funding agreement that brings together adult social care budgets and related CCG budgets. A Commissioning Partnership Board (CPB) has been set up that considers joint reports on the pooled funding arrangements. This ensures that any spend that is related to the pooled fund has proper sign off from both partners. The CFO also meets regularly with the CCG Chief Finance Officer to discuss any issues. Given the close working relationship with NHS partners, there are fortnightly meetings between the Council CFO, and CFO's of Oldham CCG, Pennine Care NHS Foundation Trust and the Northern Care Alliance (Oldham Royal Hospital NHS Trust) to discuss system related finance issues and to ensure appropriate reporting to the CPB and to respective organisations. There is sharing of organisations financial reporting and key budgetary pressures that might impact on other partners. Extensive work is taking place to support the requirements of the new Integrated Care System for Oldham, effective from 1 April 2022.

There are appropriate arrangements in place for the project management and cost control of capital projects	Each capital scheme has a named project officer responsible for all aspects of the delivery of the project including delivery within budget. The requirements of project managers are clearly set out in the Capital Strategy. All capital schemes are developed using the guidance of the Treasury Green Book on how to appraise proposals before committing funds to a policy, programme or project. Good practice templates for business cases are used requiring outline to final business cases (the latter should include detailed and accurate costings). Such documents are reviewed by the Finance Team before proceeding for approval. All projects are managed using standard project management tools and techniques. All projects include a contingency in accordance with good practice. Project updates are provided at the monthly meetings of the Capital Investment Programme Board (CIPB) as well as an overarching update on the Capital Programme. This facilitates the review and challenge to the delivery of projects and any changes to both the timing and value of the programme. In addition, an Annual Review of the capital programme is completed each year. The Annual Review process ensures that all schemes are examined to determine whether they still meet corporate priorities. The review also considers the deliverability and progress of schemes including any reasons for delayed starts or variations to approved budgetary allocations. It also considers rephasing of planned expenditure and identifies any unutilised or underutilised resources which can be reallocated to other projects. The Council's senior officers also have the opportunity to review and challenge project and programme delivery via monthly updates on the changes/re-profiling of expenditure. The Senior Officer supporting the CIPB is the Deputy Chief Executive (Place & Economic Growth). The CIPB is chaired by the Cabinet Member for Finance and Low Carbon (Deputy Leader) and is attended by the Leader and other Deputy Leader. The CFO is the lead Finance Officer for the CIPB and attends all meetings. The Audit Committee at its meeting of 2 November 2021 considered a report setting out the arrangements for ensuring that a capital project is subject to appropriate review at the Business Case stage before significant expenditure is incurred. The Committee was content with the report and explanations.

STANDARD O - The Leadership Team monitors the elements of its balance sheet which pose a significant risk to its financial stability	**Evidence of Compliance**
Key Requirements for Compliance Close monitoring of the Authority's financial performance and impact on reserves. Unplanned and planned use of reserves are reported [quarterly] to the management team of the organisation and to Council	The planned use of Earmarked and Revenue Grant Reserves are included within the financial monitoring report presented to the Leadership Team and Cabinet Member on a monthly basis from month 3 and Cabinet Members on a periodic basis per the constitutional timetable (months 3, 6, 8 and 9 for 2021/22). The monitoring of the reserves (through the budget monitoring process) and any requirement to draw down more reserves than anticipated provides appropriate early warnings to officers and Members that there is financial pressure that needs to be reviewed. The Council has a Reserves Policy which sets out the procedure for requesting the use of a reserve which includes reporting to Members through the financial monitoring reports. The Reserves Policy is presented to the Audit Committee for consideration alongside the Statement of Accounts reflecting the outturn position for the previous financial year.
Management accounts include either a full balance sheet or an appropriate level of balance sheet information to meet business needs and evidence of monitoring of material items and risk	Full statements including the balance sheet are produced and reviewed on a monthly basis to highlight any miscoding and to ensure that the full suite of statements balance to the ledger. This is completed as part of the Council's ongoing year end process. A full mid-year close down is completed including all working papers. This ensures that balances aligned to working papers have been rolled forward correctly and the transactions to date are correct. Any issues arising from these reviews are initially addressed by the Director of Finance and if appropriate, included in monitoring reports firstly for senior managers and then Members (if required). See notes below on reserves, a key balance sheet indicator of financial resilience, reported in detail to senior managers and Members.
	An option for future consideration is the extent to which financial monitoring information is supplemented by either a full Balance Sheet or information on other key balance sheet elements (in addition to reserves). The benefit of this level of information is questionable. Balance Sheet detail was provided alongside financial monitoring reports several years ago but was found to be of limited use to those outside the Finance Team. The Director of Finance considers that the reviews undertaken by the Finance Service will highlight any issues and risks and that such issues will be brought to the attention of senior managers and Members as appropriate.

	It should be noted that the provision of specific information about the level of debtors/creditors is being considered. The Finance Team has initiated a review of the level of sundry debt in order to focus on reducing such debt (see comments below). Information on reserves is included in financial monitoring reports.
Non-current fixed assets	It is essential that the financial implications of the acquisition or disposal of fixed assets is understood and appropriate comments are included in reports setting out such transactions. Capital financing charges will be provided for arising from an acquisition and any capital receipts will be included within the level of resources available to support the overall capital programme. The Council has budget (both revenue and capital) to ensure that the physical assets of the Council are maintained to a suitable standard to enable service provision. Through the Creating a Better Place (CaBP) capital programme, the Council is reviewing its asset base to ensure it has the right assets mindful of the changes to the Councils operating environment. The asset base is being rationalised it to promote efficiency and reduce costs and, where possible, generate capital receipts. Significant revenue savings are built into the revenue budget in 2021/22 and future years arising from CaBP. Regular reports on progress are presented to senior officers and Members.
Long and short term investments	The Director of Finance undertakes monthly reviews with the Treasury Team to discuss all aspects of treasury management including investments opportunities for the Councils cash balances as well as monitoring investment returns. Recent activity has been limited to short term investment opportunities in line with Treasury Management practice. Information on the Treasury Management position is presented to the Management Board and Members via Treasury Management reports which are presented to the Audit Committee, Cabinet and Council.
Debtors	The presentation and review of financial information on debtors is a key development for 2021/22. The responsibility for income collection is split over a number of areas in the Council and requires improvement. A working group of Finance Officers has been tasked with improving debt management. It is planned that improved debt management information will be presented to Directorate Management teams alongside financial monitoring information.

Cash management	Cash is managed through the application of recently updated Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes issued by CIPFA and the setting of appropriate treasury management policies (approved through the Treasury Management Strategy). There are regular meetings between the CFO and the Treasury Management team to review cash, investments and counterparties to be used. The need for any external borrowing is also discussed. Key issues are included in Treasury Management reports presented to the Audit Committee, Cabinet and Council.
Provisions	The requirement for and level of provisions is thoroughly reviewed as part of the final accounts process and on an on-going basis throughout the year as a call on a provision is made. This triggers a review of the overall level of provisions. The release of provisions if no longer required, or creation of new ones is managed by the Assistant Director of Corporate Governance and Strategic Financial Management and the Director of Finance informed by discussions with other senior Finance Service colleagues. Any key issues in relation to calls on provisions would be included in financial monitoring reports.
Long-term borrowing	There has been no recent requirement to undertake long term borrowing due to the cash position of the Council. This is reported through the Treasury Management reports. If there is any requirement to undertake long term borrowing, this would be on the recommendation of the Director of Finance and be actioned after consultation with the Cabinet Member and Chief Executive.
Monitoring of Performance against Prudential Indicators	As advised above the Director of Finance undertakes monthly reviews with the Treasury Team to discuss all aspects of treasury management including and challenges in relation to performance against prudential indicators. A key indicator, capital expenditure, is closely monitored as part of the monthly budget monitoring process (see above). The formal Treasury Management reports reviewed by senior officers, Cabinet Member, Audit Committee, Cabinet and Council detail performance in relation to the prudential indicators and would therefore highlight key risks and challenges.

Section 7	**External Financial Monitoring**
	Evidence of Compliance
STANDARD P - The Chief Finance Officer has personal responsibility for ensuring that the statutory accounts provided to the local authority comply with the Code of Practice on Local Authority Accounting in the United Kingdom	The Councils accounts prepared by the Finance Service comply with the Code of Practice on Local Authority Accounting. The Finance Team has set high standards with regard to the preparation of its accounts. Completion of the accounts ahead of the statutory timeline with a clean audit opinion is a key performance indicator for the Finance Team. This has been achieved for many years. The CFO has monthly meetings with External Auditor throughout the financial year to update and discuss emerging issues and progress on key Corporate priorities. Meetings are more frequent at the financial year end to ensure the Code of Practice has been applied in accordance with specific requirements for Oldham. The performance of the CFO is monitored in relation to the standard of the completion of the accounts and compliance with Codes of Practice.
	The accounts for 2019/20 were completed ahead of the statutory deadline and signed off ahead of the statutory deadline with a good audit conclusion from the Council's Auditors. The audit of the 2020/21 accounts was completed to comply with the statutory deadline with four low priority recommendations for improvement. The Audit Findings Report for both years provide a good audit opinion. The narrative statement included in the financial statements provides a commentary how the Council has used its resources to achieve its desired outcomes and inform the user of the accounts of: a) What the Councils services cost to deliver over the course of the year b) Where the money to fund the Council came from c) The Councils assets and liabilities at the end of the financial year. The narrative statement aims to provide contextual information and explain the outturn to the users of the accounts, including officers and Members.

STANDARD Q - The presentation of the final outturn figures and variations from budget allow the leadership team to make strategic financial decisions	The final outturn figures are presented in the same format as that which is used during the financial year to report the forecast financial position to the Officer Leadership team and to Elected Members. This ensures that there is consistency when reporting so that officers and Members can compare, analyse and question any variances. Figures reported are also supported by reasons for variance, and where required, an explanation as to the movement between the last report and the outturn. In operating to an accelerated closedown timetable, the Finance Team ensures that timely and accurate information is available. Detailed information is presented on all key areas where there are variances. The monthly financial monitoring reports are used to highlight issues which need to be addressed in the following years budget. The month 8 monitoring report is a key document in budget setting for the following financial year.

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The Chartered Institute of Public Finance & Accountancy

Appendix 2

financial management code

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed. As the world's only professional accountancy body to specialise in public services, CIPFA's qualifications are the foundation for a career in public finance. We also champion high performance in public services, translating our experience and insight into clear advice and practical services. Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance.

CIPFA values all feedback it receives on any aspects of its publications and publishing programme. Please send your comments to customerservices@cipfa.org.

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CIPFA The Chartered Institute of Public Finance & Accountancy

financial management code

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Executive summary

The tightening fiscal landscape has placed the finances of local authorities under intense pressure. Where finance in local government works well there is often a common understanding and ownership of issues supported by good financial management.

While organisations have done much to transform services, shape delivery and streamline costs, for these approaches to be successful it is crucial to have good financial management embedded as part of the organisation. Good financial management is an essential element of good governance and longer-term service planning, which are critical in ensuring that local service provision is sustainable.

The Financial Management Code (FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. For the first time the FM Code sets out the standards of financial management for local authorities.

Local government finance in the UK is governed by primary legislation, regulation and professional standards as supported by statutory provision. The general financial management of a local authority, however, has not until now been supported by a professional code. The FM Code has been introduced because the exceptional financial circumstances faced by local authorities have revealed concerns about fundamental weaknesses in financial management, particularly in relation to organisations that may be unable to maintain services in the future. There is much good practice across the sector, but the failures of a small number threatens stakeholders' confidence in local government as a whole. Most importantly, the financial failure of just one local authority is one too many because it brings with it a risk to the services on which local people rely.

This publication has several components. The first is an introduction explaining how the FM Code applies a principles-based approach and how it relates to other statutory and good practice guidance on the subject. This is a good starting point for those new to the FM Code.

This introduction is followed by the CIPFA Statement of Principles of Good Financial Management. These six principles have been developed by CIPFA in collaboration with senior leaders and practitioners who work within or have a stake in good local authority financial management. These principles are the benchmarks against which all financial management should be judged. CIPFA's view is that all financial management practices should comply with these principles.

To enable authorities to test their conformity with the CIPFA Statement of Principles of Good Financial Management, the FM Code translates these principles into financial management standards. These financial management standards will have different practical applications according to the different circumstances of each authority and their use should therefore reflect this. The principle of proportionality is embedded within this code and reflects a non-prescriptive approach.

The purpose of the FM Code itself is to establish the principles in a format that matches the financial management cycle and supports governance in local authorities. A series of financial management standards set out the professional standards needed if a local authority is to meet the minimal standards of financial management acceptable to meet fiduciary duties to taxpayers, customers and lenders. Since these are minimum standards, CIPFA's judgement is that compliance with them is obligatory if a local authority is to meet its statutory responsibility for sound financial administration. Beyond that, CIPFA members must comply with it as one of their professional obligations.

While the statutory local authority budget setting process continues to be on an annual basis, a longer-term perspective is essential if local authorities are to demonstrate their financial sustainability. Short-termism runs counter to both sound financial management and sound governance.

Reflecting on the importance of longer term financial planning, one of the objectives of the FM Code is to support organisations to demonstrate that they have the leadership, capacity and knowledge to be able to plan effectively. This must be balanced against retaining the integrity of the annual budget preparation process when the need to make difficult decisions may threaten its integrity.

CIPFA recognises that local authorities may need additional practical guidance on some aspects of the FM Code. Such 'hands on' guidance will be produced by CIPFA to meet practitioner demand.

Contents

Introduction

The Financial Management Code (FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The FM Code therefore for the first time sets the standards of financial management for local authorities.

One of the strengths of UK local government is its diversity, with authorities having a different organisational culture – even those of the same size and type. It is this that allows a close relationship between local authorities and the communities that they serve. Its style of financial management should reflect, for example, its reliance on local tax income or scope to utilise additional grant or generate trading income. This code is therefore not prescriptive.

The FM Code is based on a series of principles supported by specific standards which are considered necessary to provide the strong foundation to:

- financially manage the short, medium and long-term finances of a local authority
- manage financial resilience to meet unforeseen demands on services
- manage unexpected shocks in their financial circumstances.

The FM Code is consistent with other established CIPFA codes and statements in being based on principles rather than prescription. This code incorporates their existing requirements on local government so as to provide a comprehensive picture of financial management in the authority.

Each local authority (and those bodies designated to apply the FM Code) must demonstrate that the requirements of the code are being satisfied. Demonstrating this compliance with the FM Code is a collective responsibility of elected members, the chief finance officer (CFO) and their professional colleagues in the leadership team. It is for all the senior management team to work with elected members in ensuring compliance with the FM Code and so demonstrate the standard of financial management to be expected of a local authority. In doing this the statutory role of the section 151 officer will not just be recognised but also supported to achieve the combination of leadership roles essential for good financial management.

While CIPFA has provided leadership, the development of the FM Code reflects a recognition that self-regulation by the sector must be the preferred response to the financial management failures that have the potential to damage the reputation of the sector as a whole. The FM Code has sought therefore to rely on the local exercise of professional judgement backed by appropriate reporting. To ensure that self-regulation is successful, compliance with the FM Code cannot rest with the CFO acting alone.

Significantly, the FM Code builds on established CIPFA Prudential and Treasury Management Codes which require local authorities to demonstrate the long-term financial sustainability of their capital expenditure, associated borrowing and investments. The introduction of the Prudential Framework based on the CIPFA codes enabled local authorities to make their own capital finance decisions on matters that had hitherto been subject to central government control. The FM Code should not be considered in isolation and accompanying tools, including the use of objective quantitative measures of financial resilience, should form part of the suite of evidence to demonstrate sound decision making.

The CIPFA Statement of Principles of Good Financial Management

The FM Code applies a principle-based approach. It does not prescribe the financial management processes that local authorities should adopt. Instead, this code requires that a local authority demonstrates that its processes satisfy the principles of good financial management for an authority of its size, responsibilities and circumstances. Good financial management is proportionate to the risks to the authority's financial sustainability posed by the twin pressures of scarce resources and the rising demands on services. The FM Code identifies these risks to financial sustainability and introduces an overarching framework of assurance which builds on existing best practice but for the first time sets explicit standards of financial management. These are minimum standards, which for many in the sector are self-evident. Recent experience in some local authorities suggests, however, that they are by no means universally achieved.

The underlying principles that inform the FM Code have been developed in consultation with senior practitioners from local authorities and associated stakeholders. The principles have been designed to focus on an approach that will assist in determining whether, in applying standards of financial management, a local authority is financially sustainable.

- Organisational **leadership** – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
- **Accountability** – based on medium-term financial planning that drives the annual budget process supported by effective risk management, quality supporting data and whole life costs.
- Financial management is undertaken with **transparency** at its core using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making.
- Adherence to professional **standards** is promoted by the leadership team and is evidenced.
- Sources of **assurance** are recognised as an effective tool mainstreamed into financial management, including political scrutiny and the results of external audit, internal audit and inspection.
- The long-term **sustainability** of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources.

The FM Code has been developed and tested in partnership with a range of different types of local authorities. However, given the diversity of UK local government, it is not possible (or desirable) for the FM Code to anticipate all eventualities. If any doubt arises as to whether or how the FM Code should be applied, then reference should be made to these Principles of Good Financial Management to establish whether the proposed financial management practice is acceptable. A financial management practice that conflicts with one or more of these principles will not be acceptable if not explicitly ruled out by the financial management standards contained in the FM Code.

The applicability and structure of the Financial Management Code

CIPFA's intention is that the Financial Management Code (FM Code) will have the same scope as the *Prudential Code for Capital Finance in Local Authorities* (CIPFA, 2017), which promotes the financial sustainability of local authority capital expenditure and associated borrowing. So, although the FM Code does not have legislative backing, it applies to all local authorities, including police, fire, combined and other authorities, which:

- in England and Wales are defined in legislation for the purposes of Part 1 of the Local Government Act 2003
- in Scotland are defined in legislation for the purposes of Part 7 of the Local Government in Scotland Act 2003, or to the larger bodies (such as integration joint boards) to which Section 10 of this Act applies
- in Northern Ireland are defined in legislation for the purposes of Part 1 of the Local Government Finance Act (Northern Ireland) 2011.

While the FM Code applies to all local authorities, it recognises that some have different structures and legislative frameworks. Where compliance with this code is not possible, adherence to the principles is still considered appropriate.

In addition to its alignment with the *Prudential Code for Capital Finance in Local Authorities* (CIPFA, 2017), the FM Code also has links to the *Treasury Management in the Public Sector Code of Practice and Cross Sectoral Guidance Note* (CIPFA, 2017) and the annual *Code of Practice on Local Authority Accounting in the United Kingdom*. In this way the FM Code supports authorities by re-iterating in one place the key elements of these statutory requirements.

Although it may be expressed differently across the different jurisdictions of the UK, the FM Code is also further supported by statutory requirement, or all local authorities to have sound financial management.

Section 151 of the Local Government Act 1972 requires that every local authority in England and Wales should "... make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs."

Section 95 of the Local Government (Scotland) Act 1973 substantially repeats these words for Scottish authorities.

In Northern Ireland, Section 54 of the Local Government Act (Northern Ireland) 1972 requires that "a council shall make safe and efficient arrangements for the receipt of money paid to it and the issue of money payable by it and those arrangements shall be carried out under the supervision of such officer of the council as the council designates as its chief finance officer."

CIPFA's judgement is that compliance with the FM Code will assist local authorities to demonstrate that they are meeting these important legislative requirements.

In addition to the requirements of primary legislation and associated CIPFA Codes, an authority's prudent and proper financial management is informed by a framework of professional codes of practice and guidance, including:

- the CIPFA *Statements of Professional Practice (SOPP) (including ethics)*
- the CIPFA *Statement of the Role of the Chief Financial Officer*
- the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government*
- the CIFFA *Statement on the Role of the Chief Finance Officer of the Police and Crime Commissioner and the Chief Finance Officer of the Chief Constable*.

CIPFA considers the application of the FM Code to be a professional responsibility of all its members, regardless of their role in the financial management process. More specifically, the FM Code clarifies CIPFA's understanding of how CFOs should satisfy their statutory responsibility for good financial administration. The responsibilities of the CFO are both statutory and professional. Notwithstanding these specific expectations of CIPFA members, the primary purpose of the FM Code is to establish how the CFO – regardless of whether or not they are a CIPFA member – should demonstrate that they are meeting their statutory responsibility for sound financial administration.

The code has clear links to a number of value for money characteristics such as sound governance at a strategic, financial and operational level, sound management of resources and use of review and options appraisal. Where an overriding duty of value for money exists, this serves to give indirect statutory support to important elements of this code.

The manner in which compliance with the FM Code is demonstrated will be proportionate to the circumstances of each local authority. Importantly, however, contextualising the FM Code cannot be done according only to the size of the authority but also according to the complexity and risks in its financial arrangements and service delivery arrangements.

CIPFA considers application of the FM Code to be a collective responsibility of each authority's organisational leadership team.

CIPFA believes that this FM Code merits the type of statutory backing given to some other CIPFA codes and furthermore there is support for this approach within local government and its stakeholders. Equally, however, CIPFA recognises that such backing demands enabling primary legislation that at present has not been identified. CIPFA will continue to work with the jurisdictions of the different parts of the UK to provide statutory backing to the FM Code. At present it is difficult to envisage circumstances in which the absence of statutory backing for the FM Code would provide a reason for non-compliance.

APPLICATION DATE

Local authorities are required to apply the requirements of the FM Code with effect from 1 April 2020. This means that the 2020/21 budget process provides an opportunity for assessment of elements of the FM Code before April 2020 and to provide a platform for good financial management to be demonstrable throughout 2020/21. Local authorities will need to ensure that their governance and financial management style are fit in advance for this purpose. CIPFA has also considered the ambition within this code, the timescale and of course the wider resource challenges facing local authorities. Consequently CIPFA considers that the implementation date of April 2020 should indicate the commencement of a shadow year and that by 31 March 2021, local authorities should be able to demonstrate that they are working towards full implementation of the code. The first full year of compliance with the FM Code will therefore be 2021/22. Earlier adoption is of course encouraged.

It is the duty of each local authority to adhere to the principles of financial management. To enable authorities to test their conformity with the CIPFA Principles of Good Financial Management, the FM Code translates these principles into financial management standards. These financial management standards will have different practical applications according to the different circumstances of each authority.

The structure of the FM Code

The CIPFA financial management standards are presented and explained in Sections 1 to 7 of the FM Code.

Sections 1 and 2 address important contextual factors which need to be addressed in the first instance if sound financial management is to be possible. The first deals with the responsibilities of the CFO and leadership team, the second with the authority's governance and financial management style. From a professional perspective, these factors are the most challenging to codify as they largely concern 'soft skills' and behaviours. Nonetheless, it will be seen that even for these factors, there are recognised standards of best practice that authorities must adopt if their organisational culture is to be favourable for sound financial management. A 'tick box' compliance with these standards alone, however, will not be sufficient if they do not promote the behaviours necessary for good financial management.

The remaining Sections 3 to 7 address the requirements of the financial management cycle, with Section 3 stating the need for a long-term approach to the evaluation of financial sustainability. To make well informed decisions all these elements of the cycle need to be fit for purpose. The development of a high-quality long-term financial strategy will not itself promote financial sustainability if, for example, the authority's annual budget setting process (Section 4), stakeholder engagement and business cases (Section 5) and performance monitoring arrangements (Section 6) are inadequate. The cycle is completed by Section 7, which shows how high-quality financial reporting supports the financial management cycle by ensuring that it rests on sound financial information.

CIPFA's expectation is that authorities will have to comply with all the financial management standards if they are to demonstrate compliance with the FM Code. It is again most important that practitioners recognise that, while compliance with the CIPFA financial management standards is obligatory, the FM Code is not prescriptive about how this is achieved.

In the accompanying guidance notes CIPFA sets out practices that local authorities can adopt to ensure compliance with the FM Code. These practices are not prescribed by the FM Code, but rather offered as a starting point for local authorities needing to raise their approach to financial management to the minimum standard set out in the FM Code. CIPFA may issue support and clarify application of the FM Code. Authorities can develop their own good practice and are encouraged to do so.

As high-level statements, the overarching CIPFA financial management standards apply to the police service. CIPFA recognises, however, that this type of organisation has in some respects different practices from other local authorities. In addition, the creation of bespoke combined authorities means that some flexibility is required in the application of the FM Code for their circumstances. This may be achieved by applying some standards to each of the component bodies and others directly to the combined authority itself. In all cases, when an authority has unique governance arrangements the CIPFA Principles of Financial Management should be used to resolve any doubt about the application of articular financial management standards.

Financial management standards are to be guided by proportionality. It is appropriate for different financial management approaches to apply to high-value/high-risk items that alone may determine the financial sustainability of the organisation as distinct from low-value/low-risk items. In satisfying the demands of the financial management standards it may be appropriate to apply different standard practices according to the scale and risks of each category of income or expenditure. The intention is that authorities demonstrate a rigorous approach to the assessment and mitigation of risk so that financial management expertise is deployed effectively given the circumstances faced by the authority.

Nonetheless, in acknowledging the need for proportionality in applying some aspects of the FM Code, an authority still needs to recognise that when aggregated, a failure to manage individual low-value/low-risk items may still threaten financial sustainability. The FM Code seeks to promote the good financial management of the standard, typical or familiar local authority activities just as much as it promotes the good financial management of the unusual, exceptional and unfamiliar. Essentially, the FM Code recognises that getting the routine business right is crucial for good financial management.

The CIPFA financial management standards

Summary table of CIPFA financial management standards

FM standard reference	CIPFA financial management standards
	Section 1: The responsibilities of the chief finance officer and leadership team
A	The leadership team is able to demonstrate that the services provided by the authority provide value for money.
B	The authority complies with the CIPFA *Statement on the Role of the Chief Finance Officer in Local Government.*
	Section 2: Governance and financial management style
C	The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.
D	The authority applies the CIPFA/SOLACE *Delivering Good Governance in Local Government: Framework* (2016).
E	The financial management style of the authority supports financial sustainability.
	Section 3: Long to medium-term financial management
F	The authority has carried out a credible and transparent financial resilience assessment.
G	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.
H	The authority complies with the CIPFA *Prudential Code for Capital Finance in Local Authorities.*
I	The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.
	Section 4: The annual budget
J	The authority complies with its statutory obligations in respect of the budget setting process.
K	The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.
	Section 5: Stakeholder engagement and business plans
L	The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.
M	The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.
	Section 6: Monitoring financial performance
N	The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.
O	The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.
	Section 7: External financial reporting
P	The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the *Code of Practice on Local Authority Accounting in the United Kingdom.*
Q	The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.

FM Code

Leadership	Accountability	Transparency	Standards	Assurance	Sustainability
A. The leadership team is able to demonstrate that the services provided by the authority provide value for money.	**D**. The authority applies the CIPFA/SOLACE *Delivering Good Governance in Local Government: Framework* (2016).	**L**. The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.	**H**. The authority complies with the CIPFA *Prudential Code for Capital Finance in Local Authorities*.	**C**. The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.	**E**. The financial management style of the authority supports financial sustainability.
B. The authority complies with the CIPFA *Statement on the Role of the Chief Finance Officer in Local Government*.	**P**. The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the Code.	**M**. The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.	**J**. The authority complies with its statutory obligations in respect of the budget setting process.	**F**. The authority has carried out a credible and transparent financial resilience assessment.	**G**. The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.
O. The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.	**Q**. The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.		**K**. The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.	**N**. The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.	**I**. The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.

SECTION 1

The responsibilities of the chief finance officer and leadership team

Local authorities in the UK use different democratic models. While the committee and the cabinet system are the most common there are also a number of direct elected mayors in England. Regardless of the model, responsibility for corporate financial sustainability rests with those responsible for making executive decisions with the support of their professional advisors. Elected members need to work effectively with officers and other stakeholders to make difficult decisions and to identify and deliver savings when required.

While the legislative context differs across the different jurisdictions of the UK, all local authorities must deliver value for money. This is an overarching requirement that informs the application of the other financial management standards in the FM Code.

Financial Management Standard A

The leadership team is able to demonstrate that the services provided by the authority provide value for money.

The role of the leadership team

The delivery of value for money will ultimately be dependent on decisions made by elected members. It is for the leadership team to ensure that the authority's governance arrangements and style of financial management promote financial sustainability. It is the elected members who are held to account by local people when a local authority fails, but an important element of collective decision making is to understand the risks and appreciate the different statutory responsibilities of those involved. Good financial management is the responsibility of the whole leadership including the relevant elected members. It is the responsibility of the senior officers within the management team to enact this.

The FM Code follows the practice of the CIPFA *Statement of the Role of the Chief Financial Officer in Local Government* in referring to this collective group of elected member and officers with this collective financial responsibility as the leadership team. In local authorities, therefore, the concept of the 'leadership team' will include executive committees, elected mayors, portfolio holders with delegated powers and other key committees of the authority and senior officers.

In the police service this leadership is provided by police and crime commissioners and chief constables, which operate jointly according to the policing protocol, which requires the maintenance of an efficient force.

The role of the chief finance officer

The statutory of the role of the chief finance officer (CFO) is a distinctive feature of local government in the UK (except in Northern Ireland). This role cannot be performed in isolation and requires the support of the other members of the leadership team.

The leadership team must recognise that while statutory responsibility for the financial management of the authority rests with the CFO, the CFO is reliant on the actions of the leadership team, both collectively and individually as elected members and senior officers. A situation in which the CFO is forced to act in isolation is characteristic of authorities in which financial management has failed and financial sustainability is threatened.

Equally, the CFO must ensure that they fulfil their personal legal and professional responsibilities in the public interest and in recognition of the other statutory service responsibilities of the authority. In the leadership team the CFO must provide timely, relevant and reliable financial advice, in accordance with the law and professional standards.

It is important to appreciate that while the section 151 or similar legislative provisions require the authority to appoint a suitably qualified officer responsible for the proper administration of its affairs, responsibility for proper financial administration still rests ultimately with elected members. The local authority itself has a statutory responsibility for maintaining a system of internal control including the management of risk, an effective internal audit and preparing annual accounts.

CIPFA has issued its *Statement on the Role of the Chief Financial Officer in Local Government*. This statement sets out CIPFA's understanding of the role to support both the CFO and local authorities.

Financial Management Standard B

The authority complies with the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government*.

For the purposes of the FM Code, the CIPFA *Statement on the Role of the Chief Finance Officer of the Police and Crime Commissioner* and the *Chief Finance Officer of the Chief Constable* (2012) should be substituted for references to the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government.*

CIPFA's *Statement on the Role of the Chief Financial Officer in Local Government* describes the roles and responsibilities of the CFO. It sets out how the requirements of legislation and professional standards should be fulfilled by the CFO as they carry out their duties. The statement is designed to assist those carrying out the role to meet its specific responsibilities while at the same time reiterating CIPFA's *Statement of Professional Practice* with which all CIPFA members are required to comply. The statement also requires that if different organisational arrangements are adopted the reasons should be explained publicly in the authority's annual governance statement, together with how they deliver the same impact.

SECTION 2

Governance and financial management style

Without good governance a local authority cannot make the changes necessary for it to remain financially sustainable. As such, financial sustainability must be underpinned by the robust stewardship and accountability to be expected of public bodies. Good governance gains the trust of taxpayers and other funders by giving them confidence that money is being properly spent. Good governance ensures better informed and longer-term decision making and therefore is essential for good financial management.

Good governance

Responsibility for good governance also rests with the leadership team. The team must ensure that there are proper arrangements in place for governance and financial management, including a proper scheme of delegation that ensures that frontline responsibility for internal and financial control starts with those who have management roles. This delegation ensures that those responsible for the delivery of services are also explicitly held responsible for the financial management of the associated expenditure and income. Nonetheless, it is for the leadership team to demonstrate that the authority always meets exacting standards of probity, accountability and demonstrable efficiency in the use of public resources.

The CFO is not the only officer with specific statutory responsibilities for good governance. The head of paid service (in practice the chief executive) is responsible for the proper recruitment and organisation of a local authority's staff. The monitoring officer has the specific duty to ensure that the council, its officers and its elected members maintain the highest standards of conduct in all they do (the legal basis of the head of paid service's role is found in Section 4 of the Local Government and Housing Act 1989 and that of the monitoring officer in Section 5 of the same act).

All parts of the governance structure of an organisation play an important role, but the audit committee is a key component, providing independent assurance over governance, risk and internal control arrangements. It provides a focus on financial management, financial reporting, audit and assurance that supports the leadership team and those with governance responsibilities.

Good governance is evidenced by actions and behaviours as well as formal documentation and processes. The tone and action at the top are critical in this respect, and rest with the leadership team – both senior officers and elected members, as well as the CFO. A successful leadership team has a culture of constructive challenge that excludes an optimism bias in favour of a realism bias and is built on a rigorous examination of goals, underlying assumptions and implementation plans.

The Committee on Standards in Public Life has set out *Seven Principles of Public Life* which it believes should apply to all in the public services (often referred to as the Nolan Principles). The last of the Nolan Principles – that holders of public office should promote and support these principles by leadership and example – is especially relevant to the leadership team.

Financial Management Standard C

The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.

By international standards, local government in the UK is distinguished by high standards of governance. Citizens expect financial accountability, press and parliamentary scrutiny, integrity and the absence of corruption. These expectations are largely met, but local authorities should guard against complacency.

The CIPFA/IFAC *International Framework: Good Governance in the Public Sector* (Annex A to this FM Code) is intended to encourage sustainable service delivery and improved accountability by establishing a benchmark for aspects of good governance in the sector. The application of this international framework in the context of UK local government is reinforced by specific regulatory requirements and sector specific guidance. The CIPFA/SOLACE *Delivering Good Governance in Local Government: Framework* (2016 edition) supports local authorities in developing and maintaining their own codes of governance and to discharge their accountability for the proper conduct of business.

Financial Management Standard D

The authority applies the CIPFA/SOLACE *Delivering Good Governance in Local Government: Framework* (2016).

This CIPFA/SOLACE framework recommends that the review of the effectiveness of the system of internal control that local authorities in England, Wales, Scotland and Northern Ireland are required to undertake by their respective accounts and audit regulations should be reported in an annual governance statement.

Financial management style

The financial management challenges faced by many local authorities are unprecedented in recent history and show no signs of easing. This is significant because it means that different styles of financial management are necessary. Financial sustainability will not be achieved by continuing with the behaviours of the past since these do not meet the demands of the present – or the future, which may be even more challenging. To remain financially sustainable authorities need to develop their financial management capabilities.

Financial Management Standard E

The financial management style of the authority supports financial sustainability.

CIPFA believes that the strength of financial management within an organisation can be assessed by a hierarchy of three 'financial management (FM) styles':

- delivering accountability
- supporting performance
- enabling transformation.

These different styles are used in the CIPFA Financial Management Model to describe the different standards of financial management which may be found in local authorities. They represent a hierarchy in which enabling transformation is only achieved by a financial management style that supports performance and which in turn delivers accountability. Once these basic foundations have been soundly established, authorities need to move up through a hierarchy of financial management styles in response to increasing risk. This is especially important as risks have increased for many local authorities; on the one hand reduced expenditure leaves less margin for error while on the other hand, in seeking to generate new income, local authorities take on unfamiliar risks.

This hierarchy of financial management styles loosely maps onto the now deeply embedded recognition of the necessity for economy, efficiency and effectiveness to achieve value for money. In delivering accountability the finance team ensures that their authorities spend less and so achieve economy. In supporting performance, the finance team works with the authority to spend well by maximising the output from goods or services and so achieves efficiency. Finally, in enabling transformation the finance team supports the effective use of public money.

CIPFA recognises that while the highest standards of financial management should be the expectation, in practice some local authorities are at different stages of development. In these circumstances, compliance with the FM Code may initially be achieved by credible proposals to raise financial standards beyond the basic delivery of accountability.

The first two sections of this code have addressed the pre-conditions that must be satisfied for sound financial management. The following sections turn to the practical operation of the successive stages of the financial management cycle.

SECTION 3

Medium to long-term financial management

While the statutory local authority budget setting process continues to be on an annual basis (see Section 4) a longer-term perspective is essential if local authorities are to demonstrate their financial sustainability. Short-termism runs counter to both sound financial management and sound governance.

CIPFA does not believe however that the time horizon of local authority financial planning is determined by the time horizon of the financial support from central government. The greater the uncertainty about future central government policy then the greater the need to demonstrate the long-term financial resilience of the authority given the risks attached to its core funding.

An authority must ensure that while the formal publication of the medium-term financial plan (MTFP) may only reflect government settlements, it is the responsibility of the leadership of the organisation, including elected members, senior management and the section 151, to have a long-term financial view acknowledging financial pressures.

Authorities with a high level of capital investment and associated external borrowing should adopt a correspondingly long-term approach. The Prudential Code requires that a local authority capital strategy sets out the long-term context in which capital expenditure and investment decisions are made. For example all authorities with PFI, service contracts and other similar contractual arrangements will need to demonstrate their ability to finance these arrangements over the whole period of the contracts. Housing Revenue Account (HRA) business plans in England and Wales are already based on a 30-year time horizon.

Financial resilience and long-term financial strategy

If an authority has not tested and demonstrated its long-term financial resilience then its financial sustainability remains an open question. Authorities must critically evaluate their financial resilience. It is possible that the existing strategy is financially sustainable, but this must still have been tested and demonstrated in a financial resilience assessment.

In this financial resilience assessment the authority must test the sensitivity of its financial sustainability given alternative plausible scenarios for the key drivers of costs, service demands and resources. It will require an analysis of future demand for key services and consideration of alternative options for matching demand to resources. Testing will focus on the key longer-term revenues and expenses and the key risks to which the authority will be exposed.

With an awareness that risks will vary, consideration should be given to tools such as the Financial Resilience Index that may help organisations identify these pressure points. Without such stress testing an authority cannot be regarded as financially sustainable and will be deemed to have failed that test.

Financial Management Standard F

The authority has carried out a credible and transparent financial resilience assessment.

Having carried out the finance resilience assessment, the authority will need to demonstrate how the risks identified have informed a long-term financial strategy. A local authority needs an over-arching strategic vision of how it intends to deliver outputs and achieve outcomes for which it is responsible. This should include a statement that sets out both the vision and the underlying strategy, together with the mix of interventions that the organisation will adopt in delivering services to achieve the intended outcomes. In many cases a basis for this will already exist in a corporate plan.

A key part of the strategy should be a visioning exercise to understand the potential shape of services in the future. It will need to be sufficiently comprehensive to offer a convincing demonstration that the authority has identified a way of achieving financial sustainability. At the same time it needs to provide a relatively fixed point of reference which is subject to periodic review and to revision and fundamental change only when it is no longer fit for purpose.

Financial Management Standard G

The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.

CIPFA is not at present being prescriptive about the time period of this long-term financial strategy. Different authorities will face different levels of political and financial stability which may have become embedded in different management cultures. However, CIPFA would promote ambition and stress the need for a financial strategy that matches the requirement for a strategic approach to service planning. The underlying key demand cost drivers, especially those linked to the age profile of the community, can be foreseen at least in broad terms for a decade and more ahead.

The Prudential Code for Capital Finance in Local Authorities

The statutory requirements of the Prudential Code underpins elements of the long and medium-term financial management considered in this section of the FM Code. While the minimum requirement is for three-year rolling capital and investment plans, *The Prudential Code for Capital Finance in Local Authorities* (2017 edition) stresses that a longer-term approach is necessary to ensure that capital strategy and asset management plans are sustainable.

Financial Management Standard H

The authority complies with the CIPFA *Prudential Code for Capital Finance in Local Authorities.*

One of the requirements of the Prudential Code is a capital strategy. This capital strategy is a fundamental component of good financial management. It should set out how the organisation is currently managing its assets and more importantly its future plans linked to available resources. Balance sheet management in local authorities is about the better management of assets and liabilities to support service delivery and capital strategy. A long-term vision is needed for the configuration of service delivery and investment properties because timely asset disposals and/or investments will be dependent on complex interdependencies.

A long-term vision should also be reflected in any commercial investment activity undertaken by the organisation. Guided by the Prudential Code and relevant guidance on borrowing for acquisitions of commercial properties, a local authority should not put public money and services at risk.

Practical medium-term financial planning

CIPFA does not anticipate that a long-term financial strategy would provide sufficient detail to shape the annual budget setting process. Local authorities will need to translate their long-term financial strategies into a medium-term financial plan (MTFP) for budget setting.

The MTFP is the mechanism or framework by which the annual budget process relates directly to the long-term strategy establishing the financial sustainability of the authority. While not prescriptive about time frame, the MTFP should support financially sustainable decision making.

Importantly, performance against the plan will enable recent success and/or failures in delivering financial objectives to be taken into account in the annual budget process. A symptom of financial stress is the emergence of unanticipated overspends in recent years from the MTFP. While the long-term strategy needs to be a stable point of reference, the MTFP needs to be rolled forward annually to ensure that it reflects the latest detailed information. By taking this approach to medium-term financial planning the annual budget is aligned to longer-term goals.

The MTFP should enable the leadership team to have confidence in its long-term strategy for its financial sustainability. Importantly, financial and operational plans must be demonstratively aligned to the strategy at all levels. Without clear service plans it is impossible to place the forecast within the context of currently agreed policies and their implications for future demand and resources.

Financial Management Standard I

The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.

SECTION 4

The annual budget

One of the objectives of this FM Code is to end the practice by which the annual budget process has often become the focal point if not the limit of local authority financial planning. However the annual budget preparation process needs to be protected at a time when the need to make difficult decisions may threaten its integrity.

Local authorities need to ensure that they are familiar with the legislative requirements of the budget setting process. In times of routine business compliance this is relatively straightforward, but in times of financial stress there may be pressures for delay or obfuscation in budget setting. These difficulties can be acute when council tax setting is reliant on decisions by independent precepting bodies. In these circumstances it is likely that the CFO will need to work closely with the chief executive, monitoring officer and the leadership team to ensure statutory processes and a timetable necessary to set a legal budget are understood. The monitoring officer is the custodian of the constitution, which acts as a safeguard to prevent councillors and officers from getting into legal difficulties in the exercise of their role and uphold and ensure fairness in decision making.

Financial Management Standard J

The authority complies with its statutory obligations in respect of the budget setting process.

The annual report setting out the proposed budget for the coming year is a key document for the authority. It will also demonstrate compliance with CIPFA's Prudential Code (Financial Management Standard H). The best budget plans are those owned and articulated by the whole leadership team and senior managers, not simply the CFO.

Reserves are acknowledged in statute. Local authorities are directed to have regard to the level of reserves when considering their budget requirement. Consequently, reserves are a recognised and intrinsic part of financial planning and budget setting. The assessment of 'adequate' and 'necessary' levels of reserves is a matter for local authorities to determine. It is the responsibility (with statutory backing in England and Wales) of the CFO to advise the local authority on the appropriate level of reserves and the robustness of the estimates.

Financial Management Standard K

The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.

The budget report should include details of the earmarked reserves held, and explain the purpose of each reserve, together with the estimated opening balances for the year, details of planned additions/withdrawals and the estimated closing balances.

A well-managed authority, with a prudent approach to budgeting, should be able to operate with a level of general reserves appropriate for the risks (both internal and external) to which it is exposed. Compliance with the FM Code will give important reassurance that the authority's financial management processes and procedures are able to manage those risks. These should be maintained at a level appropriate for the profile of the authority's cash flow and the prospect of having to meet unexpected events from within its own resources. Even where, as part of their wider role, auditors have to report on an authority's financial position, it is not their responsibility to prescribe the optimum or minimum level of reserves for individual authorities or authorities in general.

The successful execution of the annual budget will depend on both the good governance and internal controls already codified in Section 2 as well as financial monitoring addressed in Section 6.

SECTION 5

Stakeholder engagement and business cases

Financial sustainability requires citizens to understand that resources are not limitless and that decisions have to be made about both the relative priority of different services and the balance between service provision and taxation levels. The leadership team collectively has an important role in reviewing priorities to enable resources to be redirected from areas of lesser priority; it is not possible to rely principally on pro rata cuts to generate the savings necessary for financial sustainability in an era of austerity.

The leadership team needs to challenge not only how services are delivered, but also what is delivered. These decisions must be made with a clear understanding of the statutory requirements and of wider legal implications of any decisions.

Stakeholder engagement

Stakeholder consultation can help to set priorities and reduce the possibility of legal or political challenge late in the change process. Stakeholder consultation helps to encourage community involvement not just in the design of services but in their ongoing delivery. This is especially the case when a local authority adopts an enabling approach to public service delivery which, along with the active involvement of the third sector, may facilitate future reductions in service costs.

Financial Management Standard L

The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.

Business cases

Financial sustainability will be dependent upon difficult and often complex decisions being made. The authority's decisions must be informed by clear business cases based on the application of appropriation option appraisal techniques. Professional accountants can be expected to comply with the IFAC/PAIB Project and Investment Appraisal for Sustainable Value Creation reproduced in Annex B to this FM Code.

Financial Management Standard M

The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.

It is the responsibility of the CFO to ensure that all material decisions are supported by an option appraisal which in its rigour and sophistication is appropriate for the decision being made. It is likely that the authority's documented option appraisal methodology will include a relatively simplistic approach for decisions of low value and/or low risk.

SECTION 6

Performance monitoring

To remain financially sustainable an authority must have timely information on its financial and operational performance so that policy objectives are delivered within budget. Early information about emerging risks to its financial sustainability will allow it to make a carefully considered and therefore effective response.

Financial Management Standard N

The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.

Significant unplanned overspends and/or carrying forward undelivered savings into the following year might be a sign that an authority is not translating its policy decisions into actions. It also creates the conditions for further financial pressures and possible service reductions in subsequent years. However, the warning signs could also be in other non-financial performance measures, such as backlogs and other indications that current resources are not matching the expectations of service users. These trends should inform the decisions taken on the medium and long-term financial planning addressed by Section 3 of this code.

It is a requirement of this code that authorities should more closely monitor the material elements of their balance sheet that may give indications of a departure from financial plans. This is especially important for local authorities with significant commercial asset portfolios. Legislation requires local authorities to maintain adequate accounting records of their assets and liabilities. Regulations also require that the appropriate (chief finance) officer certifies or confirms that the statements of accounts provide a true and fair view of the financial position (ie the amounts in the balance sheet) of the authority at 31 March in the year of account.

Financial Management Standard O

The leadership team monitors the elements of its balance sheet which pose a significant risk to its financial sustainability.

Contingencies and commitments are monitored to identify any items where a balance sheet provision may have crystallised. Key drivers of provisions (eg asset decommissioning decisions, legal claims, reorganisation activities) should be monitored to identify whether an actual or constructive obligation has arisen. Finally, cash flow is managed through application of *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes* (CIPFA, 2017).

SECTION 7

External financial reporting

Taxpayers and citizens have a legitimate stake in understanding how public money has been used in providing the functions and services of the authority. The audited statements of account, which present the authority's financial position and financial performance, play an integral part in demonstrating this to them. The statutory accounts provide a secure base for financial management. They support accountability and thus good financial management by allowing the users of the financial statements and other stakeholders to do the following:

- Discover how much is spent in a year on services and whether this has increased or decreased from previous years.
- Consider the indebtedness of an organisation and how that might impact on future taxpayers.
- Recognise the value and therefore usefulness of the assets that the organisations hold.
- Assess what the future commitments and liabilities are, for example, for pensions or leases, and again how these are likely to impact on future generations and taxpayers.

CIPFA's *Statement on the Role of the Chief Finance Officer in Local Government* sets out the chief finance officer's statutory responsibilities for producing the accounts and maintaining the financial records for those accounts. The CIPFA Statement requires that the statements of account are published on a timely basis to communicate the authority's activities and achievements, its financial position and performance. It also requires certification of the accounts by the chief finance officer. The confirmation that the accounts present a 'true and fair' view is one of the fundamental roles of the statutory chief finance officer. Across the UK the *Code of Practice on Local Authority Accounting in the United Kingdom* produced by the CIPFA/LASAAC Local Authority Code Board establishes proper (accounting) practices under which that 'true and fair' view will need to be confirmed/certified.

Financial Management Standard P

The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the *Code of Practice on Local Authority Accounting in the United Kingdom.*

The statutory and professional frameworks for the production and publication of the accounts underpin their importance and demonstrate that they have a key part to play in accountability to taxpayers and other stakeholders in showing how public money is used. Financial reporting therefore should not take place in a vacuum. The financial statements provide the accountability link between planned performance, resources used and the outcomes – financial and more – that are achieved. The authority, its management and the CFO both in its financial statements and the narrative reports that accompany them must provide the user with the links between the consumption of resources and the value that has been created.

It is key to ensure that the authority and its leadership understand how effectively its resources have been utilised during the year, including a process which explains how material variances from initial and revised budgets to the outturn reported in the financial statements have arisen and been managed. The success of these arrangements will be demonstrated by the ability of the leadership team to make decisions from them. In some circumstances this will lead to a reappraisal of the achievability of the long-term financial strategy and the financial resilience of the authority (see Section 3).

Financial Management Standard Q

The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.

Annex A

IFAC/CIPFA GUIDANCE ON IMPLEMENTING THE PRINCIPLES FOR GOOD GOVERNANCE IN THE PUBLIC SECTOR (EXTRACT)

Principles for good governance in the public sector

Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.

The fundamental function of good governance in the public sector is to ensure that entities achieve their intended outcomes while acting in the public interest at all times.

Acting in the public interest requires:

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.

B. Ensuring openness and comprehensive stakeholder engagement.

In addition to the overarching requirements for acting in the public interest in principles A and B, achieving good governance in the public sector also requires effective arrangements for:

C. Defining outcomes in terms of sustainable economic, social, and environmental benefits.

D. Determining the interventions necessary to optimise the achievement of the intended outcomes.

E. Developing the entity's capacity, including the capability of its leadership and the individuals within it.

F. Managing risks and performance through robust internal control and strong public financial management.

G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

Annex B

IFAC/PAIB PROJECT AND INVESTMENT APPRAISAL FOR SUSTAINABLE VALUE CREATION

Extract from IFAC website.

Principles in project and investment appraisal

The key principles underlying widely accepted good practice are:

A. When appraising multi-period investments, where expected benefits and costs and related cash inflows and outflows arise over time, the time value of money should be taken into account in the respective period.

B. The time value of money should be represented by the opportunity cost of capital.

C. The discount rate used to calculate the NPV [net present value] in a DCF [discounted cash flow] analysis, should properly reflect the systematic risk of cash flows attributable to the project being appraised, and not the systematic risk of the organisation undertaking the project.

D. A good decision relies on an understanding of the business and should be considered and interpreted in relation to an organisation’s strategy and its economic, social, environmental, and competitive position as well as market dynamics.

E. Project cash flows should be estimated incrementally, so that a DCF analysis should only consider expected cash flows that could change if the proposed investment is implemented. The value of an investment depends on all the additional and relevant changes to potential cash inflows and outflows that follow from accepting an investment.

F. All assumptions used in undertaking DCF analysis, and in evaluating proposed investment projects, should be supported by reasoned judgment, particularly where factors are difficult to predict and estimate. Using techniques such as sensitivity analysis to identify key variables and risks helps to reflect worst, most likely and best case scenarios, and therefore can support a reasoned judgment.

G. A post-completion review or audit of an investment decision should include an assessment of the decision making process and the results, benefits, and outcomes of the decision.

H. Capital and revenue reports need to be closely linked so there is an understanding of how each capital scheme is financed, and in particular which require revenue contributions.

Borrowing costs need to be spelt out. Low interest rates are not in themselves a compelling reason to borrow. Capital budgets should be clear about how individual schemes are financed and which ones add pressure to revenue.

Glossary

Accounting standards	Rules set by the International Accounting Standards Boards that set out how transactions are to be shown in an organisation's accounts.
Annual statement of accounts	The statement of accounts presents the authority's transactions on an annual basis as of 31 March of the relevant year of account. The complete set of financial statements in the annual accounts for local authorities comprises: ■ comprehensive income and expenditure statement for the period ■ movement in reserves statement for the period ■ balance sheet as at the end of the period ■ cash flow statement for the period, and ■ notes, comprising significant accounting policies and other explanatory information.
Asset management plan	Asset management plans align the asset portfolio with the needs of the organisation.
Audit committee	A special committee of the council that reviews the financial management and accounts of the council.
Balance sheet	A financial statement presenting a summary of the authority's financial position as of 31 March each year. In its top half it contains the assets and liabilities held or accrued. As local authorities do not have equity shares, the bottom half is comprised of reserves that show the location of the authority's net worth between its usable and unusable reserves.
Capital budget	The money a council plans to spend on investing in new buildings, infrastructure and other equipment.
Capital financing charges	The amount a council has to pay to support its borrowing to pay for the purchase of major assets.
Capital receipt	The money a council receives for selling assets that can only be used to repay debt or for new capital expenditure.
Chief financial officer	The most senior finance person in a council responsible for ensuring the proper financial management of the council.
CIPFA FM Model	The CIPFA FM Model is the tool that helps public service organisations apply their financial resources to achieve their goals.
Code of Practice on Local Authority Accounting in the United Kingdom	A code produced by the CIPFA/LASAAC Local Authority Code Board. It specifies the principles and practices of accounting required to give a 'true and fair' view of the financial position, financial performance and cash flows of a local authority, including the group accounts where a local authority has material interests in subsidiaries, associates or joint ventures. The Local Authority Accounting Code is established as a proper practice by the four relevant administrations across the UK.
Earmarked reserve	Money set aside for future use on a specific area of expenditure. It remains a part of the general reserves of the authority.

Financial management	Financial management encompasses all the activities within an organisation that are concerned with the use of resources and that have a financial impact. CIPFA has defined financial management for public bodies as “the system by which the financial aspects of a public body’s business are directed and controlled to support the delivery of the organisation’s goals”.
General fund balance (also council fund or police fund)	The general fund is the statutory fund into which all the receipts of an authority are required to be paid and out of which all liabilities of the authority are to be met, except to the extent that statutory rules might provide otherwise. The general fund balance therefore summarises the resources that the authority is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the council is required to recover) at the end of the financial year.
Governance	The framework by which a council can gain assurance that it is setting and achieving its objectives and ensuring value for money in the proper way.
Housing Revenue Account (HRA)	An account used to record the income and expenditure related to council housing.
IFAC (International Federation of Accountants)	IFAC is the global organisation for the accountancy profession dedicated to serving the public interest by strengthening the profession and contributing to the development of strong international economies. CIPFA is a member.
Internal audit	An internal review of the organisation’s systems to give assurance that they are appropriate and being complied with.
Leadership team	Executive committees, elected mayors, portfolio holders with delegated powers and other key committees of the authority. In the police service this leadership is provided by police and crime commissioners and chief constables.
Non-domestic rates	A tax paid by local businesses to their council.
Public Sector Internal Audit Standards	These standards, which are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF), are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.
Provision	A provision is a present liability whose timing or amount of settlement is uncertain. For example, it may be a charge for liabilities that are known to exist, but have to be estimated.
Prudential Code	A code produced by CIPFA that councils are required to follow when deciding upon their programme for capital expenditure.
Revenue budget	The amount that a council spends on its day-to-day running of services through the financial year.
Ringfencing	A term for the earmarking of money (eg a grant or fund) for one particular purpose, so as to restrict its use to that purpose.
Society of Local Authority Chief Executives (SOLACE)	SOLACE’s purpose is to develop the highest standards of leadership in local government and the wider public sector.
Treasury management	CIPFA has adopted the following as its definition of treasury management activities: ■ the management of the organisation’s borrowing, investments and cash flows ■ its banking ■ money market and capital market transactions ■ the effective control of the risks associated with those activities ■ the pursuit of optimum performance consistent with those risks.

Treasury Management Code	A professional and statutory code produced by CIPFA that councils are required to follow in managing their treasury management activity.
Treasury management strategy	An annual document approved by full council that sets out how a council will manage its cash and borrowings.

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Report to Audit Committee

Treasury Management Strategy Statement 2022/23

Including the Minimum Revenue Provision Policy Statement, Annual Investment Strategy and Prudential Indicators

Portfolio Holder: Cllr Abdul Jabbar MBE, Deputy Leader and Cabinet Member for Finance and Low Carbon

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Ext. 6608

17 January 2022

Reason for Decision

To present to Audit Committee, the strategy for 2022/23 Treasury Management activities including the Minimum Revenue Provision Policy Statement, the Annual Investment Strategy and Prudential Indicators together with linkages to the Capital Strategy.

Executive Summary

The report outlines the Treasury Management Strategy for 2022/23 including the Minimum Revenue Provision Policy Statement, Annual Investment Strategy and Prudential Indicators together with linkages to the Capital Strategy.

The Council is required through regulations supporting the Local Government Act 2003 to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. It is also required to produce an annual Treasury Strategy for borrowing and to prepare an Annual Investment Strategy setting out the Council's policies for managing its investments and for giving priority to security and liquidity of those investments.

The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management 2021 (the Code) also requires the receipt by full Council of a Treasury Management Strategy Statement.

The Strategy for 2022/23 covers two main areas.

Capital Issues

- The Capital expenditure plans and the associated Prudential Indicators
- The Minimum Revenue Provision (MRP) Policy Statement

Treasury Management Issues:

- The Current Treasury Position
- Treasury Indicators which limit the treasury risk and activities of the Council
- Prospects for Interest Rates
- The Borrowing Strategy
- The Policy on Borrowing in Advance of Need
- Debt Rescheduling
- The Investment Strategy
- The Creditworthiness Policy
- The Policy regarding the use of external service providers.

The report therefore outlines the implications and key factors in relation to each of the above Capital and Treasury Management issues and makes recommendations with regard to the Treasury Management Strategy for 2022/23.

The report includes an economic background commentary which reflects the latest position at 31 December 2021.

During 2020/21, there were two consultation exercises on the Prudential Code and Code of Practice on Treasury Management with a range of proposed changes being considered. These mainly related to commercial investments and the requirement for Authorities to adopt a more prudent approach. The consultation ended on 16 November 2021 and the changes to the Codes were issued on 20 December 2021. The Council's strategy for 2022/23 has incorporated these recent changes in the Codes where information is readily available.

The proposed Treasury Management Strategy is presented to the Audit Committee to enable scrutiny of the report before it's further consideration in the budget setting cycle. It will also be presented to the Policy Overview and Scrutiny Committee on 27 January 2022. Any comments from the Audit Committee and the Policy Overview and Scrutiny Committee will be incorporated into the report presented to Cabinet on 14 February 2022 and Council on 2 March 2022.

Recommendation

That the Audit Committee considers and commends to Cabinet as appropriate, the:

1 Capital Expenditure Estimates as per paragraph 2.1.2;
2 MRP policy and method of calculation as per Appendix 1;
3 Capital Financing Requirement (CFR) Projections as per paragraph 2.2.4;

4 Projected treasury position as at 31 March 2022 as per paragraph 2.3.3;
5 Treasury Limit's as per section 2.4;
6 Borrowing Strategy for 2022/23 as per section 2.6;
7 Annual Investment Strategy as per section 2.10 including risk management and the creditworthiness policy at section 2.11; and
8 Level of investment in specified and non-specified investments detailed at Appendix 5.

Audit Committee

17 January 2022

Treasury Management Strategy Statement 2022/23 Including the Minimum Revenue Provision Policy Statement, Annual Investment Strategy and Prudential Indicators

1 Background

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

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

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

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

1.5 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."

Source: The Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Service's Code of Practice.

1.6 <u>Reporting Requirements – Capital Strategy</u>

1.6.1 The CIPFA Prudential and Treasury Management Codes (2021) require all Local Authorities to prepare a capital strategy report which will provide the following:

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

1.6.2 The Council's capital strategy (which is elsewhere on the agenda) is therefore prepared following the required Codes of Practice to ensure that all Council Members are presented with the overall long-term capital investment policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

1.6.3 The Council's capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security of capital, liquidity and yield principles, and the policy around commercial investments, usually driven by expenditure on an asset. Specifically, in relation to non-treasury investments, the capital strategy includes, where appropriate:

- The corporate governance arrangements for these types of activities;
- Any service objectives relating to the investments;
- The expected income, costs and resulting contribution to support the Councils budget;
- The debt related to the activity and the associated interest costs;
- The payback period (Minimum Revenue Provision (MRP) policy);
- For non-loan type investments, the cost against the current market value;
- The risks associated with each activity.

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

1.6.5 The Council will also follow the most recent guidance by CIPFA, the revisions to the Prudential Code and Treasury Management Code. Having regard to all relevant guidance, the Council's Capital Strategy includes the changes to the Public Works Loan Board (PWLB) lending criteria introduced in March 2021.

1.6.6 If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the capital strategy (to date there have been no such losses).

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

1.7 Treasury Management Reporting

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

a. Prudential and treasury indicators and treasury strategy (this report), the first and most important report which is a forward look to the year ahead and covers:

- The capital plans, (including prudential indicators);
- A minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);
  The treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
- An investment strategy, (the parameters on how investments are to be managed).

b. A mid-year treasury management report

This is primarily a progress report and will update Members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

c. An annual treasury report

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

1.7.2 The above reports are required to be adequately scrutinised before being commended to Cabinet and Council. The scrutiny of Treasury Management reports is undertaken by the Audit Committee.

1.8 Treasury Management Strategy for 2022/23

1.8.1 The strategy for 2022/23 covers two main areas:

1.8.2 Capital issues:
- The capital expenditure plans and the associated prudential indicators;
- The minimum revenue provision (MRP) policy.

1.8.3 Treasury management issues:
- The current treasury position;
- Treasury indicators which limit the treasury risk and activities of the Council;
- Prospects for interest rates;
- The borrowing strategy;
- Policy on borrowing in advance of need;
- Debt rescheduling;
- The investment strategy;
- Creditworthiness policy; and
- The policy on use of external service providers.

1.8.4 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, Department of Levelling Up, Housing and Communities (formerly the Ministry of Housing, Communities and Local Government (MHCLG)) Minimum Revenue Provision (MRP) Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance.

1.9 Training

1.9.1 The CIPFA Code requires the responsible officer (in Oldham the Director of Finance) to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny. Training was provided to Audit Committee Members and Council Officers on 5 October 2021.

1.9.2 The training needs of treasury management officers are periodically reviewed. The team is staffed by professionally qualified accountants with extensive Local Government finance experience. Team members attend all relevant training courses, workshops and events to ensure that their knowledge and skills are up to date and the Council is in a position to address all new technical developments. During 2021/22 these have all been held remotely via zoom or another online platform. All staff follow a Continuous Professional Development (CPD) Plan as part of their individual accountancy body accreditation. The overall responsibility for capital and treasury activities lies with the Council's Section 151 Officer (Director of Finance) who, in accordance with statute, is professionally qualified and is suitably experienced to hold the post.

1.10 <u>Treasury Management Consultants</u>

1.10.1 The Council uses Link Group, Treasury Solutions as its external treasury management advisors.

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

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

1.10.4 When looking at a commercial element within a particular capital scheme that has a main focus on public services, housing, regeneration, preventative objectives or treasury management investments, the Council will require specialist advice that Link Group may not provide. As part of the evaluation process and if required, appropriate external advice will be sought, and an extensive due diligence exercise will be undertaken.

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2 Capital Plans & Prudential Indicators 2022/23 – 2024/25

2.1 <u>Capital Plans</u>

2.1.1 The Council's capital expenditure plans are the key driver of Treasury Management activity. The output of the capital expenditure plans is reflected in Prudential Indicators, which are designed to assist Members' overview and confirm capital expenditure plans. These indicators as per the Capital Programme include previous years' actual expenditure, forecast expenditure for this current year 2021/22 and estimates for the next three-year period, the timeframe required by CIPFA's guidance.

Capital Expenditure Estimates

2.1.2 This first Prudential Indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. The Audit Committee is asked to consider the capital expenditure forecasts included the table below presented to reflect the current Portfolio management arrangements, although this will change in 2022/23. The capital spending plans included in the Capital Strategy and Programme translate the ambition and vision for Oldham that were set out in the Cabinet reports.

Table 1 - Capital Expenditure Estimates

Capital Expenditure / Portfolio	2020/21 Actual £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
Corporate Services *	13,066	2,265	4,000	69	138
Children's Services	11,176	15,403	5,425	8,816	3,000
Communities & Reform	57	36	908	250	0
Community Health & Adult Social Care	2,433	2,017	2,547	2,543	2,543
People & Place	38,358	29,437	81,465	65,038	49,722
Funds for Emerging Priorities		1,115	2,520	2,050	836
General Fund Services	**65,090**	**50,273**	**96,865**	**78,766**	**56,239**
Housing Revenue Account (HRA)	4,397	785	3,383	8,227	8,014
HRA	**4,397**	**785**	**3,383**	**8,227**	**8,014**
Commercial Activities / Non-Financial Investments **	3,740	1,500			
Commercial Activities / Non-Financial Investments	**3,740**	**1,500**	**0**	**0**	**0**
Total	**73,227**	**52,558**	**100,248**	**86,993**	**64,253**

* Excludes any commercial activities which were included in the Corporate Services capital programme.
** Relates to areas such as capital expenditure on investment properties, loans to third parties, purchase of equity shares etc.

2.1.3 The capital expenditure shown above excludes other long-term liabilities, such as Private Finance Initiative (PFI) and leasing arrangements which already include borrowing instruments. It should be noted that any new expenditure commitments are likely to increase the borrowing requirement.

2.1.4 Table 2 below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding need (borrowing).

2.1.5 The borrowing need for capital expenditure in 2022/23 is currently expected to be £46.990m. This will however change if there is a revision to the spending profile of the capital programme.

Table 2 - Funding of the Capital Programme

Capital Expenditure	2020/21 Actual £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
General Fund Services	68,830	51,773	96,865	78,766	56,239
HRA	4,397	785	3,383	8,227	8,014
Commercial Activities		0	0	0	0
Total	**73,227**	**52,558**	**100,248**	**86,993**	**64,253**
Financed by:					
Capital receipts	(3,184)	(7,105)	(4,472)	(2,325)	(1,835)
Capital grants - Ringfenced	(20,820)	(19,850)	(33,787)	(15,999)	(2,100)
Capital grants – Un-ringfenced			(11,714)	(9,839)	(8,281)
Revenue	(147)	(93)	(2)		
HRA Resources	(2,532)	(785)	(3,283)	(8,127)	(7,914)
Net financing need for the year	**46,544**	**24,724**	**46,990**	**50,703**	**44,123**

2.1.6 All other prudential indicators included within this report are based on the above capital estimates.

2.2 The Council's Borrowing Need - the Capital Financing Requirement (CFR)

2.2.1 The second Prudential Indicator is the Council's CFR. The CFR is simply the total historic outstanding capital expenditure which has not yet been financed from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been financed from cash backed resources, will increase the CFR.

2.2.2 The CFR does not increase indefinitely, as the Council makes 'prudent' provision for debt repayment which broadly reduces indebtedness in line with each asset's life and so charges the economic consumption of capital assets as they are used. The approach to making prudent provision is set out in the MRP Policy Statement at Appendix 1.

2.2.3 The MRP policy for 2022/23 has been amended to reflect the potential changes to the MRP Guidance which is currently being consulted upon by the Department of Levelling Up, Housing and Communities (DLUHC). One of the proposed changes relate to Borrowing in Lieu of Capital Receipts and the Council has removed this section from its MRP policy.

2.2.4 The CFR includes other long-term liabilities (e.g., Private Finance Initiative (PFI) schemes, finance leases etc.). Whilst these arrangements increase the CFR, and therefore the Council's borrowing requirement, such schemes also include a 'loan' facility meaning the Council is not required to make separate borrowing arrangements. The Council currently estimates a net figure of £204.736m of such schemes within the CFR for 2022/23, decreasing to £182.700m by 2024/25. From 2022/23 and future years an estimated of £0.644m has been included in the CFR to reflect anticipated costs associated with the implementation of IFRS 16 (see paragraph 2.15.3).

Table 3 - Capital Financing Requirement (CFR)

	2020/21 Actual £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
Capital Financing Requirement (CFR)					
CFR - Services	491,713	493,307	518,740	544,553	560,540
CFR - Commercial Activities	0	0	0	0	0
Total CFR	**491,713**	**493,307**	**518,740**	**544,553**	**560,540**
Movement in CFR	**19,336**	**1,594**	**25,433**	**25,813**	**15,987**
Movement in CFR represented by					
Net financing need for the year	**46,544**	**24,724**	**46,990**	**50,703**	**44,123**
PFI Repayments	(11,282)	(9,691)	(8,913)	(10,671)	(11,365)
Less MRP/VRP and other financing movements	(15,926)	(13,439)	(12,644)	(14,219)	(16,771)
Movement in CFR	**19,336**	**1,594**	**25,433**	**25,813**	**15,987**

2.2.5 A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the Authority's overall financial position. The capital expenditure figures shown in Table 1 at paragraph 2.1.2 and the details above demonstrate the scope of this activity i.e. that there has not been any commercial activity and none is planned. Therefore, by approving these figures, the scale is considered proportionate to the Council's remaining activity.

Planned External Borrowing

2.2.6 The below table is a new for 2022/23 and conforms to the Department of Levelling Up, Housing and Communities new requirements regarding the categorisation of planned external borrowing, given that the Government's aim has been to limit the level of commercial activity (projects for yield) in which some (a limited number) of Local Authorities have been engaged. This will be submitted in the Council's application for the PWLB Certainty Rate for borrowing during 2022/23.

Table 4 –Planned External Borrowing

External Borrowing	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
Service Expenditure	9,567	12,696	5,630	3,519
Regeneration	14,579	31,790	43,623	39,604
Preventative Action	578	2,504	1,450	1,000
Treasury Management	-	-	-	-
Projects for yield	-	-	-	-
Total	**24,724**	**46,990**	**50,703**	**44,123**

2.3 Borrowing

2.3.1 The capital expenditure plans set out in section 2.1 to a large extent drives the borrowing estimates included in this report. The Treasury Management function ensures that the

Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant Treasury and Prudential Indicators, the current and projected debt positions and the Annual Investment Strategy.

Current Borrowing Portfolio Position

2.3.2 The overall treasury management portfolio as at 31 March 2021 and for the position as at December 2021 are shown below for both borrowing and investments.

Table 5 - Current Treasury Position

Treasury Investments	Actual 31/03/2021 £'000	Actual 31/03/2021 %	Current December 2021 £'000	Current December 2021 %
Banks	20,000	23.94%	45,205	43.22%
Building Societies	28,000	33.52%	0	0.00%
Local Authorities	0	0.00%	10,000	9.56%
Money Market Funds	20,540	24.59%	34,380	32.87%
Total Managed in House	**68,540**	**82.04%**	**89,585**	**85.66%**
Property Funds	15,000	17.96%	15,000	14.34%
Total Managed Externally	**15,000**	**17.96%**	**15,000**	**14.34%**
Total Treasury Investments	**83,540**	**100.00%**	**104,585**	**100.00%**
Treasury External Borrowing				
PWLB	35,482	20.53%	35,241	21.03%
LOBO'S	85,500	49.47%	85,500	51.01%
Market	46,600	26.96%	46,600	27.80%
Temporary other	5,261	3.04%	261	0.16%
Total Treasury External Borrowing	**172,843**	**100.00%**	**167,602**	**100.00%**
Net Treasury Investments / (Borrowing)	**(89,303)**		**(63,017)**	

2.3.3 The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, the Treasury Management operations, against the underlying capital borrowing need, the CFR, highlighting any over or under borrowing. Table 6 shows the forecast position of gross borrowing as at 31 March 2022 at £493.307m (debt at 31 March 2022 at £167.598m plus Closing Other Long Term Liabilities (OLTL) at 31 March 2022 of £213.648m) and an under borrowed position of £112.061m.

Table 6 - Current and Forecast Treasury Portfolio

	2020/21 Actual £'000	Forecast position as at 31/3/22 £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
External Debt					
Debt at 1 April	167,843	172,843	167,598	195,993	240,988
Actual/Expected change in debt	5,000	(5,245)	28,395	44,995	25,995
Debt at 31 March	172,843	167,598	195,993	240,988	266,983
Opening OLTL* at 1 April	235,687	224,405	213,648	204,736	194,064
Expected change in OLTL	(11,282)	(10,757)	(8,912)	(10,672)	(11,365)
Closing OLTL at 31 March	224,405	213,648	204,736	194,064	182,700
Actual/ Forecast gross debt (borrowing requirement) at 31 March	**397,248**	**381,246**	**400,729**	**435,052**	**449,683**
The Capital Financing Requirement	**491,713**	**493,307**	**518,740**	**544,553**	**560,540**
Under / (over) borrowing	**94,465**	**112,061**	**118,011**	**109,501**	**110,857**

* Other Long-Term Liabilities

2.3.4 Table 5 above shows the Council will need to undertake significant additional borrowing in future years if capital programme expenditure matches the anticipated spending profile. The borrowing requirement is a key driver of the borrowing strategy as set out in section 2.6 below. The timing of any additional borrowing given the amounts indicated in the table above will be closely monitored. Members will recall that capital spending plans have been reprofiled year on year and it is possible that the trend could be repeated in 2022/23 and future years.

2.3.5 There are a number of key Prudential Indicators to ensure that the Council operates its activities within well-defined limits. The Council must ensure that gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2022/23 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes. It is clear from the table above that the Council's gross borrowing position remains within these limits.

2.3.6 The Council has complied with this Prudential Indicator in the current year and does not envisage any difficulties with compliance in the future. This view takes into account current commitments, existing plans, and the proposals set out in this report.

2.3.7 The Council should include within the forecast gross borrowing figures in Table 6, any debt that relates to commercial activities / non-financial investment. The Council has no external debt for commercial activities/non-financial investment that is included in the gross borrowing figures in Table 5. Under the Prudential Code, there is a requirement to provide the information in the Treasury Management Strategy which shows that to date there has been a minimal impact on debt from potential investments in commercial activities compared to the Council's overall borrowing (excluding long-term liabilities).

2.4 <u>Treasury Limits for 2022/23 to 2024/25</u>

2.4.1 The Council is required to determine its Operational Boundary and Authorised Limit for external debt for the next three financial years.

Operational Boundary

2.4.2 The forecast Operational Boundary for 2021/22 together with the proposed operational boundaries for 2022/23 to 2024/25 are set out in Table 7 below. The boundary reflects the maximum anticipated level of external debt which is not expected to be exceeded. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on levels of actual debt and the ability to fund under-borrowing by other cash resources. This boundary will be used as a management tool for ongoing monitoring of external debt and may be breached temporarily due to unusual cash flow movements. However, a sustained or regular trend above the Operational Boundary should trigger a review of both the Operational Boundary and the Authorised Limit.

Table 7 - Operational Boundary

Operational Boundary	2021/22 Forecast £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
Borrowing	282,500	316,500	352,500	380,000
Other long term liabilities	215,500	206,500	195,500	184,500
Commercial activities / non-financial investments	0	0	0	0
Total	**498,000**	**523,000**	**548,000**	**564,500**

Authorised Limit

2.4.3 A further key Prudential Indicator, the Authorised Limit controls the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit may only be determined by full Council. It reflects the level of external debt which, while not desirable, is affordable in the short term, but is not sustainable in the longer term. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all Councils' plans, or those of a specific Council, although this power has not yet been exercised.

2.4.4 Members are asked to consider the proposed Operational Boundary for each financial year from 2021/22 to 2024/25 as set out in Table 7 above and Authorised Limit as set out in Table 8 below:

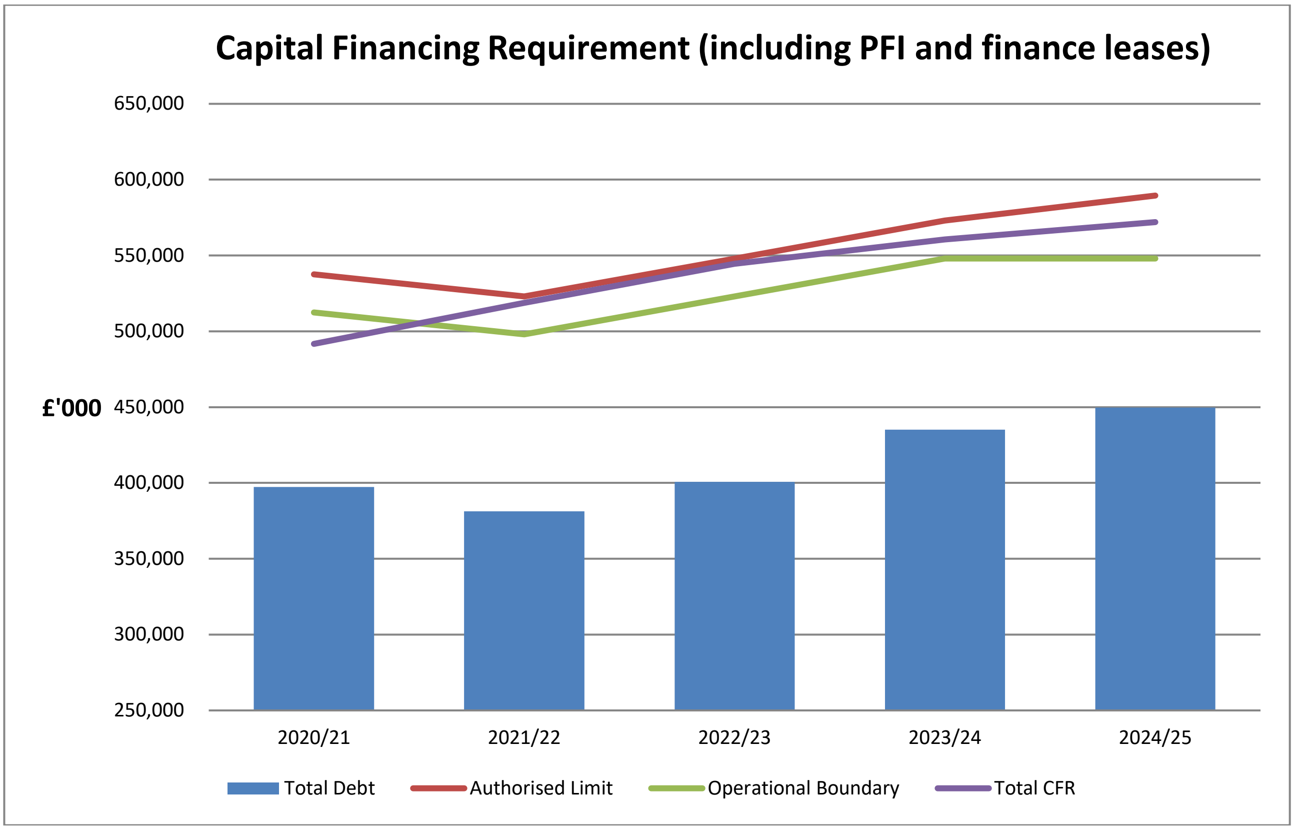
Table 8 Authorised Limit

Authorised Limit	2021/22 Forecast £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
Borrowing	302,500	336,500	372,500	400,000
Other long term liabilities	220,500	211,500	200,500	189,500
Commercial activities / non-financial investments	0	0	0	0
Total	**523,000**	**548,000**	**573,000**	**589,500**

2.4.5 Table 9 and the graph below show how the two indicators above, the Operational Boundary and the Authorised Limit compare to actual external debt and the CFR.

Table 9 - Estimated Capital Financing Requirement, Debt and Treasury Indicators

Capital Financing Requirement (CFR) including PFI and finance leases	Actual 2020/21 £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
General Fund CFR	491,713	493,307	518,740	544,553	560,540
Total CFR	**491,713**	**493,307**	**518,740**	**544,553**	**560,540**
External Borrowing	172,843	167,598	195,993	240,988	266,983
Other long term liabilities	224,405	213,648	204,736	194,064	182,700
Total Debt	**397,248**	**381,246**	**400,729**	**435,052**	**449,683**
Operational Boundary	512,500	498,000	523,000	548,000	564,500
Authorised Limit	537,500	523,000	548,000	573,000	589,500



2.5 <u>Prospects for Interest Rate</u>

2.5.1 The Council has appointed The Link Group as its Treasury Adviser and part of its service is to assist the Council to formulate a view on interest rates. The table below gives The Link Group central view of interest rates from December 2021 to March 2025 provided on 31 December. The rates are based on the PWLB Certainty Rate. The Certainty Rate is 80 basis points (bps) over gilt yields, and is a reduced rate offered to Local Authorities who qualify providing their plans for long-term borrowing and associated capital spending meet the criteria. The Council has applied for and been approved for the Certainty Rate which covers the period November 2021 to October 2022.

Table 10 - Interest Rate Forecast

Period Ending	Bank Rate	PWLB Borrowing Rates %			
	%	5 year	10 year	25 year	50 year
December 2021	0.25	1.40	1.60	1.80	1.50
March 2022	0.25	1.50	1.70	1.90	1.70
June 2022	0.50	1.50	1.80	2.00	1.80
September 2022	0.50	1.60	1.80	2.10	1.90
December 2022	0.50	1.60	1.90	2.10	1.90
March 2023	0.75	1.70	1.90	2.20	2.00
June 2023	0.75	1.80	2.00	2.20	2.00
September 2023	0.75	1.80	2.00	2.20	2.00
December 2023	0.75	1.80	2.00	2.30	2.10
March 2024	1.00	1.90	2.10	2.30	2.10
June 2024	1.00	1.90	2.10	2.40	2.20
September 2024	1.00	1.90	2.10	2.40	2.20
December 2024	1.00	2.00	2.20	2.50	2.30
March 2025	1.25	2.00	2.30	2.50	2.30

2.5.2 LIBOR and LIBID rates will be cease from the end of 2021, these will be replaced with SONIA (Sterling Overnight Index Average) as explained at 2.15.6 - 2.15.8.

2.5.3 The Coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16 December 2021.

2.5.4 As shown in the forecast table above, the forecast for Bank Rate now includes five increases, one in December 2021 to 0.25%, then quarter 2 of 2022 to 0.50%, quarter 1 of 2023 to 0.75%, quarter 1 of 2024 to 1.00% and, finally, one in quarter 1 of 2025 to 1.25%.

2.5.5 Significant Risks to the Forecasts

A number of significant risks to the forecasts have been identified:

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity.

- **Mutations** of the virus render current vaccines ineffective, and tweaked vaccines to combat these mutations are delayed or cannot be administered fast enough to prevent further national lockdowns. 25% of the population not being vaccinated is also a significant risk to the NHS being overwhelmed and lockdowns being the only remaining option.

- **The Monetary Policy Committee (MPC)** acts too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

- **The MPC** tightens monetary policy too late to ward off building inflationary pressures.

- **The Government** acts too quickly to cut expenditure to balance the national budget.

- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.

- **Longer term US treasury yields** rise strongly and pull gilt yields up higher than forecast.

- **Major stock markets** e.g., in the US, become increasingly judged as being over-valued and susceptible to major price corrections. Central banks become increasingly exposed to the "moral hazard" risks of having to buy shares and corporate bonds to reduce the impact of major financial market selloffs on the general economy.

- **Geopolitical risks,** for example in Ukraine, Iran, North Korea, but also in Europe and Middle Eastern countries; on-going global power influence struggles between Russia/China/US. These could lead to increasing safe-haven flows.

2.5.6 The balance of risks to the UK economy:

- The overall balance of risks to economic growth in the UK is now to the downside, including residual risks from COVID and its variants - both domestically and their potential effects worldwide.

Forecasts for Bank Rate

2.5.7 It is not expected that Bank Rate will go up fast after the initial rate rise as the supply potential of the economy is not likely to have taken a major hit during the pandemic. It should, therefore, be able to cope well with meeting demand after supply shortages subside over the next year, without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC's 2% target after the spike up to around 5%.

2.5.8 The forecast includes five increases in Bank Rate over the three-year forecast period to March 2025, ending at 1.25%. However, it is likely that these forecasts may need changing within a relatively short timeframe for the following reasons:

- At this present time, analysts do not know how severe an impact Omicron could have on the economy and whether there will be another lockdown or similar and, if there is, whether there would be significant fiscal support from the Government for businesses and jobs.
- There are increasing grounds for viewing the economic recovery as running out of steam during the autumn and now into the winter. The introduction of the new variant Omicron could pose a significant downside threat to economic activity. This could lead into stagflation or even into recession, which would then pose a dilemma for

the MPC as to whether to focus on combating inflation or supporting economic growth through keeping interest rates low.

- Will some current key supply shortages spill over into causing economic activity in some sectors to take a significant hit?
- Rising gas and electricity prices in October and next April and increases in other prices caused by supply shortages and increases in taxation next April, are already going to deflate consumer spending power without the MPC having to take any action on Bank Rate to cool inflation.
- On the other hand, consumers are sitting on over £160bn of excess savings left over from the pandemic so when will they spend this sum, in part or in total?
- It appears the economy has coped well with the end of furlough. It is estimated that there were around 1 million people who came off furlough and there was not a huge spike in unemployment. However, vacancies have been hitting record levels so there is a continuing acute shortage in workers. This is a potential danger area if shortages drive up wages which then feed through into producer prices and the prices of services i.e., a second-round effect that the MPC would have to act against if it looked like gaining significant momentum.
- We also recognise there could be further challenges on the COVID front beyond the Omicron mutation.
- If the UK invokes Article 16 of the Brexit deal over the dislocation in trading arrangements with Northern Ireland, this has the potential to end up in a no deal Brexit.

2.5.9 In summary, with the high level of uncertainty prevailing on several different fronts, and these forecasts will be revised again over the next few months, in line with the latest developments.

2.5.10 It should also be borne in mind that Bank Rate being cut to its lowest level of 0.10% then raising to 0.25% were emergency measures to deal with the COVID crisis hitting the UK. At any time, the MPC could decide to simply take away such emergency cuts on no other grounds than it being no longer warranted and as a step forward in the return to normalisation. In addition, any Bank Rate under 1% is both highly unusual and highly supportive of economic growth.

Forecasts for PWLB Rates and Gilt and Treasury Yields

2.5.11 As the interest forecast table for PWLB certainty rates above shows, there is forecast to be a steady, but slow, rise in both Bank Rate and gilt yields during the forecast period to March 2025, though there will doubtless be a lot of unpredictable volatility during this forecast periods.

2.5.12 There is likely to be exceptional volatility and unpredictability in respect of gilt yields and PWLB rates due to the following factors:

- How strongly will changes in gilt yields be correlated to changes in US treasury yields (see below). Over 10 years since 2011 there has been an average 75% correlation between movements in US treasury yields and gilt yields. However, from time to time these two yields can diverge. Lack of spare economic capacity and rising inflationary pressures are viewed as being much greater dangers in the US than in the UK. This could mean that central bank rates will end up rising earlier and higher in the US than in the UK if inflationary pressures were to escalate; the consequent increases in treasury yields could well spill over to cause (lesser) increases in gilt yields. There is, therefore, an upside risk to forecasts for gilt yields due to this correlation. The Link Group forecasts have included a risk of a 75% correlation between the two yields.

- Will the Federal Reserve System (Fed) take action to counter increasing treasury yields if they rise beyond a yet unspecified level?
- Would the MPC act to counter increasing gilt yields if they rise beyond a yet unspecified level?
- How strong will inflationary pressures actually turn out to be in both the US and the UK and so put upward pressure on treasury and gilt yields?
- How will central banks implement their new average or sustainable level inflation monetary policies?
- How well will central banks manage the withdrawal of Quantitative Easing (QE) purchases of their national bonds i.e., without causing a panic reaction in financial markets as happened in the US in 2013?
- Will exceptional volatility be focused on the short or long-end of the yield curve, or both?

Gilt and treasury yields

2.5.13 Since the start of 2021, there has been a lot of volatility in gilt yields, and hence PWLB rates. During the first part of 2021, US President Biden's, and the Democratic party's, determination to push through a $1.9trn (equivalent to 8.8% of GDP) fiscal boost for the US economy as a recovery package from the COVID pandemic was what unsettled financial markets. However, this was in addition to the $900bn support package already passed in December 2020.

2.5.14 This was then followed by additional Democratic ambition to spend $1trn on infrastructure, which was eventually passed by both Houses later in 2021, and an even larger sum on an American family plan over the next decade. It must be noted that this is still caught up in Democrat / Republican political debate and financial markets were alarmed that all this stimulus was happening at a time when:

1. A fast vaccination programme has enabled a rapid opening up of the economy.
2. The economy has been growing strongly in the first half of 2022 although it has weakened overall during the second half of 2021.
3. It started from a position of little spare capacity due to less severe lockdown measures than in many other countries.
4. And the Fed was still providing stimulus through monthly QE purchases during 2021.

2.5.15 These factors could cause an excess of demand in the economy which generate strong inflationary pressures. This has eventually been recognised by the Fed at its December 2021 meeting with an aggressive response to damp down inflation during 2022 and 2023.

2.5.16 At its 3 November meeting, the Fed decided to make a start on tapering its $120bn per month of QE purchases with the aim to end by June 2022. However, at its 15 December 2021 meeting, it doubled the pace of tapering so that they will end all purchases in February 2022. These purchases are currently acting as downward pressure on treasury yields and so it would be expected that Treasury yields will rise over the taper period and after the taper ends.

2.5.17 The Fed also forecast that it expected there would be three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024, taking rates back above 2% to a neutral level for monetary policy.

2.5.18 As the US financial markets are, by far, the biggest financial markets in the world, any upward trend in treasury yields will invariably impact and influence financial markets in other countries. Inflationary pressures and erosion of surplus economic capacity look much stronger in the US compared to those in the UK, which would suggest that Fed rate increases eventually needed to suppress inflation, are likely to be faster and stronger than Bank Rate increases in the UK. This is likely to put upward pressure on treasury yields which could then spill over into putting upward pressure on UK gilt yields.

2.5.19 The forecasts are also predicated on an assumption that there is no break-up of the Eurozone or EU within the forecasting period, despite the major challenges that are looming, and that there is no major disruption to international relations, especially between the US and Russia, China / North Korea and Iran, which have a major impact on international trade and world GDP growth.

2.5.20 The balance of risks to medium to long term PWLB rates:

- There is a balance of upside risks to forecasts for medium to long term PWLB rates.

A new era – a fundamental shift in central bank monetary policy

2.5.21 One of the key results of the pandemic has been a fundamental rethinking and shift in monetary policy by major central banks like the Fed, the Bank of England and the European Central Bank (ECB), to tolerate a higher level of inflation than in the previous two decades when inflation was the prime target to bear down on so as to stop it going above a target rate.

2.5.22 There is now also a greater emphasis on other targets for monetary policy than just inflation, especially on 'achieving broad and inclusive "maximum" employment in its entirety' in the US, before consideration would be given to increasing rates.

- The Fed in America has gone furthest in adopting a monetary policy based on a clear goal of allowing the inflation target to be symmetrical, (rather than a ceiling to keep under), so that inflation averages out the dips down and surges above the target rate, over an unspecified period of time.
- The Bank of England has also amended its target for monetary policy so that inflation should be 'sustainably over 2%' before starting on raising Bank Rate and the ECB now has a similar policy.
- For local authorities, this means that investment interest rates and very short term PWLB rates will not be rising as quickly or as high as in previous decades when the economy recovers from a downturn and the recovery eventually runs out of spare capacity to fuel continuing expansion.
- Labour market liberalisation since the 1970s has helped to break the wage-price spirals that fuelled high levels of inflation and has now set inflation on a lower path which makes this shift in monetary policy practicable. In addition, recent changes in flexible employment practices, the rise of the gig economy and technological changes, will all help to lower inflationary pressures.
- Governments will also be concerned to see interest rates stay lower as every rise in central rates will add to the cost of vastly expanded levels of national debt; (in the UK this is £21bn for each 1% rise in rates). On the other hand, higher levels of inflation will help to erode the real value of total public debt.

Investment and borrowing rates

2.5.23 Investment returns are expected to improve in 2022/23. However, while markets are pricing in a series of Bank Rate hikes, actual economic circumstances may see the MPC fall short of these elevated expectations.

2.5.24 Borrowing interest rates fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England and still remain at historically low levels. The policy of avoiding new borrowing by running down spare cash balances has served the Council well over the last few years.

2.5.25 In November 2020, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates which had been increased by 100 bps in October 2019. The standard and certainty margins were reduced by 100 bps but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three-year capital programme. The current margins over gilt yields are as follows:

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

Borrowing for capital expenditure

2.5.26 As Link's long-term (beyond 10 years) forecast for Bank Rate is 2.00%, As some PWLB certainty rates are currently below 2.00%, there remains value in considering long-term borrowing from the PWLB where appropriate.

2.5.27 Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive as part of a balanced debt portfolio.

2.5.28 The Council will not be able to avoid borrowing to finance new capital expenditure with the rundown of reserves. However, due to timing of the borrowing there may be a cost of carry (the difference between higher borrowing costs and lower investment returns), to any new borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

2.6 Borrowing strategy

2.6.1 The factors that influence the 2022/23 strategy are:

- The movement in CFR as set out in Table 3 above;
- Forthcoming 'Option' dates on £49m of Lender Option Borrower Option loans (LOBO's) in 2022/23;
- The interest rate forecasts (set out in Table 9 above);
- Aiming to minimise revenue costs to reduce the impact on the Council Tax Requirement; and
- The impact of the Council's Capital and Property Investment Programmes.

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

2.6.3 Against this background and the risks within the economic forecast, caution will be adopted with the 2022/23 treasury operations. The Treasury Management team will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances so that:

- if it was considered that there was a significant risk of a sharp fall in interest rates, then long term borrowing will be postponed.

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

2.6.4 The forecast gross borrowing requirement in Table 6 at 2.3.3 above shows, based on current estimates, that the Council will need to drawdown a significant amount of new borrowing, to support the capital programme. Any additional borrowing will be completed with regard to the limits, indicators and interest rate forecasts set out above. As noted earlier, initial estimates of borrowing have changed in previous years due to the reprofiling of the capital programme once the financial year has begun.

2.6.5 During 2022/23, £49m of LOBO (Lender Option Borrower Option) debt will reach the option renewal date. Table 11 below, sets out the maturity structure of fixed rate debt. At the renewal date the loans will either:

- Move to the option rate of interest, which in all cases will be the same as the current rate; or
- Be offered at a rate above the option rate, in which case the Council has the option to repay. This would then require refinancing at the prevailing market rates.

Table 11 - Maturity Structure of Fixed Rate Debt

Maturity Structure of fixed interest rate debt	2022/23 Actual
Under 12 months	33.33%
12 months and within 24 months	9.84%
24 months and within 5 years	11.93%
5 years and within 10 years	9.09%
10 years to 20 years	2.98%
20 years to 30 years	2.98%
30 years to 40 years	2.98%
40 years to 50 years	14.92%
50 years to 60 years	11.93%

2.6.6 Due to the current interest rate forecast it is not anticipated that any of these LOBO loans will be called.

2.6.7 The 2022/23 Capital Programme now shows anticipated prudential borrowing of £46.990m with £50.703m in 2023/24, £44.123m in 2024/25. These figures have been reflected in this report and factored into the borrowing strategy for 2022/23 and future years.

2.6.8 Members are advised that indicators for interest rate exposure are no longer a requirement under the Treasury Management Code. However, as interest rate exposure risk is an important issue, officers will continue to monitor the balance between fixed and variable interest rates for borrowing and investments. This will aim to ensure the Council is not exposed to adverse fluctuations in fixed or variable rate interest rate movements.

2.6.9 This is likely to reflect higher fixed interest rate borrowing if the borrowing need is high or fixed interest rates are likely to increase, or a higher variable rate exposure if fixed interest rates are expected to fall. Conversely if shorter term interest rates are likely to fall, investments may be fixed earlier, or kept shorter if short term investments are expected to rise.

2.6.10 The balance between variable rate debt and variable rate investments will be monitored as part of the overall treasury function in the context of the overall financial instruments structure and any under or over borrowing positions.

2.7 Policy on Borrowing in Advance of Need

2.7.1 The Council will not borrow more than or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved CFR estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds. Any borrowing will follow the most recent guidance issued by CIPFA.

2.7.2 Borrowing in advance will be made within the constraint that the Council would not look to borrow more than 24 months in advance of need.

2.7.3 Risks associated with any borrowing in advance of activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting arrangements.

2.8 Debt Rescheduling

2.8.1 Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates, even though the general margin of PWLB rates over gilt yields was reduced by 100 bps in November 2020.

2.8.2 The reasons for any rescheduling to take place will include:

- the generation of cash savings and/ or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhancing the balance of the portfolio (amending the maturity profile and/or the balance of volatility).

2.8.3 All re-scheduling will be reported to the Audit Committee, Cabinet and Council at the earliest meeting following its action.

2.9 New Financial Institutions as a Source of Borrowing

2.9.1 Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both HRA and non-HRA borrowing. However, consideration will still be given to sourcing funding from the following:

- Local Authorities (primarily shorter dated maturities).
- Financial institutions (primarily insurance companies and pension funds but also some banks. These deals may include borrowing based on forward dates and an agreed future market rate).
- UK Municipal Bonds Agency (which has recently negotiated its first bond issue). Members will recall that the Council has invested £0.100m in the UKMBA and would seek to make use of this new source of borrowing as and when appropriate.

2.9.2 The degree which any of these options proves cheaper than the PWLB Certainty Rate is still evolving, however, all funding options will be fully evaluated, and the most appropriate option will be taken. The Link Group the Council's treasury advisors will keep the Council informed regarding different options available when borrowing is undertaken.

Approved Sources of long and short-term borrowing

2.9.3 The table below is a new requirement for 2022/23 and shows sources of borrowing that the Council may use and whether the related interest rates are fixed or variable.

Table 12 - Approved sources of long and short term borrowing

On Balance Sheet	Fixed	Variable
PWLB	✔	✔
Municipal bond agency	✔	✔
Local authorities	✔	✔
Banks	✔	✔
Pension funds	✔	✔
Insurance companies	✔	✔
UK Infrastructure Bank	✔	✔
Market (long-term)	✔	✔
Market (temporary)	✔	✔
Market (LOBOs)	✔	✔
Stock issues	✔	✔
Local temporary	✔	✔
Local Bonds	✔	
Local authority bills	✔	✔
Overdraft		✔
Negotiable Bonds	✔	✔
Internal (capital receipts & revenue balances)	✔	✔
Commercial Paper	✔	
Medium Term Notes	✔	
Finance leases	✔	✔

2.10 Annual Investment Strategy

Investment Policy – Management of Risk

2.10.1 The DLUHC - this was formerly the Ministry of Housing, Communities and Local Government (MHCLG)) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy elsewhere on the agenda.

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

- DLUHC's Guidance on Local Government Investments ("the Guidance");
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code"); and
- CIPFA Treasury Management Guidance Notes 2018.

2.10.2 The Council's investment priorities will be:

- firstly, the security of capital;
- secondly, the liquidity of its investments;
- thirdly, the optimum return on its investments commensurate with proper levels of security and liquidity; and
- finally, ethical investments.

2.10.3 In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate (from an internal as well as external perspective), the Council will also consider the value available in periods up to 12 months with high credit rated financial institutions, as well as wider range fund options.

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

- Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

- Other information: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

- Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

2.10.5 This report defines the list of types of investment instruments that the treasury management team are authorised to use. There are two lists in Appendix 5 under the categories of 'specified' and 'non-specified' investments.

- Specified investments are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity if originally, they were classified as being non-specified investments solely due to the maturity period exceeding one year.

- Non-specified investments are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by Members and officers before being authorised for use.

2.10.6 For non-specified investments, the Council has determined that it will limit the maximum total exposure to non-specified investments as being 50% of the total investment portfolio.

2.10.7 Lending limits, (amounts and maturity), for each counterparty, will be set through applying the matrix table in paragraph 2.11.3.

2.10.8 Transaction limits are set for each type of investment in 2.11.3.

2.10.9 The Council has set a limit for the amount of its investments which are invested for longer than 365 days, (see paragraph 2.13.6).

2.10.10 Investments will only be placed with counterparties from countries with a specified minimum sovereign rating, (see paragraph 2.12.3) and Appendix 6.

2.10.11 The Council has engaged external consultants, (see paragraph 1.10), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of the Council in the context of the expected level of cash balances and need for liquidity throughout the year.

2.10.12 All investments will be denominated in sterling.

2.10.13 As a result of the change in accounting standards for 2021/22 under IFRS 9, consideration will be given to the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the Government (then the MHCLG) concluded a consultation for a temporary override to allow English Local Authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from April 2018, ending March 2023).

2.10.14 However, the Council will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 2.14). Regular monitoring of investment performance will be carried out during the year.

2.10.15 The risk management criteria are unchanged from last year.

2.11 Creditworthiness policy

2.11.1 Oldham Council utilises the creditworthiness service provided by the Link Group. This service employs a sophisticated modelling approach, utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

2.11.2 This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the duration and maximum investment value for each counterparty.

2.11.3 Institutions are split into colour bandings and the Council will therefore use counterparties within these colours, durational bands and investment limits. Table 13 below shows these limits.

Table 13 - Investment Criteria

Counter Party	Link Colour Band and Long Term Rating where applicable	Maximum Duration	Maximum Principal Invested per Counterparty
Banks	Yellow (Note 1)	5 Years	£10m
Banks	Dark Pink (Note 2)	5 Years	£10m
Banks	Light Pink (Note 3)	5 Years	£10m
Banks	Purple	2 Years	£20m
Banks	Blue (Note 4)	1 Year	£20m
Banks	Orange (Note 5)	1 Year	£15m
Banks	Red	6 months	£10m
Banks	Green	100 days	£10m
Banks	No Colour	Not to be used	Not to be used
Local Authorities/ Public Bodies	Internal Due Diligence	5 Years	£10m
GMCA	Internal Due Diligence (Note 6)	5 Years	£30m
Debt Management Account Deposit Facility (DMADF)	UK Sovereign rating	6 months	£40m
	Fund Rating	**Maximum Duration**	**Maximum Principal Invested per Counterparty**
Money Market Fund			
Constant	AAA	Liquid	£20m
Low Volatile	AAA	Liquid	£20m
Variable	AAA	Liquid	£20m

Note 1 – UK Government debt or equivalent

Note 2 – Enhanced money market funds (EMMF) with a credit score of 1.25

Note 3 – Enhanced money market funds (EMMF) with a credit score of 1.5

Note 4 - Blue Institutions – only applies to nationalised or semi nationalised UK Banks, which currently include the RBS Group (Royal Bank of Scotland, NatWest Bank and Ulster Bank).

Note 5 - Includes the Council's banking provider (currently Barclays), if it currently falls into a category below this colour band.

Note 6 – The higher maximum principal is to facilitate joint initiatives and activities related to the devolution agenda.

2.11.4 The Link Group creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

2.11.5 Typically the minimum credit ratings criteria the Council uses will be a Short-Term rating (Fitch or equivalents) of F1 and a Long-Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In this instance consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

2.11.6 All credit ratings will be monitored on a weekly basis. The Council is alerted to changes to ratings of all three agencies through its use of the Link Group creditworthiness service.

- If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment option will be withdrawn or notice given to withdraw immediately.

- In addition to the use of credit ratings the Council will be advised of information in movements in the Credit Default Swap Index against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by The Link Group. Extreme market movements may result in the downgrading of an institution or its removal from the Council's lending list.

2.11.7 Sole reliance will not be placed on the use of this external service. In addition, the Council will also use market data and market information, information on any external support banks to help support the decision-making process.

<u>Creditworthiness</u>

2.11.8 Significant levels of downgrades to Short- and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. However, as economies are beginning to reopen, there have been some instances of previous lowering of Outlooks being reversed.

<u>CDS Price</u>

2.11.9 Although bank CDS prices, (these are market indicators of credit risk), spiked upwards at the end of March / early April 2020 due to the heightened market uncertainty and ensuing liquidity crisis that affected financial markets, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Council has access to this information via its Link-provided Passport portal.

2.12 <u>Country and Sector Limits</u>

2.12.1 It is not proposed to restrict the Council's investment policy to only UK banks and building societies. In addition to the credit rating criteria set out above consideration will be given to the sovereign rating of the country before any investment is made.

2.12.2 The sovereign rating of the UK is currently AA- and may come under more pressure due to COVID-19. The Council will however continue to invest with UK Banks, providing the individual institutions still meet the relevant criteria.

2.12.3 The Council has determined that it will only use approved counterparties from the UK and from other countries with a minimum sovereign credit rating of AAA from Fitch (or equivalent). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 6. This list will be amended by officers should ratings change in accordance with this policy, therefore for illustrative purposes the appended list is extended to also show AA-. It is important to note that although able to, the Council has chosen not to invest overseas in recent years.

2.12.4 The Council has determined that it will limit the maximum total exposure of treasury management investments to non-specified treasury management investments as being 50% as mentioned in 2.10.5 of the total treasury management investment portfolio.

2.12.5 Investment limits in place above will apply to a group of companies and not individual institutions.

2.12.6 Sector limits will continuously be monitored to ensure appropriateness.

2.13 Investment Strategy

2.13.1 Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required to manage the ups and downs of cash flow, any cash identified that could be invested for longer periods will be carefully assessed.

- If it is thought that bank rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.

- Conversely, if it is thought that bank rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

2.13.2 The Council currently has four investment totalling £20m which span the financial year as shown in Table 14.

Table 14 - The Investment maturing in 2022/23

Counterparty	Amount	Maturity Date	Rate
Close Brothers	5,000,000	25/05/22	0.40%
Santander	5,000,000	23/05/22	0.38%
Close Brothers	5,000,000	29/06/22	0.40%
Nationwide	5,000,000	04/07/22	0.15%
Total	**£20,000,000**		

2.13.3 The current forecast shown in paragraph 2.5.1, includes an increase of the Bank Rate in December 2021. There may be further changes during 2022.

2.13.4 The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year are as follows (the long-term forecast is for periods over 10 years in the future):

- 2022/23 0.50%
- 2023/24 0.75%
- 2024/25 1.00%
- 2025/26 1.25%
- Longer term later years 2.00%

2.13.5 For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits, (overnight to 100 days), in order to benefit from the compounding of interest.

Investment Treasury Indicator and Limit

2.13.6 This indicator considers total principal funds invested for greater than 365 days. These limits have regard to the Council's liquidity requirements and reduce the need for the early redemption of investments and are based on the availability of funds after each year end.

Table 15 – Maximum principal sum invested greater than 365 days

Upper Limit for principal sums invested for longer than 365 days	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Principal sums invested for longer than 365 days	£50m	£50m	£50m	£50m
Current investments as at December 2021 in excess of 1 year	£15m	£15m	£15m	£15m

2.14 Investment Risk Benchmarking

2.14.1 These benchmarks provide simple guides to maximum risk, and may be breached from time to time, depending on movements in interest rates and counterparty criteria. These benchmarks provide officers with a baseline against which current and trend positions can be monitored. It may be necessary to amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or Annual Report to Members.

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

- A Bank overdraft facility of £0.100m;
- Liquid short term deposits of at least £10m available with a week's notice.

Yield - local measures of yield benchmarks have been changed for 2022/23 to refer to SONIA rather than LIBOR (see paragraph 2.15.7) are:

- Investments – internal returns above the 7 day SONIA (Sterling Overnight Index Average) rate multiplied by 5%
- Investments – internal returns above the 1 month SONIA rate multiplied by 5%
- Investments – internal returns above the 3 month SONIA rate multiplied by 5%
- Investments – internal returns above the 6 month SONIA rate multiplied by 5%
- Investments – internal returns above the 12 month SONIA rate multiplied by 5%

2.15 Other Treasury Management Issues

Brexit

2.15.1 The Council is mindful of the UK's exit from the EU and will continue to ensure that treasury activity is managed to minimise any risk to the Council.

International Financial Reporting Standard (IFRS) 16 – Leases

2.15.2 IFRS 16 is a new standard for lease accounting which came into force in January 2019. The changes apply to the accounting arrangements for lease agreements that organisations take out property, plant and equipment (PPE). It had previously been reported that the standard for the public sector would commence from 1 April 2020 and then subsequently April 2021, however this implementation date has been put back a further year and will be implemented in 2022/23, this will require implementation from 1 April 2022 to allow prior year comparison. Previously, leases were split into finance leases and operating leases however, from 1 April 2022 they will now be accounted for as finance leases. Under the current regime, operating leases were not included in Balance Sheets as assets and expenditure were charged to Comprehensive Income and Expenditure Statement in the Council's accounts. Under IFRS 16 all leases must now be accounted for on the Balance Sheet. Work is currently ongoing to assess the full impact, but an estimate has been included in the Council's CFR so that the Council's prudential indicators are not adversely affect by the implementation of IFRS 16.

Environmental, Social & Governance (ESG) Considerations

2.15.3 Environmental, Social & Governance (ESG) considerations are becoming an increasing important topic within the investment community. While around two thirds of Councils have declared a "climate emergency" to date, this has not translated into the incorporation of something more formal within their treasury-related investment strategy. The recent changes to the CIPFA Treasury Management Code 2021 sees ESG incorporated into Treasury Management Practise (TMP) 1, with the inclusion of the wording, 'this will set out the organisation's policy and practices relating to environmental, social and governance (ESG) investment considerations."

2.15.4 The Council with advice from its treasury advisor, are looking into the impact of including ESG in TMP 1 and must ensure that there is a clear understanding of what "environmental, social and governance (ESG)" investment considerations actually mean, understanding the ESG "risks" that the Council is exposed to and evaluating how well the Council can manage these risks. Member must be note that ESG is **not** the same as Socially Responsible Investing and **not** the same as Sustainable Investing, (investing in products / companies based on expected sustainable and beneficial societal impact, alongside a financial return).

2.15.5 All rating agencies are now exploring how they incorporate ESG risks alongside more traditional financial risk metrics when assessing counterparty ratings. The Council will assess the outcome of this work by the Credit Agencies and continue to review the options and will update Members. As no further information is available, it is not practicable to include ESG into the Treasury Management Strategy for 2022/23 at the current time.

LIBOR Transition

2.15.6 The publication of official LIBOR figures (and related LIBID calculations) will cease at the close of 2021. The Council's Treasury Management Strategy 2022/23 has been updated to SONIA (Sterling Overnight Index Average), which is the risk-free rate for sterling markets administered by the Bank of England.

2.15.7 SONIA is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors. SONIA is the Working Group on Sterling Risk Free Reference Rates' preferred benchmark for the transition to sterling risk-free rates from Libor.

2.15.8 To support the Risk-Free Rate transition in sterling markets the Bank of England began publishing the SONIA Compounded Index from 3 August 2020. This simplifies the calculation of compounded interest rates and in doing so provides a standardised basis through its publication as an official source. The Council will continue to monitor the move from LIBOR to SONIA on its investments and long-term borrowing linked the LIBOR and any issues will be reported back to a future Audit Committee meeting.

3 Options/Alternatives

3.1 In order to comply with the CIPFA Code of Practice on Treasury Management, the Audit Committee is requested to scrutinise and comment upon the content of this report. Therefore, no other options/alternatives have been presented.

4 Preferred Option

4.1 The preferred option is that Audit Committee considers the report and advises of any comments.

5 Consultation

5.1 There has been consultation with The Link Group, the Council's Treasury Management Advisors.

6 Financial Implications

6.1 Financial Implications are detailed within the report.

7 Legal Services Comments

7.1 There are no legal implications.

8 Co-operative Agenda

8.1 The Treasury Management strategy embraces the Council's cooperative agenda. The Council will develop its investment framework to ensure it complements the co-operative ethos of the Council.

9 Human Resources Comments

9.1 There are no Human Resource Implications.

10 Risk Assessments

10.1 There are considerable risks to the security of the Authority's resources if appropriate Treasury Management strategies and policies are not adopted and followed. The Council has established good practice in relation to Treasury Management which has previously been acknowledged in the Internal and External Auditors' reports presented to the Audit Committee. An issue dependent upon market developments which may need to be considered in the future is refinancing some of the long-term loans. This can be mitigated by effective monitoring of the market.

11 IT Implications

11.1 There are no IT Implications.

12 Property Implications

12.1 There are no Property Implications.

13 Procurement Implications

13.1 There are no Procurement Implications.

14 Environmental and Health & Safety Implications

14.1 There are no Environmental and Health & Safety Implications.

15 Equality, community cohesion and crime implications

15.1 There are no Equality, community cohesion and crime implications.

16 Equality Impact Assessment Completed?

16.1 No

17 Key Decision

17.1 Yes

18 Key Decision Reference

18.1 FLC- 12-21

19 Background Papers

19.1 The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act:

File Ref:	Background papers are provided in Appendices 1 - 8
Officer Name:	Lee Walsh / Talei Whitmore
Contact No:	0161 770 6608/ 4924

20 Appendices

Appendix 1	Minimum Revenue Provision (MRP) Policy Statement
Appendix 2	Prudential and Treasury Indicators 2022/23 – 2023/24
Appendix 3	The Link Group - Treasury Advisor’s Interest Rate Forecast 2021-2025
Appendix 4	Economic Background
Appendix 5	Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management
Appendix 6	Approved Countries for Investments
Appendix 7	Treasury Management Scheme of Delegation
Appendix 8	Treasury Management Role of the Statutory Chief Finance Officer (Director of Finance)

Appendix 1 – Minimum Revenue Provision (MRP) Policy Statement

1.1 General Principles and Practices

1.1.1 Local Authorities are required to set aside 'prudent' provision for debt repayment where they have used borrowing or credit arrangements to finance capital expenditure. Department of Levelling Up, Housing and Communities (formerly the Ministry for Housing, Communities and Local Government (MHCLG) regulations require the full MRP Statement to be decided upon at least annually and reported to the Council Meeting. The Council has to ensure that the chosen options are prudent.

1.2 Link to Asset Life/Economic Benefit

1.2.1 Where capital expenditure on an asset is financed wholly or partly by borrowing or credit arrangements, MRP will normally be determined by reference to asset life, economic benefit or MHCLG Guidance.

1.2.2 To the extent that expenditure cannot be linked to the creation/enhancement of an asset and is of a type that is subject to estimated life periods that are referred to in the DLUHC/ MHCLG guidance (paragraph 24), these periods will generally be adopted by the Council.

1.2.3 Where certain types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure.

1.2.4 Whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

1.3 Methods for Calculating MRP

1.3.1 Any of the methods for calculating MRP that are set out below may be used. MRP will commence in the financial year after the completion of assets rather than when expenditure is incurred. All methods, with the exception of the approach taken to Previously Supported General Fund Borrowing are based on Asset Life/Economic Benefit. These methods include but are not limited to:

The Annuity Method

1.3.2 This calculation seeks to ensure the revenue account bears an equal annual charge (for principal and interest) over the life of the asset by taking account of the time value of money. Since MRP relates only to 'principal', the amount of provision made annually gradually increases during the life of the asset. The interest rate used in annuity calculations will be referenced to either prevailing or average PWLB rates.

Equal Instalments of Principal

1.3.3 MRP is an equal annual charge calculated by dividing the original amount of borrowing by the useful life of the asset.

Previously Supported General Fund Borrowing

1.3.4 General Fund Borrowing that was previously supported through the Revenue Support Grant (RSG) system will be provided for in equal annual instalments over a 50 year period commencing 1 April 2016. As at 1 April 2016, the value of this borrowing equalled £134,376,866 and results in an equal annual minimum revenue provision of £2,742,385; the final instalment of which will be provided for by no later than 31 March 2066. In the event of:

- transfers of Capital Financing Requirement between the General Fund element and Housing element;
- additional voluntary revenue provision being made

the annual MRP charge will be adjusted to ensure that full provision will continue to be made by no later than 31 March 2066.

Bespoke Repayment Profiles:

1.3.5 With regard to credit arrangements that are implicit in Finance Lease or PFI arrangements, any 'debt' repayment element (notional or otherwise) included in charges associated with these arrangements will be classified as MRP.

1.4 Voluntary Revenue Provision

1.4.1 The Council has the option of making additional Voluntary Revenue Provision (VRP) in addition to MRP. The Council may treat VRP as 'up-front' provision (having a similar impact to the early repayment of debt) and thus recalculate future MRP charges accordingly. Where the Council has made additional VRP's for debt repayment in previous years, in year MRP charges may be adjusted to reflect this provided it does not result in a negative MRP charge. To the extent charges are adjusted, current and future year's charges will be recalculated to ensure the Council continues to make prudent provision for debt repayment in relation to historic capital expenditure. The Council may in some circumstances apply VRP to relatively short-life assets/expenditure in order to facilitate a reduction in the future base revenue budget needed to fund capital financing costs.

1.5 Local Exceptions to the Guidance

1.5.1 The Council reserves the right to determine useful life periods and prudent MRP in certain circumstances or where the recommendations of the DLUHC/ MHCLG guidance are not appropriate to local circumstances. Examples include:

Assets Under Construction

1.5.2 No MRP charge will be made until the financial year after that in which an item of capital expenditure is fully incurred and, in the case of a new asset, comes into service use.

Local Authority Mortgage Scheme (LAMS)

1.5.3 The Council operated a Local Authority Mortgage Scheme (LAMS) using the cash backed option. The mortgage lenders require a five-year deposit from the Local Authority to match the five-year life of the indemnity. The deposit placed with the mortgage lender provides an integral part of the mortgage lending and is treated as capital expenditure and a loan to a third party. The CFR will increase by the amount of the total indemnity. The cash advance is due to be returned in full at maturity, with interest paid annually. Once the cash advance matures and funds are returned to the Local Authority, the returned funds are classed as a capital receipt, which will be applied to reduce the CFR. As this is a temporary (five years) arrangement and the funds will be returned in full, there is no need to set aside MRP to repay the debt liability in the interim period. All previous LAMS schemes are now completed, with the deposits repaid in full. However, the option is still available should the Council see it as a corporate priority.

Loans to Third Parties

1.5.4 The Council has considered the Statutory Guidance, which recommends a 25 year repayment charge for loans to third parties and concluded that provision is not necessary. The Council considers an MRP charge is not necessary in respect of any loans made to third parties as the debt liability is covered by the existence of a debtor and the associated obligation to make repayments. Any loans given are subject to substantial due diligence process by both internal officers and were appropriate external advisors.

1.6 HRA Capital Financing Requirement (CFR)

1.6.1 MRP will equal the amount determined in accordance with the former regulations 28 and 29 of the 2003 Regulations (SI 2003/3146) as if they had not been revoked. This approach is consistent with paragraph 7 of the DLUHC/MHCLG Guidance on MRP.

1.6.2 The basic MRP charge relating to the HRA CFR is therefore nil. However, the Council may make ‘Voluntary Revenue Provision’ provided such an approach is prudent and appropriate in the context of financing the HRA capital programme and is consistent with the delivery of the HRA Business Plan.

Appendix 2 Prudential and Treasury Indicators 2022/23 – 2023/24

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

Capital expenditure

Capital Expenditure / Portfolio	2020/21 Actual £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
Corporate Services *	13,066	2,265	4,000	69	138
Children's Services	11,176	15,403	5,425	8,816	3,000
Communities & Reform	57	36	908	250	0
Community Health & Adult Social Care	2,433	2,017	2,547	2,543	2,543
People & Place	38,358	29,437	81,465	65,038	49,722
Funds for Emerging Priorities		1,115	2,520	2,050	836
General Fund Services	**65,090**	**50,273**	**96,865**	**78,766**	**56,239**
Housing Revenue Account (HRA)	4,397	785	3,383	8,227	8,014
HRA	**4,397**	**785**	**3,383**	**8,227**	**8,014**
Commercial Activities / Non-Financial Investments **	3,740	1,500			
Commercial Activities / Non-Financial Investments	**3,740**	**1,500**	**0**	**0**	**0**
Total	**73,227**	**52,558**	**100,248**	**86,993**	**64,253**

* Excludes any commercial activities which were included in the Corporate Services capital programme.
** Relate to areas such as capital expenditure on investment properties, loans to third parties, purchase of equity shares etc.

Members are asked to consider the following indicators:

Affordability prudential indicators

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

Ratio of financing costs to net revenue stream

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

	2020/21 Actual £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
General Fund excluding DSG*	12.39%	11.68%	11.73%	12.03%	13.06%

*Dedicated Schools Grant

The estimates of financing costs include current commitments and the proposals in the budget report.

Maturity structure of borrowing

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

Members are asked to consider the following treasury indicators and limits:

Maturity Structure of fixed interest rate debt 2022/23	Lower Limit	Upper Limit
Under 12 months	0.00%	40.00%
12 months and within 24 months	0.00%	40.00%
24 months and within 5 years	0.00%	40.00%
5 years and within 10 years	0.00%	40.00%
10 years to 20 years	0.00%	50.00%
20 years to 30 years	0.00%	50.00%
30 years to 40 years	0.00%	50.00%
40 years to 50 years	0.00%	50.00%
50 years to 60 years	0.00%	50.00%

Control of interest rate exposure

Members are advised that indicators for interest rate exposure are no longer a requirement under the new Treasury Management Code. However, as interest rate exposure risk is an important issue, officers will continue to monitor the balance between fixed and variable interest rates for borrowing and investments. This will aim to ensure the Council is not exposed to adverse fluctuations in fixed or variable rate interest rate movements.

This is likely to reflect higher fixed interest rate borrowing if the borrowing need is high or fixed interest rates are likely to increase, or a higher variable rate exposure if fixed interest rates are expected to fall. Conversely if shorter term interest rates are likely to fall, investments may be fixed earlier, or kept shorter if short term investments are expected to rise.

The balance between variable rate debt and variable rate investments will be monitored as part of the overall treasury function in the context of the overall financial instruments structure and any under or over borrowing positions.

Appendix 3 – The Link Group Interest rate forecast 2021 – 2025

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

Link Group Interest Rate View 20.12.21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.20	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30
Bank Rate														
Link	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
Capital Economics	0.25	0.25	0.50	0.75	0.75	0.75	0.75	1.00	1.00	-	-	-	-	-
5yr PWLB Rate														
Link	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
Capital Economics	1.40	1.40	1.50	1.50	1.60	1.70	1.70	1.80	1.90	-	-	-	-	-
10yr PWLB Rate														
Link	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
Capital Economics	1.60	1.60	1.70	1.70	1.80	1.80	1.90	2.00	2.00	-	-	-	-	-
25yr PWLB Rate														
Link	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
Capital Economics	1.80	1.80	1.90	1.90	2.00	2.10	2.10	2.20	2.30	-	-	-	-	-
50yr PWLB Rate														
Link	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30
Capital Economics	1.40	1.50	1.60	1.70	1.80	1.90	2.00	2.20	2.30	-	-	-	-	-

Appendix 4: Economic Background

Set out below is a more detailed analysis of the Economic Background used to support the preparation of the 2022/23 Treasury Management Strategy Statement.

Monetary Policy Committee (MPC) Meeting 16 December 2021

- The Monetary Policy Committee (MPC) voted 8-1 to raise Bank Rate by 0.15% from 0.10% to 0.25% and unanimously decided to make no changes to its programme of quantitative easing purchases due to finish in December 2021 at a total of £895bn.
- The MPC disappointed financial markets by not raising Bank Rate at its November 2021 meeting. Until the Omicron variant, most forecasters, viewed a Bank Rate increase as being near certain at this meeting due to the way that inflationary pressures had been comprehensively building in both producer and consumer prices, and in wage rates. However, at the November meeting, the MPC decided it wanted to have assurance that the labour market would get over the end of the furlough scheme on 30 September 2021 without unemployment increasing sharply. Their decision was, therefore, to wait until statistics were available to show how the economy had fared at this time and no increase the Bank Rate.
- On 10 December 2021, analysts learnt of the disappointing 0.1% month on month rise in GDP in October which suggested that economic growth had already slowed even before the Omicron variant was discovered in late November 2021. Early evidence suggests growth in November 2021 might have been marginally better. Nonetheless, at such low rates of growth, the Government's "Plan B" COVID-19 restrictions could have caused the economy to contract in December 2021 (this will be confirmed when the data is released).
- On 14 December 2021, the labour market statistics for the three months to October and the single month of October were released. The fallout after the furlough scheme was smaller and shorter than the Bank of England had feared. The single-month data was more informative and showed that Labour Force Survey (LFS) employment fell by 240,000, unemployment increased by 75,000 and the unemployment rate rose from 3.9% in September 2021 to 4.2%. However, the weekly data suggested this didn't last long as unemployment was falling again by the end of October 2021. What's more, the 49,700 fall in the claimant count and the 257,000 rise in the PAYE measure of company payrolls suggests that the labour market strengthened again in November 2021. However, there was a further rise in the number of vacancies from 1.182m to a record 1.219m in the three months to November 2021 which suggests that the supply of labour is struggling to keep up with demand, although the single-month figure for November 2021 fell for the first time since February 2021, from 1.307m to 1.227m.
- These figures by themselves, would probably have been enough to give the MPC the assurance that it could press ahead to raise Bank Rate at this December 2021 meeting. However, the advent of Omicron variant, potentially challenged this position as it could pose a major headwind to the economy which, of itself, will help to cool the economy. Based on this evidence, the financial markets, therefore, expected no change in Bank Rate.
- On 15 December 2021, the Consumer Price Index (CPI) inflation figure for November 2021 was released, which spiked up further from 4.2% to 5.1%, confirming again how inflationary pressures have been building sharply. However, the Omicron variant, also caused a sharp fall in world oil and other commodity prices; (gas and electricity inflation has generally accounted on average for about 60% of the increase in inflation in advanced western economies).
- Other elements of inflation are also transitory e.g., prices of goods being forced up by supply shortages, and shortages of shipping containers due to ports being clogged have caused huge increases in shipping costs. But these issues are likely to clear during 2022, and then prices will subside back to more normal levels. Gas prices and electricity prices will also fall back once winter is passed and demand for these falls away.

- Although it is possible that the Government could step in with some fiscal support for the economy, the huge cost of such support to date is likely to pose a barrier to incurring further major economy wide expenditure unless it is very limited and targeted on narrow sectors like hospitality, (as announced in late December 2021). The Government may well, therefore, effectively leave it to the MPC, and to monetary policy, to support economic growth but at a time when the threat posed by rising inflation is near to peaking.
- Against these adverse set of factors, the MPC had to decide on Bank Rate. For the second month in a row, the MPC surprised financial markets, this time with an unexpected increase in Bank Rate from 0.10% to 0.25%. What's more, the hawkish tone of comments indicated that the MPC is now concerned that inflationary pressures are indeed building and need concerted action by the MPC to counter. This indicates that there will be more increases to come with financial markets predicting 1% by the end of 2022. The 8-1 vote to raise the rate shows that there is firm agreement that inflation now poses a threat, especially after the CPI figure hit a 10-year high at the end of December 2021. The MPC commented that "there has been significant upside news" and that "there were some signs of greater persistence in domestic costs and price pressures".
- The MPC, did comment that "the Omicron variant is likely to weigh on near-term activity". But it stressed that at the November 2021 meeting it had said it would raise rates if the economy evolved as it expected and that now "these conditions had been met". It also appeared more worried about the possible boost to inflation from Omicron itself. It said that "the current position of the global and UK economies was materially different compared with prior to the onset of the pandemic, including elevated levels of consumer price inflation". It also noted the possibility that renewed social distancing would boost demand for goods again, (as demand for services would fall), meaning "global price pressures might persist for longer".
- On top of that, at the meeting there were no references to inflation being expected to be below the 2% target in two years' time, which at November's meeting the MPC referenced, to suggest the markets had gone too far in expecting interest rates to rise to over 1.00% by the end of the year.
- These comments indicate that there has been a material reappraisal by the MPC of the inflationary pressures since their last meeting and the Bank also increased its forecast for inflation to peak at 6% April 2022, rather than at 5% as of the November meeting. However, as the Bank retained its guidance that only a "modest tightening" in policy will be required, it cannot be thinking that it will need to increase interest rates that much more. A typical policy tightening cycle has usually involved rates rising by 0.25% four times in a year. "Modest" seems slower than that. As such, the Bank maybe contemplating raising interest rates two- or three-times next year to 0.75% or 1.00%.
- In as much as a considerable part of the inflationary pressures at the current time are indeed transitory, and will naturally subside, and since economic growth is likely to be weak over the next few months, this would appear to indicate that this tightening cycle is likely to be comparatively short.
- As for the timing of the next increase in Bank Rate, the MPC dropped the comment from November's statement that Bank Rate would be raised "in the coming months". That may imply another rise is unlikely at the next meeting in February 2022, with May 2022 more likely. However, much could depend on how adversely, or not, the economy is affected by Omicron in the run up to the next meeting on 3 February 2022. Once 0.50% is reached, the Bank would act to start shrinking its stock of QE, (gilts purchased by the Bank would not be replaced when they mature).

  The MPC's forward guidance on its intended monetary policy on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows: -
  1. Raising Bank Rate as "the active instrument in most circumstances".
  2. Raising Bank Rate to 0.50% before starting on reducing its holdings.
  3. Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
  4. Once Bank Rate had risen to at least 1%, it would start selling its holdings.

A Summary overview of the future path of the Bank Rate

- In December 2021, the Bank of England became the first major western central bank to put interest rates up in this upswing in the current business cycle in western economies as recovery progresses from the COVID recession of 2020.
- The next increase in Bank Rate could be in February 2022 or May 2022, dependent on how severe an impact there is from Omicron.
- If there are lockdowns in January 2022, this could pose a barrier for the MPC to putting Bank Rate up again at its February 2022 meeting.
- With inflation expected to peak at around 6% in April 2022, the MPC may want to be seen to be active in taking action to counter inflation at the meeting on 5 May 2022, the release date for its Quarterly Monetary Policy Report.
- The December 2021 MPC meeting was more concerned with combating inflation over the medium term than supporting economic growth in the short term.
- Bank Rate increases beyond May 2022 are difficult to forecast as inflation is likely to drop sharply in the second half of 2022.
- However, the MPC will want to normalise Bank Rate over the next three years so that it has its main monetary policy tool ready to use in time for the next down turn; all rates under 2% are providing stimulus to economic growth.
- The Council’s Treasury Advisors Link have put year end 0.25% increases into Q1 of each financial year from 2023 to recognise this upward bias in Bank Rate. However, the actual timing in each year is difficult to predict.
- COVID remains a major potential downside threat in all three years as it remains highly likely that there are further variants.
- How quickly can science come up with a mutation proof vaccine, or other treatment, and for them to be widely administered around the world?
- Purchases of gilts under QE ended in December 2021. It must be noted that when Bank Rate reaches 0.50%, the MPC will start running down its stock of QE.

COVID-19 vaccines.

These were the game changer during 2021 which raised high hopes that life in the UK would be able to largely return to normal in the second half of the year. However, the Omicron variant at the end of November 2021, rendered the initial two doses of all vaccines largely ineffective in preventing infection. This has therefore, reduced hope and raises the threat again that a fourth wave of the virus could overwhelm hospitals in early 2022. What is known, is that this variant is very fast spreading with the potential for total case numbers to double every two to three days, although it possibly may not cause so much severe illness as previous variants. Rather than introduce full lockdowns which heavily damage the economy, the Government’s strategy, is focusing on getting as many people as possible to have a third (booster) vaccination after three months from the previous last injection. The booster has been shown to restore a high percentage of immunity to Omicron to those who have had two vaccinations. There appears to be a contest between how quickly boosters can be given to limit the spread of Omicron, and how quickly will hospitals fill up and potentially be unable to cope. In the meantime, workers have been requested to work from home and restrictions have been placed on large indoor gatherings and hospitality venues. With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of pent-up demand and purchasing power stored up for services in sectors like restaurants, travel, tourism and hotels which had been hit hard during 2021, but could now be hit hard again by either, or both, of Government restrictions and/or consumer reluctance to leave home. Growth will also be lower due to people being ill and not working, similar to the pingdemic in July 2021. The economy, therefore, faces significant headwinds, although some sectors have learned how to cope well with the COVID pandemic. However, the biggest impact on growth would come from another lockdown if that happened. The big question still remains as to whether any further variants of this virus could develop which render all current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread until tweaked vaccines become widely available.

US.

- Shortages of goods and intermediate goods like semi-conductors, are fuelling increases in prices and reducing economic growth potential. In November, CPI inflation hit a near 40-year record level of 6.8% but with energy prices then falling sharply, this is probably the peak. The biggest problem for the Fed is the mounting evidence of a strong pick-up in cyclical price pressures e.g., in rent which has hit a decade high.
- Shortages of labour have also been driving up wage rates sharply; this also poses a considerable threat to feeding back into producer prices and then into consumer prices inflation. It now also appears that there has been a sustained drop in the labour force which suggests the pandemic has had a longer-term scarring effect in reducing potential GDP. Economic growth may therefore be reduced to between 2% and 3% in 2022 and 2023 while core inflation is likely to remain elevated at around 3% in both years instead of declining back to the Fed's 2% central target.
- Inflation hitting 6.8% and the feed through into second round effects, meant that at the Fed's meeting of 15 December 2021, it took aggressive action against inflation. Accordingly, the rate of tapering of monthly $120bn QE purchases announced at its 3 November 2021 meeting was doubled so that all purchases would now finish in February 2022. In addition, Fed officials had started discussions on running down the stock of QE held by the Fed. Fed officials also expected three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024, taking rates back above 2% to a neutral level for monetary policy. The first increase could come as soon as March 2022 as the chairman of the Fed stated his view that the economy had made rapid progress to achieving the other goal of the Fed, "maximum employment". The Fed forecast that inflation would fall from an average of 5.3% in 2021 to 2.6% in 2023, still above its target of 2% and both figures significantly up from previous forecasts. What was also significant was that in December 2021, the Fed dropped its description of the current level of inflation as being "transitory" and instead referred to "elevated levels" of inflation. The statement also dropped most of the language around the flexible average inflation target, with inflation now described as having exceeded 2 percent "for some time". It did not see Omicron as being a major impediment to the need to take action now to curtail the level of inflationary pressures that have built up, although Fed officials did note that it has the potential to exacerbate supply chain problems and add to price pressures.

European Union (EU).

- The slow role out of vaccines initially delayed economic recovery in early 2021 but the vaccination rate then picked up sharply. After a contraction of -0.3% in Q1, Q2 came in with strong growth of 2%. With Q3 at 2.2%, the EU recovery was then within 0.5% of its pre COVID size. However, the arrival of Omicron variant, is now a major headwind to growth in quarter 4 and the expected downturn into weak growth could well turn negative, with the outlook for the first two months of 2022 expected to continue to be very weak.
- November 2021 inflation figures breakdown shows that the increase in price pressures is not simply due to high energy costs and global demand-supply imbalances for durable goods as services inflation also rose. Headline inflation reached 4.9% in November 2021, with over half of that due to energy. However, oil and gas prices are expected to fall after the winter and so energy inflation is expected to plummet in 2022. Core goods inflation rose to 2.4% in November 2021, its second highest ever level, and is likely to remain high for some time as it will take time for the inflationary impact of global imbalances in the demand and supply of durable goods to disappear. Price pressures also increased in the services sector, but wage growth remains subdued and there are no signs of a trend of faster wage growth which might lead to persistently higher services inflation, which would be a concern for the European Central Bank (ECB). The upshot is that the Euro-Zone is set for a

prolonged period of inflation being above the ECB's target of 2% and it is likely to average 3% in 2022, in line with the ECB's latest projection.

- ECB tapering. The ECB has joined with the Fed by also announcing at its meeting on 16 December 2021, that it will be reducing its QE purchases by half from October 2022, i.e., it will still be providing significant stimulus via QE purchases for over half of next year. However, as inflation will fall back sharply during 2022, it is likely that it will leave its central rate below zero, (currently -0.50%), over the next two years. The main struggle that the ECB has had in recent years is that inflation has been doggedly weak in sticking below the ECB's target rate despite all its major programmes of monetary easing by cutting rates into negative territory and providing QE support.
- The ECB will now also need to consider the impact of Omicron on the economy, and it stated at its December 2021 meeting that it is prepared to provide further QE support if the pandemic causes bond yield spreads of peripheral countries, (compared to the yields of northern EU countries), to rise. However, that is the only reason it will support peripheral yields, so this support is limited in its scope.
- The EU has entered into a period of political uncertainty where a new German Government formed of a coalition of three parties with Olaf Scholz replacing Angela Merkel as Chancellor in December 2021, will need to find its feet both within the EU and in the three parties successfully working together. In France there is a presidential election coming up in April 2022 followed by the legislative election in June 2022. In addition, Italy needs to elect a new president in January 2022 with Prime Minister Draghi being a favourite due to having suitable gravitas for this post. However, if he switched office, there is a significant risk that the current Government coalition could collapse which could then cause differentials between Italian and German bonds to widen when 2022 will also see a gradual running down of ECB support for the bonds of weaker countries within the EU. These political uncertainties could have repercussions on economies and on Brexit issues.

China.

- After a concerted effort to get on top of the virus outbreak in Q1 2020, economic recovery was strong in the rest of 2020. This enabled China to recover all the initial contraction. During 2020, policy makers both quashed the virus and implemented a programme of monetary and fiscal support that was particularly effective at stimulating short-term growth. At the same time, China's economy benefited from the shift towards online spending by consumers in developed markets. These factors helped to explain its comparative outperformance compared to western economies during 2020 and earlier in 2021.
- However, the pace of economic growth has now fallen back in 2021 after this initial surge of recovery from the pandemic and looks likely to be particularly weak in 2022. China has been struggling to contain the spread of the Delta variant through using sharp local lockdowns, which depress economic growth. Chinese consumers are also very wary about leaving home and also spending money on services. However, with Omicron having now spread to China, and being much more easily transmissible, this strategy of sharp local lockdowns to stop the virus may not prove as successful in future. In addition, the current pace of providing boosters at 100 million per month will leave much of the 1.4 billion population exposed to Omicron, and any further variants, for a considerable time. The People's Bank of China made a start in December 2021 on cutting its key interest rate marginally so as to stimulate economic growth. However, after credit has already expanded by around 25% in the last two years, it will probably leave the heavy lifting in supporting growth to fiscal stimulus by Central and Local Government.
- Supply shortages, especially of coal for power generation, were causing widespread power cuts to industry during the second half of 2021 and so a sharp disruptive impact on some sectors of the economy. In addition, recent regulatory actions motivated by a political agenda to channel activities into officially approved directions, are also likely to reduce the dynamism and long-term growth of the Chinese economy.

Japan.
2021 has been an irregular year in combating COVID. However, recent business surveys indicate that the economy has been rebounding rapidly in 2021 now the majority of the population is double vaccinated and new virus cases have reduced. The Bank of Japan is continuing its loose monetary policy but with little prospect of getting inflation back above 1% towards its target of 2% and inflation was negative in July 2021. New Prime Minister Kishida having won the November 2021 General Election brought in a supplementary budget to boost growth, but it is unlikely to have a significant effect.

World Growth.
World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum in the second half of the year, though overall growth for the year 2021 is expected to be about 6% and to be around 4-5% in 2022. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. While headline inflation will fall sharply, core inflation will probably not fall as quickly as central bankers would hope. It is likely that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries from dependence on China to supply products, and vice versa. This is likely to reduce world growth rates from those in prior decades.

Supply Shortages.
The pandemic and extreme weather events, followed by a major surge in demand after lockdowns ended, have been highly disruptive of extended worldwide supply chains. Major queues of ships unable to unload their goods at ports in New York, California and China built up rapidly during quarters 2 and 3 of 2021 but then halved during quarter 4. Such issues have led to a misdistribution of shipping containers around the world and have contributed to a huge increase in the cost of shipping. Combined with a shortage of semi-conductors, these issues have had a disruptive impact on production in many countries. The latest additional disruption has been a shortage of coal in China leading to power cuts focused primarily on producers (rather than consumers), i.e., this will further aggravate shortages in meeting demand for goods. Many western countries are also hitting up against a difficulty in filling job vacancies. It is expected that these issues will be gradually reduce, but they are currently contributing to an upwards spike in inflation and shortages of materials and goods available to purchase.

Appendix 5: Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

Specified Investments: All such investments will be sterling denominated, with **maturities up to a maximum of 1 year**, meeting the minimum 'high' quality criteria where applicable. (Non-specified investments which would be specified investments apart from originally being for a period longer than 12 months, will be classified as being specified once the remaining period to maturity falls to under twelve months.)

Non-specified Investments: These are any investments which do not meet the specified investment criteria. A maximum of 50% will be held in aggregate in non-specified investment

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

Specified Investments

	Minimum credit criteria / colour band	**** Max % of total investments/ £ limit per institution**	**Max. maturity period**
DMADF – UK Government Debt Management Account Deposit Facility	N/A	£40m	6 months
UK Government gilts	UK sovereign rating	£20m	12 months
UK Government Treasury bills	UK sovereign rating	£20m	12 months
Bonds issued by multilateral development banks	AAA	£10m	6 months
Money Market Funds Constant Net Asset Value (CNAV)	AAA	£20m	Liquid
Money Market Funds Low Volatility Net Asset Value (LVNAV)	AAA	£20m	Liquid
Money Market Funds Variable Net Asset Value (VNAV)	AAA	£20m	Liquid
Enhanced Cash Funds with a credit score of 1.25	AAA	£20m	Liquid
Enhanced Cash Funds with a credit score of 1.5	AAA	£20m	Liquid
Local Authorities	Yellow	£10m	12 months
Public Bodies	N/A	£10m	12 months
Term deposits with banks and building societies	Blue Orange Red Green No Colour	£20m £15m £10m £10m Not for use	12 months 12 months 6 months 100 days Not for use

Certificates of Deposits (CDs) or corporate bonds with banks and building societies	Blue Orange Red Green No Colour	£20m £15m £10m £10m Not for use	12 months 12 months 6 months 100 days Not for use
Gilt funds	UK sovereign rating	£10m	12 months
REPO's (Collateralised deposit)	100% Collateral	£5m	12 months
GMCA	Internal Due Diligence	£30m	12 months
GM Public Bodies	Internal Due Diligence	£30m	12 months

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by the Council. To ensure that the Council is protected from any adverse revenue implications, which may arise from these differences, the accounting implications of new transactions will be reviewed before they are undertaken.

Non-specified Investments: A maximum of 50% will be held in aggregate in non-specified investments

Maturities in excess of 1 year

	* Minimum Credit Criteria	Use	£ limit per institution	Max. maturity period
Term deposits – local authorities and other public institutions	Yellow	In-house	£10m	5 years
Term deposits – banks and building societies	Yellow Purple	In-house	£10m £10m	5 years 2 years
Certificates of deposit issued by banks and building societies	Yellow Purple	In-house	£10m £10m	5 years 2 years
Certificates of deposit issued by banks and building societies	Short-term F1 Long-term AA	Fund Managers	£5m	2 years
Collateralised deposit	UK sovereign rating	In-house and Fund Managers	£5m	2 years
UK Government Gilts	UK sovereign rating	In-house and Fund Managers	£10m	5 years
Bonds issued by multilateral development banks	AAA	In-house and Fund Managers	£10m	3 years
Sovereign bond issues (other than the UK Government)	AAA	In-house and Fund Managers	£5m	2 years
Corporate bonds	Short-term F1 Long-term AA	In-house and Fund Managers	£5m	5 years
Green Energy Bonds	Internal Due Diligence	In-house and Fund Managers	£10m	10 years
Property Funds	Internal Due Diligence	In-house	£30m	10 years
Floating Rate Notes	Long Term A	In-house	£5m	5 years
REPO's (Collateralised deposit)	100% Collateral	In-house	£5m	5 years
GMCA	Internal Due Diligence	In-house	£30m	5 years
Covered Bonds	Long term A	In-house	£5m	5 years
UK Municipal Bonds Agency	Internal Due Diligence	In-house	£1m	10 years
Local Authority Fixed Income Fund	Internal Due Diligence	In-house	£5m	10 years
Unrated Bonds, backed by securitised Assets	Internal Due Diligence	In-house and fund managers	£5m	5 years
Asset Backed Pooled Investment Funds	Internal Due Diligence	In-house and fund managers	£5m	5 years
Fixed term deposits with variable rate and variable maturities	Internal Due Diligence	In-house and External Advice	£20m	50 years
Debt Financing	Internal Due Diligence & External Advice	In-house and External Advice	£30m	10 years

Appendix 6: Approved Countries for Investments (as at December 2021)

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link credit worthiness service. The Council has traditional only dealt within the UK, however given that the soveign rating has dropped below other countries, consideration maybe given to maximaise investment returns in countries with a stronger rating, following discussion and advice with the Council's treasury advisors.

AAA

- Australia
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- France

AA-

- Belgium
- U.K.

Appendix 7: Treasury Management Scheme of Delegation

The scheme of delegation is as follows:

Full Council is the responsible body for:

- receiving and reviewing reports on Treasury Management policies, practices and activities;
- the approval of the annual strategy, mid-year review and outturn report.
- approval of/amendments to the organisation’s Treasury Management Policy Statement;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;

Cabinet is the responsible body for:

- considering the Treasury Management Policy and Procedures and making recommendations to the responsible body.
- considering Treasury Management reports and commending to Council.

Audit Committee is responsible for scrutiny:

- reviewing the Treasury Management Policy and Procedures and making recommendations to the responsible body.
- Reviewing Treasury Management reports and making recommendations to the responsible body.

Cabinet Member for Finance and and Green is responsible for:

- approving the selection of external service providers and agreeing terms of appointment

Note : The Policy Overview and Scrutiny Select Committee reviews and scrutinises the Annual Treasury Management Strategy report along with the suite of other budget reports (including the Capital Strategy).

Appendix 8: The Treasury Management Role of the Statutory Chief Finance Officer (Director of Finance)

The Statutory Chief Financial Officer will discharge the Treasury Management role by:

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

    - Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;

    - Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;

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

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

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Report to Audit Committee

2021/22 Internal Audit and Counter Fraud Progress Report

Portfolio Holder: Councillor Abdul Jabbar MBE, Deputy Leader and Cabinet Member Finance and Low Carbon

Officer Contact: Mark Stenson – Assistant Director of Corporate Governance and Strategic Financial Management

Report Author: Mark Stenson – Assistant Director of Corporate Governance and Strategic Financial Management

Ext. 4783

17 January 2022

Reason for Decision

To provide Members with a high-level progress report on the work of the Internal Audit and Counter Fraud team for the 2021/22 financial year.

Executive Summary

The report summarises the work carried out by the team from 1 April 2021 to 31 December 2021.

The team has continued to prioritise work on the Fundamental Financial Systems (FFS) reviews to support the 2021/22 audit of the financial accounts.

A number of Interim FFS reviews have now reached draft report stage, with the balance to follow in the final quarter of the year.

In addition, other Audit and Counter Fraud Team highlights include:

- Continued support in respect of COVID-19 grant funding regimes, including the Homelessness Prevention Grant and Business Grants.
- Resumption of audit reviews outside of FFS including Children's Services imprest accounts; capital project procurement and contract management, and ongoing support and review of maintained schools.

- The Counter Fraud and Direct Payments Audit Teams (Adults and Children) have continued to deliver significant recovery outcomes which have generated £341,253 and £2,069,044 (respectively) in the first three quarters of the current financial year.

Recommendation

Members are requested to note the 2021/22 Audit and Counter Fraud Progress Report.

Audit Committee **17 January 2022**

Audit and Counter Fraud Progress Report

1. **Background**

1.1 This report summarises the work carried out for the period 1 April 2021 to 31 December 2021 by the Audit and Counter Fraud Team.

1.2 The main content of the report is structured as follows:

- Section 2: 2021/22 Audit and Counter Fraud Plan: Progress Update.
- Section 3: Corporate Counter Fraud.
- Section 4: Audit of Direct Payments.

2. 2021/22 Audit and Counter Fraud Plan: Progress Update

2.1 **Priorities for the 2021/22 Audit and Counter Fraud Plan are:**

- Twice yearly Fundamental Financial Systems (FFS) reviews. FFS audits are undertaken in two stages to provide earlier assurance. Interim (Stage 1) Audits which commenced on 4 October 2021, and Final (Stage 2) Audits which will commence in February 2022.
- Audits which are classed as “high priority” in the Annual Audit Needs Assessment.
- Counter Fraud work to identify fraud risks within the corporate systems.
- Specific fraud investigations on Council Tax Reduction and Corporate Fraud.
- Deliver the financial audits of Direct Payments in line with service plans and targets.
- Support and provide assurance in connection with postal votes for local, regional and parliamentary elections.

Progress against these priorities since our previous update to Members is summarised below:

2.2 **Fundamental Financial Systems (FFS) reports issued since last update to Members.**

Work commenced on these reviews in October 2021. Progress as at 31 December 2021 is as follows:

- Four draft interim reports have been issued.
- Two draft interim reports are awaiting formal management responses to our recommendations prior to issue.
- The remaining interim reviews are in progress and reports will be issued in the final quarter of the year.

Further details can be found at **Appendix 1**

2.3 **Non-FFS related reports issued since last update to Members.**

- Imprest Accounts and Cash Handling in Children’s services – review of the controls surrounding a number of imprest accounts held by the service.
- Alexandra Park Junior School - review of financial processes and procedures in place at the request of the school.
- The Oldham Academy North – review of the contract award and monitoring processes.

Members will be pleased to note that Alexandra Park Junior School has responded very positively to our work in this area.

Further details can be found at **Appendix 1**

2.4 **Other work undertaken since our previous update to Members includes:**

- MioCare CIC – ongoing provision of internal audit services for the Council's wholly owned subsidiary company.
- Further ongoing work in connection with grant funding schemes in response to the COVID-19 pandemic, including Wet Led Pubs, Homelessness Prevention and, most recently, further grants for the Hospitality sector.
- Support, facilitation and liaison provided to SS Aiden and Oswald RC Primary in advance of an upcoming audit review at the request of the school.

.

Members will be pleased to note that SS Aiden and Oswald Primary has also responded very positively to our work in this area.

2.5 **Implementation of new Audit Management System - Pentana**

Good progress has been made on the implementation of the new Audit Management System since our last update to Members. The team:

- has populated the system with standard audit programmes for all FFS reviews; and
- is in the process of transferring all working papers for current FFS reviews onto the new system.

Pentana provides a common document storage and retrieval system, and a common reference library for all future audit work and programmes. It is accessible to the whole team and enables maintenance of an audit trail in respect of our own internal quality assurance processes.

3. Corporate Counter Fraud

3.1 In line with the priorities agreed by the Audit Committee, the Counter Fraud Team continues to collaborate with the Internal Audit Team and contribute to the delivery of the Internal Audi and Counter Fraud Plan.

3.2 The team continues to perform well. **Appendix 2** sets out the key outcomes by Quarter, which are summarised below for the nine months to 31 December 2021.

Counter Fraud team 2021/22	**Total**
Corporate Cases – No. of Positive Results	**111**
Fraud and Error Overpayments identified as part of Corporate Cases	**£78,048**
Warning letters issued	**54**
Housing Benefit (HB) Fraud and Error Overpayments identified as part of a Council Tax Reduction (CTR) investigation	**£151,029**
CTR Fraud and Error Overpayments identified	**£112,176**
Total Financial Outcomes from Counter Fraud Team	**£341,253**

4. Audit of Direct Payments

4.1 The Direct Payments (DP) Audit team undertakes a dual role of:

- ensuring client spending is in line with their agreed Support Plan; and
- identifying overpayments made / or client contributions outstanding for recovery.

4.2 The team continues to perform well. **Appendix 2** sets out the key outcomes by Quarter, which are summarised below for the nine months to 31 December 2021.

Direct Payments team 2021/22	**Total**
Number of Children's DP audits undertaken	**95**
Funds requested during Children's PB Audit	**£101,974**
Number of Adults DP audits undertaken	**775**
Funds requested during Adults PB Audit	**£1,967,070**
Total Financial Outcomes from Direct Payment Audit Team	**£2,069,044**

4.3 Following a successful pilot exercise, the Direct Payment Audit Team will also continue to conduct audits of Personal Health Budgets with colleagues from NHS England and Oldham Cares.

5 Options/Alternatives

5.1 The Audit Committee can either:

a) choose to accept and note the progress achieved and performance by the Audit and Counter Fraud Team; or
b) decline to accept and note the progress achieved and performance by the Audit and Counter Fraud Team and suggest an alternative approach.

6 Preferred Option

6.1 The preferred option is that the Audit Committee accepts and notes the progress achieved and performance by the Audit and Counter Fraud Team.

7 Consultation

7.1 N/A.

8 Financial Implications

8.1 N/A.

9 Legal Services Comments

9.1 N/A.

10 Cooperative Agenda

10.1 N/A.

11 Human Resources Comments

11.1 N/A.

12 Risk Assessments

12.1 The 2021/22 Audit and Counter Fraud Plan is prepared, reviewed, and updated using a risk-based approach. The Terms of Reference for each agreed project are also determined using a risk-based methodology. (Mark Stenson)

13 **IT Implications**

13.1 N/A.

14 **Property Implications**

14.1 N/A.

15 **Procurement Implications**

15.1 N/A.

16 **Environmental and Health & Safety Implications**

16.1 N/A.

17 **Equity, Community Cohesion and Crime Implication**

17.1 N/A.

18 **Equality Impact Assessment Completed**

18.1 No.

19 **Forward Plan Reference**

19.1 N/A.

20 **Key Decision**

20.1 No.

21 **Background Papers**

21.1 The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act

File Ref:	Background papers are included as Appendices 1 & 2
Officer Name:	Mark Stenson
Contact No:	0161 770 4783

22 Appendices

22.1 The following Appendices are available to support this Report:

- **Appendix 1:** Summary of Reports – 1 April to 31 December 2021
- **Appendix 2:** Counter Fraud and Direct Payments Results – 1 April to 31 December 2021

Appendix 1

Audit and Counter Fraud 2021/22 - Summary of Audit Reports 1 April to 31 December 2021

Report Ref	Directorate	Audit Review/Counter Fraud Report	Report/Briefing Note	Quarter	Opinion
1	People and Place	People Programme - Assurance Group Highlight Report	Report	Q1	Advisory
2	Children's Services	Troubled Families	Grant Assurance	Q2	Assurance
3	Children's Services	Draft report - Review of Imprest Accounts and Cash Handling	Report	Q3	TBC
4	Children's Services	Final report - Alexandra Park Junior School	Report	Q3	Inadequate
5	Chief Executive	Coalessce	Grant Assurance	Q1	Assurance
6	Chief Executive	Redwolf	Grant Assurance	Q2	Assurance
7	Chief Executive	Foundations	Grant Assurance	Q2	Assurance
8	Chief Executive	Reduces	Grant Assurance	Q2	Assurance
9	Chief Executive	2020/21 Final - Accounts Payable	Report	Q1	Adequate
10	Chief Executive	2020/21 Final - Accounts Receivable	Report	Q1	Adequate
11	Chief Executive	2020/21 Final - Bank Recs	Report	Q1	Good
12	Chief Executive	2020/21 Final - Cash Income	Report	Q1	Adequate
13	Chief Executive	2020/21 Final - Council Tax	Report	Q1	Adequate
14	Chief Executive	2020/21 Final - Council Tax Reduction	Report	Q1	Adequate
15	Chief Executive	2020/21 Final - Fixed Assets	Report	Q1	Adequate
16	Chief Executive	2020/21 Final - Housing Benefits	Report	Q1	Adequate
17	Chief Executive	2020/21 Final - Housing Rents	Report	Q1	Adequate
18	Chief Executive	2020/21 Final - NDR (Business Rates)	Report	Q1	Adequate
19	Chief Executive	2020/21 Final – Payroll	Report	Q1	Inadequate
20	Chief Executive	2020/21 Final - Treasury Management	Report	Q1	Good
21	Chief Executive	2020/21 Final - Personal Budgets	Report	Q1	Inadequate
22	Chief Executive	2020/21 Final - Residential Care	Report	Q1	Inadequate

23	Chief Executive	2021/22 Draft Interim report– Council Tax	Report	Q3	TBC
24	Chief Executive	2021/22 Draft Interim report – Business Rates (NDR)	Report	Q3	TBC
25	Chief Executive	2021/22 Draft Interim report – Treasury Management	Report	Q3	TBC
26	Chief Executive	2021/22 Draft Interim report – Bank Reconciliations	Report	Q3	TBC
27	Chief Executive	Draft report - The Oldham Academy North	Report	Q3	TBC
28	Chief Executive	Local Growth Fund	Report	Q2	Assurance
29	Chief Executive	BEIS - Business Grant Assurance Assessment - April 2021	Grant Assurance	Q1	Assurance
30	Chief Executive	Local Election and Greater Manchester Mayoral Election - Post Votes Integrity/Verification Review	Report	Q2	Advisory
31	Chief Executive	Local Elections Postal Vote Checks	Briefing note	Q1	Advisory
32	MioCare Group CIC	MioCare – Financial System Review	MioCare – Audit Opinion Withheld	Q1	Advisory
33	External	Shaw and Crompton Parish Council Internal Control	Report	Q2	Advisory

Key:

Opinion	**Description**
Advisory	The work in this area is either not audit work in nature and/or is undertaken on behalf of 3rd parties.
Assurance	The work in this area has been undertaken in order to provide assurance that monies have been spent as intended.
Poor	Action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and/or control is inadequate to effectively manage risks to the achievement of objectives in the area audited.
Inadequate	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and/or control to effectively manage risks to the achievement of objectives in the area audited.
Adequate	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance and/or scope for improvement were identified which could put at risk the achievement of objectives in the area audited.
Good	A sound system of governance, risk management and/or control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
TBC	Opinion awaiting confirmation following further discussion with management.

Appendix 2

Corporate Counter Fraud Team 2020/21	Qtr 1	Qtr 2	Qtr 3	Total
Corporate Cases - Positive Results	16	1	94	**111**
Fraud and Error Overpayments identified as part of Corporate Cases	£22,254	£843	£54,951	**£78,048**
CTR cases amended as a result of an investigation	18	8	28	**54**
HB Fraud and Error Overpayments identified as part of a CTR investigation	£10,272	£89,383	£51,374	**£151,029**
CTR Fraud and Error Overpayments identified (£)	£28,332	£28,163	£55,681	**£112,176**
Total Financial Outcomes from Counter Fraud Team	**£60,858**	**£118,389**	**£162,006**	**£341,253**

Direct Payments Audit Team 2020/21	Qtr 1	Qtr 2	Qtr 3	Total
Number of Children's DP audits undertaken	15	36	44	**95**
Funds requested during Children's PB Audit including Financial Assessment	£17,601	£37,713	£46,660	**£101,974**
Number of Adults DP audits undertaken	257	230	288	**775**
Funds requested during Adults PB Audit including Financial Assessment	£519,208	£574,871	£872,991	**£1,967,070**
Total Financial Outcomes from Direct Payment Audit Team	**£536,809**	**£612,584**	**£919,651**	**£2,069,044**

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Proposed Audit Committee Work Programme for 2021/22 and early 2022/23

Meeting Date & Venue	Agenda Item	Summary of Report Issue
Thursday 9 September 2021, 6.00pm.	Audit Findings Report.	Updated report to support the external audit of the 2020/21 Statement of Final Accounts.
	2020/21 Statement of Final Accounts.	This is a progress report on the audit of the 2020/21 Statement of Final Accounts.
	Update on Financial Administration in Local Authorities.	A report detailing challenges experienced in the financial administration at other local authorities as reported in the public domain. The aim is to target the work of the Committee alongside the Scrutiny function.
	Work Programme for the Performance Overview Scrutiny Committee.	A report on the proposed work programme of the key Scrutiny Committee to ensure its work and that of the Audit Committee both cover the key areas of administration to ensure appropriate oversight in the Council.
	Proposed Audit Committee Work Programme for the Statement of Accounts 2021/22.	This report detailing the proposed work programme to support the approval of the 2021/22 Statement of Final Accounts.
	Private Report; Update on Annual Governance Statement for 2020/21 and New Issues for 2021/22.	This updates the Audit Committee on key matters included within the Annual Governance Statement, the Corporate Risk Register and ad hoc matters the Assistant Director of Corporate Governance and Strategic Financial Management highlights to the Audit Committee.
	Private Report; Business Grant Schemes Assurance Report.	This sets out the return provided to the Department of Business, Enterprise and Industrial Strategy about the governance processes supporting Business Grants provided as Emergency Support during lockdown.
	Private Report; Update on the Corporate Risk Register.	This sets out the position as of 30 June 2021 in relation to matters included on the Corporate Risk Register.

Proposed Audit Committee Work Programme for 2021/22 and early 2022/23

Meeting Date & Venue	Agenda Item	Summary of Report Issue
Tuesday 2 November 2021, 6.00 pm	Project Governance Process – Alexandra Park Eco Centre.	As requested by the Committee a report setting out the planned governance process of a major capital process.
	2020/21 Statement of Final Accounts.	This report details the audited opinion for the 2020/21 Statement of Final Accounts.
	External Audit Progress Report November 2021.	An update produced by the External Auditor of issues to be brought to the attention of this Committee.
	Update on progress in addressing the recommendation made by the External Auditor in the 2020/21 Audit Findings Report.	To provide and update on the improvement in the in the four areas as recommended in the 2020/21 Audit Findings Report.
	Update on External Audit Matters.	An update if required, on national developments linked into the ongoing developments and consultations on the provision of external audit to Local Government Bodies
	Treasury Management Mid-Year Review.	The planned scrutiny of the 2021/22 Treasury Management mid-year review report before submission to Cabinet in November.
	Revision to the Reserves Policy for 2020/21 in 2021/22.	An update report by the Director of Finance to the Audit Committee to reflect a change in the Policy previously reported.
	Audit and Counter Fraud Progress Report including significant issues highlighted on internal control.	This is the routine report on the progress made against the agreed audit and counter fraud plan detailing any control weaknesses identified.
	Proposed Audit Committee Work Programme for 2022/23.	This report detailing the proposed work programme for 2022/23 including actions required to support the approval of the 2021/22 Statement of Final Accounts.
	Private Report; Partnership Risk Dashboard.	This is the regular report produced for the Committee to assess the ongoing risk to the Council from its key partnerships.

Proposed Audit Committee Work Programme for 2021/22 and early 2022/23

Meeting Date & Venue	Agenda Item	Summary of Report Issue
	Private Report; Update on the Annual Governance Statement for 2020/21 and new issues for 2021/22.	This updates the Audit Committee on key matters included within the Annual Governance Statement and ad hoc matters the Assistant Director of Corporate Governance and Strategic Financial Management highlights to the Audit Committee.
Tuesday 17 January 2022, 6.00pm.	2020/21 Annual Statement of Accounts including the 2020/21 Auditors Annual Report.	This report provides an update on the final accounts and informs the Committee on key matters such as the future appointment pf the external auditors using Public Sector Audit Appointments (PSAA). The report also details the value for money opinion provided by the external auditor under the revised Code of Practice for the financial year 2020/21.
	Compliance with the Chartered Institute of Finance and Accountancy (CIPFA) Code of Financial Management.	This report details the assessment within Oldham Council on how it complies with the CIPFA Code of Financial Management with appropriate recommendations for improvement.
	Treasury Management Strategy Statement 2022/23.	This sets out the Proposed Treasury Management Strategy for 2022/23 to support the Corporate Objectives of the Council.
	2021/22 Internal Audit and Counter Fraud Progress Report.	This is the routine report on the progress made against the agreed audit and counter fraud plan detailing any control weaknesses identified.
	Proposed Audit Committee Work Programme for 2022/23.	This report detailing the proposed work programme to support the approval of the 2021/22 Statement of Final Accounts.
	Private Report; Update on the Annual Governance Statement for 2020/21 and new issues for 2021/22.	This updates the Audit Committee on key matters included within the Annual Governance Statement, the Corporate Risk Register and ad hoc matters the Assistant Director of Corporate Governance and Strategic Financial Management highlights to the Audit Committee.
	Private Report; Senior Information Officer update	This updates the Audit Committee on the key matters relating to data protection and information security breaches.

Proposed Audit Committee Work Programme for 2021/22 and early 2022/23

Meeting Date & Venue	Agenda Item	Summary of Report Issue
Thursday 10 March 2022, 6.00 pm	External Audit Annual Audit Letter 2020/21.	An update produced by the External Auditor of issues to be brought to the attention of this Committee.
	Audit of Teachers' Pensions Agency Return 2020/21.	This report considers the feedback following the external Audit of the Teachers' Pension Agency return.
	Audit of Housing Benefit Subsidy 2020/21.	This report considers the feedback on the audit of the housing subsidy grant claim.
	2021/22 Proposed Accounting Policies and Critical Judgements.	In advance of the approval of the accounts an opportunity for the Audit Committee to review the Proposed Policies and Judgements for the 2021/22 Statement of Accounts.
	Audit and Counter Fraud Progress Report.	This is the routine report on the progress made against the agreed Internal Audit and Counter Fraud Plan.
	Proposed Audit Committee Work Programme for 2022/23.	This report detailing the proposed work programme to support the approval of the 2021/22 Statement of Final Accounts.
	Private Report; Internal Audit Plan 2022/23.	The proposed plan of work for the financial year 2022/23 to enable review by the Committee.
	Private Report; Update on the Annual Governance Statement for 2020/21 and new issues.	This updates the Audit Committee on key matters included within the Annual Governance Statement, the Corporate Risk Register and ad hoc matters the Assistant Director of Corporate Governance and Strategic Financial Management highlights to the Audit Committee.
	Private Report; Partnership Risk Dashboard.	This is the regular update requested by the Committee on partnership governance considering potential issues identified on governance elsewhere.
	Private Report; Internal Control Matters for Contracting/ Commissioning.	This updates the Audit Committee on the progress made by the Council to address a key issue to strengthen control as detailed in the Annual Governance Statement.

Proposed Audit Committee Work Programme for 2021/22 and early 2022/23

Meeting Date & Venue	Agenda Item	Summary of Report Issue
	Private Report; Internal Control Matters for Contracting/ Commissioning.	This updates the Audit Committee on the progress made by the Council to address a key issue to strengthen control as detailed in the Annual Governance Statement.
	Private Report; Update on Payroll Matters.	This updates the Audit Committee on the key internal control matters supporting the administration of the payroll system identified as a key area for improvement.
Thursday June 2022, 6.00pm	Data Protection Update.	Routine six monthly report by the Data Protection Officer as required under GDPR.
	External Audit Progress Report May 2022.	An update produced by the external auditor of issues to be brought to the attention of the Committee.
	Informing the Risk Assessment 2021/22 (Director of Finance).	This report details the questions to those charged with Governance to enable the Statement of Financial Accounts to be audited.
	Informing the Risk Assessment 2021/22 (Chair of the Audit Committee).	This report details the questions to those charged with Governance to enable the Statement of Financial Accounts to be audited.
	Review of System of Internal Audit by the Audit Committee.	Annual Review of the system of internal audit using the balanced scorecard.
	2022/23 Internal Audit and Counter Fraud Plan.	The proposed plan of work for the financial year 2022/23 to enable review by the Committee.
	Internal Audit Charter 2022/23.	Proposed update to the Audit Charter for 2022/23 to reflect any changes required.
	Update of Local Code of Corporate Governance to June 2022.	Update of the previously agreed Local Code of Corporate Governance.

Proposed Audit Committee Work Programme for 2021/22 and early 2022/23

Meeting Date & Venue	Agenda Item	Summary of Report Issue
	Private Report: Corporate Risk Register 2021/22 – end of year review.	This updates the Audit Committee on the implementation of the Framework previously agreed and the issues identified in the Corporate Risk Register.
September 2021, 6.00pm	2021/22 Annual Report by the Assistant Director of Corporate Governance and Strategic Financial Management.	Annual Report based on the work conducted by Audit and Counter Fraud Team, Insurance/ Risk and Information Governance teams to determine the overall control environment of the Council.
	Annual Governance Statement 2021/22.	Draft Annual Governance Statement included within the Statement of Accounts for review and scrutiny.
	2021/22 Draft Annual Statement of Accounts.	Draft Statement of Accounts subject to external audit for approval by the Committee.
	Review of Corporate Fraud Policies.	An annual review of the Counter Fraud suite of policies to reflect the recent legislation.
	Private Report; Senior Information Risk Owner (SIRO) Update.	Annual report of the SIRO including an overview of reported data breaches.
	Private Report; Partnership Risk Dashboard.	This is the regular update requested by the Committee on partnership governance considering potential issues identified on governance elsewhere.

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