Dudley Metropolitan Borough Council

# Meeting of the Audit and Standards Committee

## Monday 7th February, 2022 at 6.00pm in Committee Room 3, Council House, Priory Road, Dudley.

## Agenda - Public Session

**(Meeting open to the public and press)**

1. Apologies for absence.

2. To report the appointment of any substitute members serving for this meeting of the Committee.

3. To receive any declarations of interest under the Members' Code of Conduct.

4. To confirm and sign the minutes of the meeting held on 6th December, 2021 as a correct record.

5. Invitation to become an Opted-in Authority - Public Sector Audit Appointments – (Pages 1-8)

6. Treasury Management – (Pages 9-28)

7. To consider any questions from Members to the Chair where two clear days notice has been given to the Monitoring Officer (Council Procedure Rule 11.8).

8. Under the provisions of Part I of Schedule 12A to the Local Government Act 1972, the Monitoring Officer has decided that there will be no advance disclosure of the following reports because the public interest in disclosing the information is outweighed by the public interest in maintaining the exemption from disclosure. The submission of these reports complies with the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012.

9. Resolution to exclude the public and press.
   Chair to move:

"That the public and press be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information relating to any individuals under Part I of Schedule 12A to the Local Government Act 1972, as amended."

## Agenda - Private Session

**(Meeting not open to the public and press)**

10. Annual Audit Report for the Deputy Chief Executive – (Pages 29-101)

**Chief Executive**
**Dated: 28th January, 2022**

**Distribution:**

**Members of the Audit and Standards Committee**:
Councillor A Taylor (Chair)
Councillor J Roberts (Vice-Chair)
Councillors S Ali, P Atkins, D Borley, J Cowell, P Dobb, M Evans, B Gentle

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**Submitting Apologies for Absence**

- Elected Members can submit apologies by contacting Democratic Services (see our contact details below). Members wishing to appoint a substitute should notify Democratic Services as soon as possible in advance of the meeting. Any substitute Members must be eligible to serve on the meeting in question (for example, he/she must have received the training required by the Council).

**Private and Confidential Information**

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**General**

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- Information about the Council and our meetings can be viewed on the website **www.dudley.gov.uk**

**If you need advice or assistance**

- If you (or anyone you know) requires assistance to access the venue, or if you have any other queries, please contact Democratic Services - Telephone 01384 815238 or E-mail **Democratic.Services@dudley.gov.uk**

# Minutes of the Audit and Standards Committee
# Monday 6th December, 2021 at 6.00pm
# in Committee Room 2, the Council House, Dudley

**Present**:

Councillor A Taylor (Chair)
Councillor J Roberts (Vice Chair)
Councillors S Ali, P Atkins, D Borley, J Cowell, P Dobb, M Evans and B Gentle

**Officers:**

I Newman (Director of Finance and Legal), M Farooq (Lead for Law and Governance), G Harrison (Head of Audit Services), A Uppal (Finance Manager), and S Griffiths (Democratic Services Manager).

**Also in attendance on MS Teams:**

L Jury (Democratic Services Officer)
J Branch (Head of Human Resources (HR) and Organisational Development) for agenda item nos. 23, 24 and 27.
J Martin (HR Manager) for agenda item no. 23

K O'Keefe (Chief Executive), M Bowsher (Director of Adult Social Care), C Driscoll (Director of Children's Services), I Lahel (Head of Integrated Commissioning Performance and Partnership) and B Clark (Interim Head of Payroll, Pension and Recruitment), for agenda item no. 24.

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19 **Declarations of Interest**

No Member made a declaration of interest in accordance with the Member's Code of Conduct.

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20 **Minutes**

**Resolved**

That the minutes of the meeting held on, 20th September, 2021, be approved as a correct record and signed.

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21 **Change in order of business**

Pursuant to Council Procedure Rule 13 (c)

**Resolved**

That the order of business be varied and that the agenda items be considered in the order set out in the minutes below.

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22 **Exclusion of the Public**

**Resolved**

That the public and press be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information relating to any individual(s) or any action taken, or to be taken in connection with the prevention, investigation, or prosecution of crime, as defined under Part I of Schedule 12A to the Local Government Act 1972.

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23 **Suspensions under the provisions of the Employee Improvement and Disciplinary Procedure or relevant Schools Disciplinary Procedure**

The Committee received a report of the Chief Executive on the number of employees who were suspended pending an investigation into an allegation(s) of gross misconduct during the period 1st October 2020, to 30th September 2021, inclusive.

The Head of Human Resources (HR) and Organisational Development and the HR Manager, were in attendance at the meeting to present the report and answer questions raised by Members.

In presenting the report, the Human Resources (HR) Manager advised on the number of employees that had been suspended from 1st October 2020 to 30th September 2021, and the number of suspension cases that had been resolved or were still on-going, together with the details of the cases, as set out in the report.

In addition to suspension cases, it was noted that employees could be offered alternative duties instead of suspension and the details of those cases were presented as set out in paragraph 14 of the report submitted. It was further noted that in some circumstances, suspensions were not immediately possible due to the involvement of safeguarding or the Police. However it was usually necessary to remove the employee from the workplace and therefore a period of refrainment would be instigated and the number of cases where the implementation of this process had been necessary was noted.

The length of the average suspension was presented, and it was noted that the average length had decreased from the figure reported to the Committee last year. The outcomes of the cases that had been carried forward from last year, as set out in the report, were also noted.

In conclusion, the HR Manager advised on the total cost in salary terms of the employees who had been suspended for allegations of gross misconduct, together with the average cost of each suspension, noting the comparison to last year's cost. It was acknowledged that the cost of suspensions varied significantly dependent upon the salary levels and the type of contract of the employees suspended.

Arising from consideration of the report, the Chair stated that he was pleased to see that the average length of suspensions had significantly decreased over the years since this report had been submitted to the Committee.

In relation to the costs of suspensions, that resulted in a dismissal, as referred to in paragraph 24 of the report submitted, the HR Manager agreed to include the salary costs relating to the employees who had dealt with the cases in future reports.

Members made further comments and raised questions which were responded to at the meeting.

**Resolved**

(1) That the information contained in the report on suspensions under the provisions of the Employee Improvement and Disciplinary Procedure or relevant Schools Disciplinary Procedure, be received and noted.

(2) That future reports submitted to the Committee for consideration include the salary costs of the employees who worked on the cases in the total costs of suspensions.

24 **Annual Audit Report of the Chief Executive**

A report of the Director of Finance and Legal was submitted summarising the audit work undertaken in relation to the Directors of Adult Social Care, Children's Services, Public Health and Wellbeing, Finance and Legal and the Head of Service (Human Resources and Organisational Development) who reported directly to the Chief Executive for the financial year 2020/2021.

In presenting the report the Head of Audit Services advised that this year's audit had been affected by the Covid 19 pandemic as many Audit staff had been seconded for part of the year to other Council services to provide support to borough residents and businesses. Referring to paragraph 7 of the report, it was noted that ten assurance audits had been undertaken, of which three had received minimal or limited assurance ratings. It was advised that these ratings had been given due to either a critical action being raised or a number of high priority actions. Critical priority actions were detailed in Appendix 2 attached to the report and high priority actions were detailed in Appendix 3.

Reference was made to the five other areas of audit activity that had been undertaken and a full list of the audits, including the number of actions raised and assurance ratings, were detailed in Appendix 1 to the report. Paragraph 9 of the report detailed the priority categories the actions raised had been split into, and the number of unimplemented actions from the previous review. Unimplemented actions not classified as 'critical' or 'high' were detailed in Appendix 4. It was noted that a further review of Human Resources (HR), Payroll and Systems Processes would be undertaken in January 2022 and information included in Appendices 2, 3 and 4 had previously been agreed with the Directorate Management.

The Head of Audit Services stated that information on data included on the bottom of Appendices 2, 3 and 4 was the Management's comment on the current status of the actions, being implemented, in progress or not implemented. It was noted that this information had not currently been verified by Audit Services, but work would be undertaken on all critical, high priority actions, and outcomes would be reported to the Committee.

It was noted that the Committee had set targets for the issue of final reports and Management's responses to the audit, and it noted that 75% of initial management responses had been received within the 4-week target and 63% of final reports had been issued within the 6-week target. It was acknowledged that understandably performance against target had been affected by the pandemic due to the extra pressure that had been placed on the Directorate Management.

Reference to post-audit questionnaires, issued on completion of an audit, were presented noting that those returned stated that they had received either a very good, or good service.

In conclusion, the Head of Audit Services advised that the Chief Executive and a number of Directors and officers from within the Directorates were present at the meeting, either in person or virtually on Teams to answer any questions that Member's may wish to raise.

Arising from the presentation, Members raised a general concern that many of the audits had actions that were unimplemented, and whilst acknowledging the impact that the Covid 19 pandemic had had on the implementation of actions raised by Audit over the last 18 months, concerns were raised that many actions had been unimplemented since 2016/17.

In response, the Chief Executive echoed the concerns raised by Members stating that it was not acceptable that Audit findings had not been addressed for some years and although acknowledged that the pandemic had negatively impacted on many services, Members were assured that the Audit actions would be discussed at the Chief Executive's monthly one-to-one meetings with Directors/Heads of Service to assess progress made on actions and work to be undertaken going forward.

Members made further comments, and raised questions on the individual audits, some of which were responded to at the meeting. For questions that required further investigation, Officer's undertook to provide the Committee with written responses.

**Resolved**

(1) That the information contained in the report and Appendices to the report submitted on audit work undertaken for those Directors and Heads of Service who reported directly to the Chief Executive for the financial year 2020/21, be received and noted.

(2) That Officers provide Members with detailed responses to questions raised at the meeting.

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25 **Financial Regulations**

A report of the Director of Finance and Legal was submitted seeking the Board's approval of the revised Financial Regulations.

In presenting the report, the Director of Finance and Legal advised that the regulations had not been updated for some time and in light of changes to processes, systems, and structures over the last few years in the Council, a review had now been undertaken. The regulations had been produced in a new format in line with some exemplars from other local authorities and to reflect the changes in financial processes that had taken place.

Arising from the presentation, Members welcomed the review that had been undertaken and the Director of Finance and Legal undertook to change the reference to the Criminal Records Bureau in the report to state the Disclosure and Barring Service.

**Resolved**

(1) That the revised Financial Regulations, as set out in Appendix 1 to the report, be approved.

(2) That the revised Financial Regulations be included in the Constitution.

(3) That the Director of Finance and Legal be authorised to amend Financial Regulations to make minor amendments as and when required, as outlined in paragraph 5 of the report submitted.

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26 **Members' Code of Conduct and Standards Arrangements**

The Committee received a report of the Monitoring Officer on the adoption of a revised Members' Code of Conduct based on the Local Government Association's Model Code of Conduct and an update on the associated arrangements for dealing with standards allegations under the Localism Act 2011.

In presenting the report, the Monitoring Officer advised that every year the Committee considered a report on the Standards in Public Life and in 2019, the Committee on Standards in Public Life recommended producing an updated Model Code of Conduct. Responsibility in producing the Code was delegated to the Local Government Association (LGA) who had been working on the revision in consultation with Councillors and Officers of all tiers of local government. The consultation was brought to this Committee for Members to consider and the Committee's views, along with comments collated from all Elected Members and the Monitoring Officer were submitted to the Local Government Association (LGA).

The consultation responses had been considered and the LGA had produced the final version of the revised Code of Conduct, which was attached as Appendix 1 to the report submitted, along with the revised arrangements for dealing with the Council's standards allegations. It was noted that many local authorities had already implemented the revised Code.

It was noted that the revised Code and standards arrangements would be submitted to a future Cabinet meeting to be considered and would be considered by Full Council at the beginning of 2022, with the intention of implementing the new Code and standards arrangements from 6th May 2022.

oun In conclusion, the Monitoring Officer presented a summary of the main differences, as set out in pages 54 to 66 of the report, with specific reference being made to the increased use of social media and the need for Members to be very mindful of their standard of conduct when using any social media platforms.

Arising from the presentation, Member's welcomed the report and a Member raised concern in relation to the limited sanctions available to Members who had breached the Members' Code of Conduct. In reply, the Monitoring Officer made reference to a previous standards case which had resulted in a letter being sent to a Government Minister with regard to sanctions, and the response from the Government which stated that they had noted our concerns but were not making changes to the current situation. The issue of sanctions had been brought to the attention of the LGA but unfortunately no change had been made.

Referring to the disclosure of Members' Interests, a Member raised concern regarding the omission in the Code of the need to disclose any Councillor/Officer relationships. In response, the Monitoring Officer advised Members that any relationship with a Councillor and employee of the Council would be identified when any prospective employee joined the authority and it was noted that, thereafter, employees were reminded to update their interests or relationship status on the relevant form when necessary.

**Resolved**

That the Council be recommended to:

(1) Approve the revised Members' Code of Conduct and associated standards arrangements, attached to the report submitted, effective from 6th May 2022.

(2) To authorise the Monitoring Officer to arrange training for all Members of the Council and Co-Opted Members on the revised Members' Code of Conduct in due course.

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27 **Review of the Employee Code of Conduct**

A report of the Chief Executive was submitted to the Committee presenting a number of amendments that had been made to the Council's Code of Conduct following a review.

In presenting the report, the Head of Human Resources (HR) and Organisational Development advised that the updated Code set out the expectations of all Council employees to maintain high standards of integrity and personal conduct when representing the Council in their work. It was noted that the Code of Conduct applied equally to all those employed by the Council and explained the standards of behaviour required under the law, under the terms of conditions of employment and Council policies and procedures.

The Code of Conduct formed part of the Contract of Employment, with a requirement that every employee completed the Code of Conduct Employees Policy Acceptance via the arrangements in place for employees to accept on an annual basis. It was noted that the Code of Conduct was an Audit and Standards Policy and was subject to an annual review. However due to the Covid 19 pandemic, a review had not taken place in 2020, but the document had been updated with a number of changes that had been required over the last few years, and the amendments were set out in paragraphs 6 to 10 of the report submitted.

In conclusion, the Head of HR and Organisational Development stated that although there had been no update in 2020, staff had still been required to accept the policy and, therefore it was recommended that the Council removed the annual requirement to accept the Code of Conduct Policy and replace this with a requirement for staff to accept the Policy only when any major changes had been made.

In response to questions raised by Members arising from the presentation, the Head of HR and Organisational Development advised that non-acceptance of the Code by prospective employees would affect their employment opportunity and it was confirmed that emails were sent out to all those already employed with the Council to remind them of their responsibility to accept the Code of Conduct. Regular reports were produced for all Managers that identified staff within their sector that had not accepted the Code to enable Managers to follow up this issue with their staff.

**Resolved**

(1) That the amendments made to the Code of Conduct following a review, as set out in the report submitted, be approved.

(2) That the change to the frequency that staff accept the Code of Conduct to upon appointment and when requested to do so based upon major changes, be approved.

The meeting ended at 7.30pm.

CHAIR

Agenda Item No. 5

# Audit & Standards Committee – 7th February 2022

## Report of the Chief Executive and the Director of Finance and Legal

## Invitation to become an Opted-in Authority - Public Sector Audit Appointments

### Purpose of Report

1. To seek endorsement of proposals to opt-in to the national scheme for auditor appointments.

### Recommendation

2. It is recommended that Committee note the contents of this report and endorse the recommendation to Full Council to opt-in to the national scheme for auditor appointments.

### Background

3. The Council's external auditors, Grant Thornton, have been in place since financial year 2012/13, initially under compulsory arrangements that were set up following the abolition of the Audit Commission and then from 2018/19 under optional national arrangements managed by Public Sector Audit Appointments Ltd (PSAA). From 2023/24 the Council has the option of appointing its own external auditors or opting in again to the PSAA arrangements.

4. If the Council opts to appoint its own external auditors, then it will need to:

- establish an audit panel;
- manage the auditor procurement and cover its costs;
- monitor the independence of the appointed auditor for the duration of the appointment;
- deal with the replacement of any auditor if required; and
- manage the contract with the auditor.

5. PSAA is a not for profit company established by the Local Government Association (LGA). It is specified as the appointing person for principal local government

bodies. This means that it will be able to make auditor appointments for 2023/24 onwards to principal local government bodies that choose to continue to opt-in to the national arrangements. Further details of the scheme are set out in the invitation to opt in (attached as Appendix 1).

6. It is anticipated that opting into the PSAA arrangements will enable the Council to secure high quality, independent, cost-effective external audit services while avoiding the costs associated with directly managing the contract. It will also give an opportunity to support collaborative working by appointing the same auditor to the Constituent Councils of the Combined Authority and to the Combined Authority itself.

7. The deadline for opting in is Friday 11th March 2022. This matter will be considered by Cabinet on 17th February 2022 and Cabinet will be asked to make a recommendation to Full Council (28th February 2022) to opt-in to the national scheme for auditor appointments.

**Finance**

8. The current cost of external audit, including audit of grants, is approximately £203,000 per year.

**Law**

9. The Authority is required to comply with Part 3 of the Local Audit and Accountability Act 2014 in relation to the appointment of local auditors. Section 7 of the Act requires the Authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding financial year.

Public Sector Audit Appointments Limited (PSAA) has been specified as an appointing person under the 2014 Act and the Local Audit (Appointing Person) Regulations 2015 and has the power to make auditor appointments for audits of the accounts from 2018/19 on behalf of the Authority.)

**Risk Management**

10. The proposals contained in this report do not create any material risks.

**Equality Impact**

11. There are no equality issues arising from this report.

**Human Resources/Organisational Development**

12. There are no human resources/organisational development implications arising from this report.

**Commercial/Procurement**

13. Opting-in to the national arrangements will not require procurement resources.

**Council Priorities**

14. An effective framework of governance, risk management and internal control will assist the Council in achieving its priorities.


**Iain Newman**
**Director of Finance & Legal**

**Kevin O'Keefe**
**Chief Executive**

Contact Officer: Iain Newman
Telephone: 01384 814802
Email: iain.newman@dudley.gov.uk


**List of Background Papers**

Appendix 1 – Invitation to opt-in to the national scheme for auditor appointments

Public Sector Audit Appointments

22 September 2021

To: Mr O'Keefe, Chief Executive
Dudley Metropolitan Borough Council

Copied to: Mr Newman, S151 Officer
Councillor Taylor, Chair of Audit Committee or equivilent

Dear Mr O'Keefe,

## Invitation to opt into the national scheme for auditor appointments from April 2023

I want to ensure that you are aware the external auditor for the audit of your accounts for 2023/24 has to be appointed before the end of December 2022. That may seem a long way away but, as your organisation has a choice about how to make that appointment, your decision-making process needs to begin soon.

We are pleased that the Secretary of State has confirmed PSAA in the role of the appointing person for eligible principal bodies for the period commencing April 2023. Joining PSAA's national scheme for auditor appointments is one of the choices available to your organisation.

In June 2021 we issued a draft prospectus and invited your views and comments on our early thinking on the development of the national scheme for the next period. Feedback from the sector has been extremely helpful and has enabled us to refine our proposals which are now set out in the scheme prospectus and our procurement strategy. Both documents can be downloaded from our website which also contains a range of useful information that you may find helpful.

The national scheme timetable for appointing auditors from 2023/24 means we now need to issue a formal invitation to you to opt into these arrangements. In order to meet the requirements of the relevant regulations, we also attach a form of acceptance of our invitation which you must use if your organisation decides to join the national scheme. We have specified the five consecutive financial years beginning 1 April 2023 as the compulsory appointing period for the purposes of the regulations which govern the national scheme.

Given the very challenging local audit market, we believe that eligible bodies will be best served by opting to join the scheme and have attached a short summary of why we believe that is the best solution both for individual bodies and the sector as a whole.

I would like to highlight three matters to you:

1. if you opt to join the national scheme, we need to receive your formal acceptance of this invitation by Friday 11 March 2022;

18 Smith Square, London, SW1P 3HZ

2. the relevant regulations require that, except for a body that is a corporation sole (e.g. a police and crime commissioner), the decision to accept our invitation and to opt in must be made by the members of the authority meeting as a whole e.g. Full Council or equivalent. We appreciate this will need to be built into your decision-making timetable. We have deliberately set a generous timescale for bodies to make opt in decisions (24 weeks compared to the statutory minimum of 8 weeks) to ensure that all eligible bodies have sufficient time to comply with this requirement; and

3. if you decide not to accept the invitation to opt in by the closing date, you may subsequently make a request to opt in, but only after 1 April 2023. We are required to consider such requests and agree to them unless there are reasonable grounds for their refusal. PSAA must consider a request as the appointing person in accordance with the Regulations. The Regulations allow us to recover our reasonable costs for making arrangements to appoint a local auditor in these circumstances, for example if we need to embark on a further procurement or enter into further discussions with our contracted firms.

If you have any other questions not covered by our information, do not hesitate to contact us by email at ap2@psaa.co.uk. We also publish answers to frequently asked questions on our website.

If you would like to discuss a particular issue with us, please send an email also to ap2@psaa.co.uk, and we will respond to you.

Yours sincerely

Tony Crawley
Chief Executive

Encl: Summary of the national scheme

## Why accepting the national scheme opt-in invitation is the best solution

### Public Sector Audit Appointments Limited (PSAA)

We are a not-for-profit, independent company limited by guarantee incorporated by the Local Government Association in August 2014.

We have the support of the LGA, which in 2014 worked to secure the option for principal local government and police bodies to appoint auditors through a dedicated sector-led national body.

We have the support of Government; MHCLG's Spring statement confirmed our appointment because of our "strong technical expertise and the proactive work they have done to help to identify improvements that can be made to the process".

We are an active member of the new Local Audit Liaison Committee, chaired by MHCLG and attended by key local audit stakeholders, enabling us to feed in body and audit perspectives to decisions about changes to the local audit framework, and the need to address timeliness through actions across the system.

We conduct research to raise awareness of local audit issues, and work with MHCLG and other stakeholders to enable changes arising from Sir Tony Redmond's review, such as more flexible fee setting and a timelier basis to set scale fees.

We have established an advisory panel, which meets three times per year. Its membership is drawn from relevant representative groups of local government and police bodies, to act as a sounding board for our scheme and to enable us to hear your views on the design and operation of the scheme.

### The national scheme for appointing local auditors

In July 2016, the Secretary of State specified PSAA as an appointing person for principal local government and police bodies for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015. Acting in accordance with this role PSAA is responsible for appointing an auditor and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme. 98% of eligible bodies made the choice to opt-in for the five-year period commencing in April 2018.

We will appoint an auditor for all opted-in bodies for each of the five financial years beginning from 1 April 2023.

We aim for all opted-in bodies to receive an audit service of the required quality at a realistic market price and to support the drive towards a long term competitive and more sustainable market for local audit. The focus of our quality assessment will include resourcing capacity and capability including sector knowledge, and client relationship management and communication.

### What the appointing person scheme from 2023 will offer

We believe that a sector-led, collaborative, national scheme stands out as the best option for all eligible bodies, offering the best value for money and assuring the independence of the auditor appointment.

The national scheme from 2023 will build on the range of benefits already available for members:

- transparent and independent auditor appointment via a third party;
- the best opportunity to secure the appointment of a qualified, registered auditor;
- appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives, if the parties believe that it will enhance efficiency;
- on-going management of any independence issues which may arise;
- access to a specialist PSAA team with significant experience of working within the context of the relevant regulations to appoint auditors, managing contracts with audit firms, and setting and determining audit fees;
- a value for money offer based on minimising PSAA costs and distribution of any surpluses to scheme members - in 2019 we returned a total £3.5million to relevant bodies and more recently we announced a further distribution of £5.6m in August 2021;
- collective efficiency savings for the sector through undertaking one major procurement as opposed to a multiplicity of smaller procurements;
- avoids the necessity for local bodies to establish an auditor panel and undertake an auditor procurement, enabling time and resources to be deployed on other pressing priorities;
- updates from PSAA to Section 151 officers and Audit Committee Chairs on a range of local audit related matters to inform and support effective auditor-audited body relationships; and
- concerted efforts to work with other stakeholders to develop a more sustainable local audit market.

We are committed to keep developing our scheme, taking into account feedback from scheme members, suppliers and other stakeholders, and learning from the collective post-2018 experience. This work is ongoing, and we have taken a number of initiatives to improve the operation of the scheme for the benefit of all parties.

Importantly we have listened to your feedback to our recent consultation, and our response is reflected in the scheme prospectus.

**Opting in**

The closing date for opting in is 11 March 2022. We have allowed more than the minimum eight-week notice period required, because the formal approval process for most eligible bodies is a decision made by the members of the authority meeting as a whole [Full Council or equivalent], except police and crime commissioners who are able to make their own decision.

We will confirm receipt of all opt-in notices. A full list of eligible bodies that opt in will be published on our website. Once we have received an opt-in notice, we will write to you to request information on any joint working arrangements relevant to your auditor appointment, and any potential independence matters which may need to be taken into consideration when appointing your auditor.

**Local Government Reorganisation**

We are aware that reorganisations in the local government areas of Cumbria, Somerset, and North Yorkshire were announced in July 2021. Subject to parliamentary approval shadow elections will take place in May 2022 for the new Councils to become established from 1 April 2023. Newly established local government bodies have the right to opt into PSAA's scheme under Regulation 10 of the Appointing Person Regulations 2015. These Regulations also set out that a local government body that ceases to exist is automatically removed from the scheme.

If for any reason there is any uncertainty that reorganisations will take place or meet the current timetable, we would suggest that the current eligible bodies confirm their acceptance to opt in to avoid the requirement to have to make local arrangements should the reorganisation be delayed.

**Next Steps**

We expect to formally commence the procurement of audit services in early February 2022. At that time our procurement documentation will be available for opted-in bodies to view through our e-tendering platform.

Our recent webinars to support our consultation proved to be popular, and we will be running a series of webinars covering specific areas of our work and our progress to prepare for the second appointing period. Details can be found on our website and in the scheme prospectus.

**Note:**

**It is important to note that the Treasury Strategy Statement is adopted by the Council, based upon advice from its external treasury advisors, and accordingly the Strategy is tailored to meet the specific and unique needs of the Council. All financial information contained within this Report and Statement should not be used by any individual or organisation as a basis for making investment or borrowing decisions. The Council and its treasury advisors will not accept any liability on behalf of any individual or organisation that seeks to act on the financial information contained within this Report and Statement.**

## Audit and Standards Committee – 7th February 2022

## Report of the Director of Finance and Legal

## Treasury Management

### Purpose

1. The purpose of this report is:

   - To outline treasury activity in the year 2021/22 up to the end of December 2021.
   - To seek approval of the Treasury Strategy Statement 2022/23.

### Recommendations

2. It is recommended:

   - That the Committee notes the treasury activities in 2021/22 outlined in this report.
   - That the Committee approves the Treasury Strategy 2022/23 attached as Appendix 2.

- That the Committee authorises the Director of Finance and Legal to affect such borrowings, repayments and investments as are appropriate and consistent with the approved Treasury Strategy and relevant guidance.
- The Committee approves a delegation to enable the Director of Finance and Legal to update the prudential indicators detailed in paragraph 3.4 before this report is referred to full Council for approval.
- That the Committee refers all the above for approval by full Council at its meeting on 28th February 2022.

**Background**

3. At the time of writing this report work was on-going to finalise the three-year capital programme for the Housing Revenue Account (HRA) which impacts the determination of the prudential indicators detailed in paragraph 3.4 of the Treasury Strategy i.e. the Operational Boundary and Authorised Limit for external borrowing. The HRA capital programme will be reported to Cabinet for approval on 17th February 2022. As the indicators may change when the HRA capital programme is finalised, delegation is sought for the Director of Finance and Legal to amend the indicators before the Treasury Strategy is approved by Council on 28th February 2022.

4. Treasury Management entails the management of the Council's cash flows, its borrowings and investments, the management of the associated risks and the pursuit of the optimum performance or return consistent with those risks.

5. The Council undertakes treasury management activity on its own behalf and as administering authority for the West Midlands Debt Administration Fund (WMDAF). We are responsible for administering capital funding of £731m on our own account and another £94m on behalf of other West Midlands councils in respect of the WMDAF. The treasury function is governed by the Council's Treasury Policy Statement and Treasury Management Practices.

6. Our borrowing and investment activities in the current year have been undertaken in the context of historically low interest rates. The Bank Base Rate was increased from its historic low of 0.10% to 0.25% in December 2021 in response to inflationary pressures.

7. Appendix 2 contains some detailed economic commentary but in summary the Monetary Policy Committee is expected to increase interest rates very slowly to counter what are anticipated to be temporary inflationary pressures that are expected to peak in 2022 before inflation returns to its long-term norm. Any pressure to increase rates is tempered by the effect that the Omicron variant of the Coronavirus will have on economic activity in the near term.

8. CIPFA released the new edition of the Treasury Management Code and Prudential Code in December 2021. Due to the timing of the release, local authorities do not have to comply with the reporting requirements of the codes

until 2023/24. The main changes relate to further restrictions and reporting requirements for commercial investments.

9. In November 2020 HM Treasury prohibited access to Public Works Loans Board loans for the purpose of funding investments purely for commercial income, and the revised code prohibits local authorities any new commercial investments altogether with immediate effect. Furthermore, it advises that authorities review options for exiting from commercial investments and summarise the review in their annual treasury management strategies, but there is no compulsion to sell existing investments. The revised code requirements on commercial investments do not impact on Dudley MBC as we already have a long-standing policy to refrain from investing in assets purely for revenue income or other financial return (see Section 7 of the Treasury Management Strategy).

Treasury Activity 2021/22 - Dudley Fund

10. Treasury activities in the current year have been undertaken in the context of the Treasury Strategy Statement 2021/22 approved by Audit Committee and Full Council in February 2021. In that document we anticipated that long term borrowing would be required in the next 12 months due to cashflow need.

11. Our investments up to December 2021 have averaged £49.8m (with significant day to day variation as a result of cash flow). The average return on these investments was 0.07%. All investments were placed with institutions that satisfied the criteria for credit-worthiness set out in the Treasury Strategy Statement 2021/22. The performance of our investments is largely dependent on movements in short-term (up to one year) rates. The average 7-day LIBID[1] rate for the year to date has been -0.08%. Cash balances have been lower than at the same time last year but still relatively high due to the on-going effect of Covid-related grants paid in advance by Central Government, some of which are due to be repaid in the near term. Our investment activity for 2021/22 (to date) is set out in more detail in Appendix 1. This includes investments carried forward from 2020/21.

12. The returns outlined above have been achieved without compromising on the security of the Council's investments. We have maintained and continue to maintain an approved investment list that sets the highest rating standards. We have an account with the Government's Debt Management Office (DMO) which provides maximum security but relatively low returns. We use this account extensively due the fact that we have strict credit criteria in our Investment Strategy for non-government counterparties.

13. The average value of long-term borrowings up to the end of December 2021 was £613.3 million. The average rate of interest on these borrowings was 3.62% and they were due to mature on dates ranging from the current year to 2061. To date no new loans have been taken out in 2021/22.

14. We are monitoring cash flows and interest rates closely and anticipate that, due to the Council's capital programme, planned use of reserves and loan maturities, further borrowing may be taken in the second half of 2021/22.

Treasury activity 2021/22 - WMDAF

15. The Council has taken 6 short term loans in the year to date to manage daily cash flow for the WMDAF. The average value of the borrowing has been £2.9m at an average rate of 0.04% for an average duration of 149 days. The latest estimate of interest payable by members of the WMDAF in 2021/22 is 5.4%.

Treasury Strategy Statement 2022/23

16. The Treasury Strategy Statement covers our latest capital funding requirements, our view of interest rate movements and our strategy for borrowing and investment in the light of that view. As such, it needs to be reviewed annually. The proposed Treasury Strategy Statement for 2022/23 is attached as Appendix 2.

17. Our expectations for interest rates advised by our treasury advisors Link Group, which will be subject to continuous review with our treasury advisors, are as follows:

- **Short-term rates**. The Bank Rate will remain at 0.25% until March 2022 and rise to 0.75% by March 2023.
- **Medium-term rates**. 5-year PWLB certainty rate is expected to be 1.50% in March 2022 and rise to 1.70% by March 2023.
- **Long- term rates**. 50-year PWLB certainty rate is expected to be 1.70% in March 2022 and rise to 2.00% by March 2023.

18. The Local Government Act 2003 introduced a system of "prudential borrowing" allowing councils to set their own borrowing limits subject to criteria of prudence and affordability. These criteria are set out in more detail in the Chartered Institute of Public Finance & Accountancy (CIPFA) Prudential Code which specifically requires us to set a number of prudential indicators. The proposed indicators that relate to treasury management are set out in the Treasury Strategy Statement.

19. In order to protect the Council's position if an individual or organisation were to act upon the views expressed in this report, we have deemed it necessary to produce a disclaimer which is shown as a note at the head of the report and Appendix 2.

**Finance**

20. Forecasts of performance against budget for treasury management activities are sensitive to movements in cash flow and interest rates.

**Law**

21. The Council has adopted CIPFA's Treasury Management in the Public Services: Code of Practice 2017 which requires the Council to approve a treasury management strategy before the start of the financial year and provide a mid-year update on treasury management activity. In addition, the Department for Communities and Local Government (DCLG) issued revised Guidance on Local Authority Investments in 2010 that required the Council to approve an investment strategy before the start of each financial year. This report fulfils the legal obligation under the Local Government 2003 to have regard to both the CIPFA code and the DCLG guidance.

**Risk Management**

22. Treasury Management, by its nature entails the management of financial risks, specifically credit risk for investments which is mitigated by limiting acceptable counterparties to those of the highest credit quality and imposing counterparty limits for non-government institutions; and interest rate risk which is mitigated by prudential indicators detailed in Appendix 2.

**Equality Impact**

23. The treasury management activities considered in this report have no direct impact on issues of equality.

**Human Resources/Organisational Development**

24. There are no Human Resources/Organisational Development implications associated with this report.

**Commercial/Procurement**

25. The over-riding purpose of the Council's Treasury Strategy is day to day cash management and not income generation. The strategy prioritises security and liquidity of cash investments over yield. Once those are met, we aim to secure the maximum yield from our investments held with the small number of counterparties that meet the strict criteria laid out in our Annual Investment Strategy.

**Council Priorities**

26. Treasury Management supports the Council's capital investment priorities as set out in the approved Capital Strategy

Iain Newman
Director of Finance and Legal

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**List of Background Papers**

List of Background Papers

- Treasury Policy Statement, Treasury Management Practices and Schedules to the Treasury Management Practices.
- The Local Government Act 2003
- The Prudential Code for Capital Finance in Local Authorities (CIPFA)
- Guidance on Local Government Investments Issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003
- Code of Practice for Treasury Management in the Public Services (CIPFA)

**Investment Activity 2021/22 to 5th January 2022**

| Counterparties | Number of investments | Average value £ million | Average rate % | Average duration (days) |
|---|---|---|---|---|
| | | | | |
| Debt Management Office | 70 | 9.67 | 0.01 | 11 |
| Other Local Authorities * | 5 | 4.08 | 0.12 | 100 |
| Bank of Scotland Call Account | n/a | 0.04 | 0.00 | Call |
| Santander Call Account | n/a | 6.95 | 0.03 | Call |
| Santander Notice Account | n/a | 5.88 | 0.25 | 35 day notice |
| HSBC Call Account | n/a | 8.15 | 0.01 | Call |
| HSBC Notice Account | n/a | 6.29 | 0.18 | 30 day notice |
| Barclays Call Account | n/a | 8.72 | 0.01 | Call |

*Includes investments carried forward from 2020/21

**Note:**
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**DUDLEY METROPOLITAN BOROUGH COUNCIL**
**TREASURY STRATEGY STATEMENT 2022/23**

## 1.0 Introduction

1.1 This Treasury Strategy Statement details the expected activities of the treasury function in the financial year 2022/23. The suggested strategy is based upon officers' views of interest rates as advised by external advisors, supplemented with leading market forecasts. It should be noted that the use of expert external advisors does not remove the responsibility of members and officers for treasury management functions and that those functions cannot be delegated to any outside organisation. The strategy covers:

- the current portfolio position
- prudential and treasury indicators
- prospects for interest rates
- temporary investment strategy
- requirements and strategy for long-term borrowing
- debt rescheduling and premature repayment opportunities
- treasury implications for the Housing Revenue Account (HRA)

## 2.0 Current Portfolio Position

2.1 The Council's estimated debt position as at 1st April 2022 is as follows:

| | £m |
|---|---|
| Long-term debt: | |
| - PWLB fixed rate | 517.3 |
| - PWLB variable rate | 0.0 |
| - Market fixed rate | 71.5 |
| - Market LOBO* | 10.0 |
| Short-term debt | 0 |
| **Total debt** | 598.8 |

*Lenders Option Borrowers Option (LOBO). This loan was at a fixed rate of 4.6% until February 2009 after which the rate may be varied at the lender's option. If the lender exercises this option to vary the rate then we, as the borrower, have the option to repay the loan.

2.2 The average rate of interest on the above debt is expected to be 3.73%.

2.3 The average level of investments held by the Council during 2021/22 to December 2021 was £49.8m. Cashflow monitoring indicates that long term borrowing may be required in the next 12 months.

2.4 The Council also administers the debt of the former West Midlands County Council on behalf of the West Midlands districts. The estimated debt position at 1st April 2022 is as follows:

| | £m |
|---|---|
| Long-term debt: | |
| - PWLB fixed rate | 72.6 |
| - Market LOBO | 10.0 |
| Short-term debt | 4.0 |
| **Total debt** | **86.6** |

2.5 The average rate of interest charged to the West Midlands fund is expected to be 5.24%.

**3.0 Prudential & Treasury Indicators**

3.1 Under the Local Government Act 2003 and the Prudential Code for Capital Finance in Local Authorities, local authority capital spending and its borrowing to fund that spending is limited by what is affordable, prudent and sustainable. The Prudential Code sets out a number of indicators that enable the authority to assess affordability and prudence. The following indicators are relevant for the purposes of setting an integrated treasury management strategy.

3.2 Treasury Indicators in the Prudential Code

The Prudential Code requires that the total external debt does not exceed the Authorised Limit for external debt and only exceeds the Operational Boundary for external debt temporarily on occasions due to variation in cash flow.

These external debt indicators are intended to ensure that levels of external borrowing are affordable, prudent and sustainable. The authorised limit for external debt is a statutory limit (section 3 of the Local Government Act 2003) that should not be breached under any circumstances. It has been calculated to take account of the Council's capital expenditure and financing plans and allowing for the possibility of unusual cash movements. The operational boundary for external debt has also been calculated with regard to the Council's capital expenditure and financing plans allowing for the most likely, prudent, but not worst-case scenario for cash flow. Temporary breaches of the operational boundary, due to variations in cash flow, will not be regarded as significant. Actual external debt represents the closing balance for borrowing and other long-term liabilities.

| | 2020/21<br>£m | 2021/22 Revised<br>£m | 2022/23 Revised<br>£m | 2023/24 Revised<br>£m | 2024/25 Revised<br>£m |
|---|---|---|---|---|---|
| Authorised limit for external debt *:<br>Borrowing | n/a | 928 | 939 | 927 | 884 |
| Other long term liabilities | n/a | 15 | 12 | 12 | 11 |
| **Total** | n/a | 943 | 951 | 939 | 895 |
| Operational boundary *:<br>Borrowing | n/a | 804 | 825 | 825 | 865 |
| other long term liabilities | n/a | 15 | 12 | 12 | 11 |
| **Total** | n/a | 819 | 837 | 837 | 876 |
| Actual External Debt:<br>Borrowing | 766.1 | n/a | n/a | n/a | n/a |
| Other long term liabilities | 17.0 | n/a | n/a | n/a | n/a |
| **Total** | **783.1** | n/a | n/a | n/a | n/a |

*Subject to finalisation of the Capital Programme report to Cabinet.

3.3 Gross Debt and the Capital Financing Requirement

This is a key indicator of prudence. In order to ensure that over the medium-term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

The Council has met this requirement in 2021/22 and expects to do so in future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

3.4 Interest rate exposures

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The upper limit for fixed interest reflects the fact that it is possible to construct a prudent treasury strategy on the basis of using only fixed rate debt and investments, so long as the maturity dates of these debts and investments are reasonably spread. The same does not apply to variable rates where a 100% exposure could lead to significant year on year fluctuations in the cost of debt. The upper limit for variable rate exposure allows for the use of variable rate debt to offset our exposure to changes in short-term rates on our portfolio of investments. This limit reduces over time as our strategy is to gradually reduce our level of investments.

| | **2021/22** | **2022/23** | **2023/24** | **2024/25** |
|---|---|---|---|---|
| Upper limit for fixed interest rate exposure | 100 | 100 | 100 | 100 |
| Upper limit for variable rate exposure | 10 | 10 | 10 | 10 |

3.5 Maturity structure of borrowing and investments

The maturity structure of fixed rate borrowing is designed to protect against excessive exposures to interest rate changes in any one period, in particular over the course of the next ten years.

| **Dudley MBC Maturity Indicator** | **Upper Limit %** | **Lower Limit %** |
|---|---|---|
| Under 12 months | 15 | 0 |
| 12 months and within 24 months | 15 | 0 |
| 24 months and within 5 years | 20 | 0 |
| 5 years and within 10 years | 25 | 0 |
| 10 years and above | 100 | 50 |

| **West Midlands Debt Administration Fund Loan Maturity Indicator *** | **Upper Limit %** | **Lower Limit %** |
|---|---|---|
| Under 12 months | 26 | 0 |
| 12 months and within 24 months | 20 | 0 |
| 24 months and within 5 years | 54 | 0 |

* The WMADF will close in March 2026 no new long term loans will be required. The above indicator is based on the maturity of the remaining loans in the fund.

3.6 Upper Limit for total principal sums invested over 364 days

The purpose of the limits for principal sums invested for periods longer than 364 days is to contain the Council's exposure to the possibility of loss that might arise as a result of having to seek early repayment of principal sums invested. On the basis of prudent treasury management the proposed upper limit on principal maturing in any one year for sums invested for over 364 days is £10m.

## 4.0 Economic Background

4.1 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 had disappointed financial markets by not raising Bank Rate at its November meeting. Until Omicron burst on the scene, most forecasters, therefore, viewed a Bank Rate increase as being near certain at this December meeting due to the way that inflationary pressures have 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 30th September without unemployment increasing sharply; their decision was, therefore, to wait until statistics were available to show how the economy had fared at this time.

4.2 On 15th December we had the CPI inflation figure for November which spiked up further from 4.2% to 5.1%, confirming again how inflationary pressures have been building sharply. However, Omicron 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.

4.3 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 expenditure unless it was very limited and targeted on narrow sectors like hospitality. 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.

4.4 This is the adverse set of factors against which the MPC had to decide on Bank Rate. For the second month in a row, the MPC blind-sided financial markets, this time with a surprise 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 this week. 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”.

4.5 On the other hand, it did also comment that “the Omicron variant is likely to weigh on near-term activity”. But it stressed that at the November 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 form 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”.

4.6 On top of that, there were no references this month 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% next April, rather than at 5% as of a month ago. 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 could be thinking about 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.

4.7 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 and that May is 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 3rd February. 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).

## 5.0 Prospects for Interest Rates

5.1 The Council’s Treasury Advisor, Link Asset Services, has provided the following forecast :

| | **March 2022** | **March 2023** | **March 2024** | **March 2025** |
|---|---|---|---|---|
| **Bank Rate** | 0.25% | 0.75% | 1.00% | 1.25% |

| | | | | |
|---|---|---|---|---|
| **5yr PWLB rate** | 1.50% | 1.70% | 1.90% | 2.00% |
| **10yr PWLB rate** | 1.70% | 1.90% | 2.10% | 2.30% |
| **25yr PWLB rate** | 1.90% | 2.20% | 2.30% | 2.50% |
| **50yr PWLB rate** | 1.70% | 2.00% | 2.10% | 2.30% |

5.2 In December the Bank of England became the first major western central bank to put up interest rates 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 or May, dependent on how severe an impact there is from Omicron. If there are lockdowns in January, this could pose a barrier for the MPC to putting Bank Rate up again as early as 3rd February. With inflation expected to peak at around 6% in April, the MPC may want to be seen to be active in taking action to counter inflation on 5th May, 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 are difficult to forecast as inflation is likely to drop sharply in the second half of 2022.

5.3 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. We have put year end 0.25% increases into Q1 of each financial year from 2023 to recognise this upward bias in Bank Rate - but the actual timing in each year is difficult to predict. Covid remains a major potential downside threat in all three years as we are likely to get further mutations. 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. Note that when Bank Rate reaches 0.50%, the MPC has said it will start running down its stock of QE.

5.4 Our overall strategy will be based on the projections above. However, we will maintain flexibility to take account of unexpected variations from our forecast.

## 6.0 Annual Investment Strategy

6.1 Our investment activities are subject to government guidance issued under Section 15(1) (a) of the Local Government Act 2003. This section of the Treasury Strategy Statement constitutes an "Annual Investment Strategy" produced in accordance with the guidance.

6.2 The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. We have a policy of keeping cash balances at minimum levels by maximising the use of internal borrowing to finance capital expenditure.

6.3 Both the CIPFA Code and the Department for Communities and Local Government (DCLG) require the Council to invests its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return or yield. The Council's primary objective in relation to the investment of public funds remains the security of capital. The liquidity or accessibility of the Council's investments followed by the yields earned on investments is important but are secondary considerations.

6.4 Strategy for "specified investments"

6.4.1 The Council will make use of specified investments (as defined within the terms of the government guidance). These are investments that satisfy the following conditions:

a) The investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling.
b) The Council may require that the investment be repaid or redeemed within 12 months of the date on which the investment was made.
c) The making of the investment is not defined as capital expenditure by legislation.
d) The investment satisfies either of the following conditions:

   I. The investment is made with the UK government, a local authority, a parish council or a community council, or
   II. The investment is made with a body or in an investment scheme of high credit quality.

6.4.2 The Council will be prepared to lend to the West Midlands Combined Authority. Such lending will be as part of arrangements agreed with the Combined Authority and other constituent authorities.

6.4.3 For the purpose of this strategy a body or investment scheme is deemed to be of high credit quality if it has minimum short-term ratings of F1 (Fitch), P1 (Moody's), and A1 (Standard and Poors).

6.4.4 The Council will also limit risks by applying lending limits and criteria for "high credit quality" as shown below:

| **Specified Investments Counterparty** | **Minimum Short-term Credit Rating*** | **Maximum Investment per Counterparty** | **Time Limit** |
|---|---|---|---|
| UK Banks | F1+/P1/A1+ | £20m | 3 months |
| | F1/P1/A1 | £15m | 1 month |
| UK Local Authorities | n/a | £20m | 12 months |
| UK Government | n/a | none | none |

*Fitch/ Moodys /S&P rating agencies respectively. Institutions must have the requisite rating at 2 of the 3 agencies.

6.4.5 Since the financial crisis of 2008, the Council has not allowed investments in non-UK institutions. The existing strategy is based on the implicit assumption that the UK Government would support a failing UK bank. This factor is less relevant in light of the Financial Services (Banking Reform) Act 2013 and proposed regulations. That said, current cash flow predictions do not suggest that there is any compelling need to widen the investment strategy to non-UK institutions and so there is no proposal to change.

6.4.6 The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

6.4.7 When deteriorating financial market conditions affect the creditworthiness of all organisations, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

6.4.8 The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

6.4.9 If conditions in the financial markets worsen during 2022/23 or other factors indicate that increased security of Council funds is required, the Director of Finance and Legal Services may impose tighter restrictions on the type of investments and institutions used by the Council, than those detailed in this strategy.

6.4.10 The Council banks with HSBC. At the current time, it does meet the minimum credit criteria and has the highest credit rating for a UK bank. Even if the credit rating falls below the Council's minimum criteria HSBC will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements.

6.5 *Strategy for “non-specified investments”*

6.5.1 Non-specified investments are those that do not meet the criteria for a specified investment detailed in 6.4.1 above. The Council does not intend to make any investments denominated in foreign currencies, or any that are defined as capital expenditure by legislation such as company shares. Neither is there an intention to make new long term investments, especially in the light of maximising the length of any non-government investment to 3 months irrespective of its credit quality. Therefore the Council will not place its funds with non-specified investments.

6.6 *Liquidity of investments*

6.6.1 In determining the maximum period for which investments may be held, we will have regard to our most recent cash-flow forecast. We will not enter into an investment where our cash-flow forecast indicates that, as a result of that investment, we would be forced to borrow money at a later date that we would not otherwise have had to borrow.

## 7.0 Policy on Non-Financial Investments

7.1 Investment in non-financial assets including property is not part of the Council’s Treasury Management Strategy**.** The Council will incur capital expenditure on acquisition or development of property only where the primary purpose is regeneration and/or service delivery, and then only where a development would not happen without Council involvement, and the potential regeneration gain justifies any financial or other risks. It will not invest in property for the sole or primary purpose of revenue income or other financial return.

7.2 The Council will not make any investments in fossil fuel companies.

## 8.0 Policy on the Use of Financial Derivatives

8.1 A financial derivative is a contract whose value is based on, or "derived" from, an underlying financial instrument such as a loan. Local authorities have previously been able to make use of financial derivatives embedded into loans and investments, both to reduce interest rate risk (e.g. forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans).

8.2 The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities’ use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment). The CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy.

8.3 The Council does not intend to use standalone financial derivatives (such as swaps, forwards, futures and options). Should this position change, the Council may seek to develop a detailed and robust risk management framework governing the use of derivatives, but no change in strategy will be made without full Council approval.

## 9.0 Requirements and Strategy for Long-Term Borrowing

9.1 The primary factor in determining whether we undertake new long-term borrowing will be cash flow need. We will seek to minimise the time between borrowing and anticipated cash flow need, subject to the need to maintain day to day liquidity.

9.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's strategy is to maintain borrowing and investments at a minimum (well below their underlying levels) thereby maximising the use of internal borrowing. This keeps borrowing costs lower than they would otherwise be and keeping cash balances low reduces credit risk.

9.3 The balance sheet forecast indicates a requirement to increase the level of external borrowing in the medium and long term. Our interest rate expectations (outlined in 5.1) provide a variety of options on the type of borrowing we will undertake:

- That short-term variable rates will be good value compared to long-term rates and are likely to remain so for potentially at least the next couple of years. Best value will therefore be achieved by borrowing short term at variable rates in order to minimise borrowing costs in the short term.

- That the risks intrinsic in the shorter term variable rates are such, when compared to historically relatively low long term fixed funding, which may be achievable in 2022/23, that the Council will maintain a stable, longer term portfolio by drawing longer term fixed rate funding at a marginally higher rate than short term rates.

9.4 Against this background caution will be adopted with the 2022/23 treasury operations. The Director of Finance and Legal Services will monitor the interest rate market and adopt a pragmatic approach to changing circumstances.

Sensitivity of the forecast - The main sensitivities of the forecast are likely to be the two scenarios below. In conjunction with the treasury advisers, we will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of sentiment:

- If it were felt that there was a significant risk of a sharp rise in long and short term rates, perhaps arising from a greater than expected increase in world economic activity, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still relatively cheap

- If it were felt that there was a significant risk of a sharp fall in long and short term rates, due to growth rates remaining low or weakening, then long term borrowings will be postponed

9.5 With respect to the West Midlands Debt, variances due to timing differences between the maturity profile of the debt and repayments from authorities can be managed by short term borrowing in 2022/23.

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

- Public Works Loans Board
- Any institution approved for investments (above)
- Any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except the West Midlands Pension Fund)

In addition, capital finance may be raised by finance leases and similar arrangements which may be classed as debt liabilities.

## 10.0 Debt Rescheduling and Premature Repayment Opportunities

10.1 We may consider rescheduling or premature repayment with the following aims:

- the generation of cash savings at minimum risk
- in order to help fulfil the strategy outlined in 9 above
- in order to enhance the balance of the long-term portfolio (by amending the maturity profile and/or the balance of volatility).

10.2 Any rescheduling or premature repayment will be reported to an appropriate committee at the meeting following its implementation.

## 11.0 HRA Self Financing

11.1 On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account.

11.2 Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. An average of this notional balance will be calculated annually and interest transferred between the General Fund and HRA at an internally determined rate of interest, adjusted for risk.

## 12.0 Training

12.1 CIPFA's Code of Practice requires the Director of Finance and Legal Services to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. Relevant training is provided by Link Asset Services to the members of the Audit & Standards Committee and other members of the Council.

12.2 The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Director of Finance and Legal Services will recommend and implement the necessary arrangements.

## 13.0 Treasury Management Advisors

13.1 The Council uses Link Asset Services as its external treasury management advisers. 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 our external service providers.

13.2 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council maintains the quality of the service with its advisors by holding regular meetings and tendering periodically for the provision of treasury management advice.

13.3 The Council receives the following services from Link Asset Services:

a. Credit advice
b. Investment advice
c. Technical advice
d. Economic & interest rate forecasts
e. Workshops and training events for officers and members