Meeting of the Audit and Standards Committee

Monday, 13th February, 2023 at 6.00pm
in Dudley Town Hall, St James's Road, Dudley

Agenda - Public Session

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. External Audit Findings Report – 2021/22 (Pages 5 – 50)

5. Treasury Management (Pages 51 – 72)

6. Annual Report of the Committee on Standards in Public Life (Pages 73 – 96)

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).

   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 report because the public interest in disclosing the information is outweighed by the public interest in maintaining the exemption from disclosure.

8. Resolution to exclude the public and press

   Chair to move:

   "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) and to the financial or business affairs of any particular person (including the authority holding that information) 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)

9. Suspensions under the provisions of the Employee Improvement and Disciplinary Procedure or relevant Schools Disciplinary Procedure (Pages 97 – 104)

10. Annual Audit Report for the Chief Executive (Pages 105 - 220)

11. Audit Services Interim Performance Report (Pages 221 – 228)

Chief Executive
Dated: 3rd February, 2023

Distribution:

Members of the Audit and Standards Committee:
Councillor A Lees (Chair)
Councillor D Borley (Vice-Chair)
Councillors S Ali, P Atkins, J Cowell, M Evans, E Lawrence, J Martin and A Taylor

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Agenda Item No. 4

Audit and Standards Committee – 13th February 2023

Report of the Director of Finance and Legal

External Audit Findings Report 2021/22

Purpose of Report

1. To consider the external auditor's Audit Findings Report and formal Management Representation Letter to the Auditor.

Recommendation

2. It is recommended that:-

- the Committee considers the Audit Findings Report 2021/22 (Appendix 1).
- the Committee considers the Letter of Representation (Appendix 2).
- the Committee authorises the Chair to sign and date the final version of the Letter of Representation in due course.

Background

3. The Council has delegated the responsibility for the approval of the Statement of Accounts, and all audit matters, to the Audit and Standards Committee.

4. The Audit Findings Report, presents the observations arising from the audit of the 2021/22 accounts which the auditor deems significant to those charged with the governance to oversee the financial reporting process. Appendix 1 will be presented by the external auditor.

5. Towards the end of each audit of the annual accounts, the Director of Finance and Legal provides a management representation letter (sometimes known as a letter of comfort), confirming the completeness and reliability of the information and records supplied to the auditors. The external auditors request that this letter should also be signed by the Chair of Audit and Standards Committee, to evidence members' acknowledgment of responsibility for financial management. A draft of this letter is attached as Appendix 2.

Finance

6. This report is financial in nature but does not give rise to any direct costs.

Law

7. Legislation appertaining to Local Authority Audit and Accounts is contained in the Local Government Act 1972 and the Local Audit and Accountability Act 2014.

Risk Management

8. The proposals contained within this report do not raise any "material" risks.

Equality Impact

9. The proposals take into account the Council's Policy on Equality and Diversity.

Human Resources/Organisational Development

10. There are no Human Resources or Organisational Development implications resulting from the items in this report.

Commercial/Procurement

11. There are no implications associated with this report.

Environment/Climate Change

12. There are no environmental/climate change issues associated with this report.

Council Priorities and Projects

16. The work undertaken by Audit and Standards Committee helps to ensure Council priorities are achieved by ensuring the Council has an effective framework of governance, risk management and internal control.

Iain Newman
Director of Finance and Legal

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List of Appendices

Appendix 1 – Audit Findings for Dudley MBC
Appendix 2 – Draft Letter

Grant Thornton

The Audit Findings for Dudley Metropolitan Borough Council

Year ended 31 March 2022

3 February 2023

Contents

Your key Grant Thornton team members are:

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Dudley Borough Council's ('the Council') financial statements for the year ended 31 March 2022 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Council's financial statements give a true and fair view of the financial position of the Council and the Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements including the Annual Governance Statement (AGS) and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was carried out between December 2022 and January 2023.The draft statement of accounts was not published until October 2022 and therefore missed the statutory deadline. This was because the Council did not receive a draft valuation report until 16 September and only received a final version in November 2022. This meant the Council could not issue draft accounts until 18 October 2022. We do not consider this is compatible with good governance.

When received, the accounts were prepared to a good standard together with appropriate working papers available from the start of the audit for most areas.

The Code requires infrastructure assets to be valued at depreciated historical cost. It also requires that where a component of an asset is replaced, the carrying amount (i.e. net book value) of the old component is derecognised to avoid double counting. Most local authorities have been unable to comply with the requirement to assess the net book value of the replaced component and will therefore have treated the amount of the replaced component as zero. This is because the replaced component is considered to have been fully used up at the point that it is replaced. However, there is often a lack of evidence to support this assumption and some subsequent expenditure (e.g. coastal protection) is often in addition to the previous asset rather than being a direct replacement. There was a significant risk that local authority financial statements could be subject to qualified audit opinions in this area if no action is taken. The Department for Levelling Up, Housing and Communities (DLUCH) therefore prepared a temporary statutory override with regards to infrastructure assets, whilst a permanent solution is developed by CIPFA. This statutory override was effective from late December 2022. In parallel to this, CIPFA has revised the Code so that it reflects this temporary statutory override. After this was complete, we developed an audit work programme to make an assessment of whether there could be a material risk of misstatement for the Council. We expect to be in a position to complete this work in February 2023.

We have raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Thee are some areas outstanding on the audit. We set out the main outstanding items on page 5. Subject to these being resolved, we anticipate issuing an unqualified audit opinion.

We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent with our knowledge of your organisation and with the financial statements we have audited

1. Headlines

Value for Money (VFM) arrangements	
Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit. Auditors are required to report their commentary on the Council's arrangements under the following specified criteria: - Improving economy, efficiency and effectiveness; - Financial sustainability; and - Governance	We have not yet completed our VFM work and so are not in a position to issue our Auditor's Annual Report. We expect to issue our Auditor's Annual Report by 31 March 2023. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. No such risks were identified at the planning stage of the audit.
Statutory duties	
The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • to certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Annual Auditor's report in March 2023.
Significant Matters	We encountered significant difficulties in obtaining some key reports from the Council's valuer.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents will be discussed with management and the Audit Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter our audit plan, as communicated to you in April 2021.

Conclusion

Our audit is still ongoing and the following items are still outstanding;

- Receipt of a letter of representation and review of amended accounts
- Receipt and review of PPE revaluation evidence and queries
- Completion of review of infrastructure useful economic lives
- Completion of payroll analytical review, HRA testing and non pay testing sample
- Final completion of a independent hot review of the accounts
- Manager and engagement lead review and resolution of issues raised

As a result of significant problems in the valuation of property in the last two years in particular . the Council outsourced this valuation work in 2021/22. Unfortunately due to staffing problems at the new external valuer, the Council did not receive a draft valuation report until 16 September 2022 (the final report arrived later still) which meant the Council could not issue draft accounts until 18 October 2022. This meant the Council missed the statutory deadline. Subsequently there were significant delays in obtaining evidence from the valuers to support a sample of the valuations and some of this is still outstanding. This remains an area of concern for us and we consider that this reflects poorly on the governance of the Council. Urgent action is needed to resolve this issue and to strengthen controls in this area for future years..

We would like to take this opportunity to record our appreciation for the very good assistance provided by the finance team and other staff.

2. Financial Statements

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels were increased from those reported in our audit plan due to a significant increase in operating expenditure in 2021/22 .We detail in the table below our determination of materiality for the Council

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	11.3m	We determined materiality for the audit of the Council's financial statements as a whole to be £11.3m, which is 1.5% of the Council's gross operating expenses in 2021/22
Performance materiality	7.9m	We used a lower level of materiality, to determine the extent of our testing. We set this at 70% of financial statement materiality due to errors found in the previous year's accounts in particular in relation to Property Plant and equipment valuations.
Trivial matters	560k	We determined the threshold at which we would communicate misstatements to the Audit and Standards Committee at £560,000 (5% of financial statement materiality)
Materiality for senior officer remuneration	19.4k	We have set a lower level of materiality for senior manager remuneration disclosures because we believe these disclosures are of specific interest to the reader of the accounts.

2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We - evaluated the design effectiveness of management controls over journals - analysed the journals listing and determined the criteria for selecting high risk unusual journals - identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration - gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence - tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; - evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. There were no significant issues identified from our testing of journals. We note that there is not a formal process for the routine authorisation of journals. The finance team do carry out some spot checks focussing in particular on accruals due to the heightened risk. Budgetary control is also expected to pick up errors or fraud, however, we consider that the lack of authorisation processes exposes the Council to the risk of fraud and error. We have recommended in Appendix A that the Council review its controls on the authorisation of journals.
Improper revenue recognition Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	Auditor commentary Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: there is little incentive to manipulate revenue recognition opportunities to manipulate revenue recognition are very limited the culture and ethical frameworks of local authorities, including the Council, mean that all forms of fraud are seen as unacceptable In addition we completed our understanding of the processes and controls surrounding COVID-19 grant income and determined that this can also be rebutted. Therefore we do not consider this to be a significant risk for the Council.

Significant audit risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings The Authority revalue its land and buildings on a rolling five-yearly basis, and investment properties every year. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	**Auditor commentary** Our audit work included, but was not restricted to: • assessing management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluating the competence, capabilities and objectivity of the Council's management experts; • writing to the valuers to confirm the basis on which the valuation was carried out to ensure that the requirements of the CIPFA code are met • challenging the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • testing revaluations and ensuring they are input correctly into the Council's asset register and accounted for correctly • discussing with the valuer the basis on which the valuation was carried out, including challenging the key assumptions used; and • evaluating the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. The Council's accounting policy on land and buildings PPE valuations is shown in note 33 to the financial statements and related disclosures are included in note 17. Our work in this area was significantly delayed again this year as we awaited key information to conclude our work. As a result of significant problems in the valuation of property in the last two years in particular the Council outsourced this valuation work in 2021/22. Unfortunately, due to staffing problems at the new external valuer, the Council did not receive a draft valuation report until 16 September 2022 (the final report arrived later still) which meant the Council could not issue draft accounts until 18 October 2022. This meant the Council missed the statutory deadline. Subsequently there were significant delays in obtaining evidence from the valuers to support a sample of the valuations and some is still outstanding. This remains an area of concern for us and we consider that this reflects poorly on the governance of the Council. Urgent action is needed to resolve this issue and to strengthen controls in this area for future years. This work is still incomplete and therefore not reviewed The Council is yet to obtain sign off from its valuer of its estimation of the change in value of PPE assets not revalued in 2021/22. The Council currently hold £37.9m of fully depreciated assets (at 1/4/2021) on the balance sheet. An additional £5m were fully depreciated in year.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of pension fund net liability The Authority's net pension fund liability represents a significant estimate in the Authority's financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of Practice for Local Authority Accounting (the applicable financial reporting framework) We have therefore concluded that there is not a significant risk of material misstatement in the IAS19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS19 estimates is provided by the administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions(discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS19 liability. We have therefore concluded there is a significant risk of material misstatement in the IAS19 estimate due to the assumptions used in the calculation. With regard to these assumptions we have therefore identified the valuation of the Authority's pension fund net liability as a significant risk. .	Our audit work included, but was not restricted to: • Update our understanding of the processes and the controls put in place by management to ensure that the net pension fund liability was not materially misstated and evaluating the design of the associated controls; • evaluating the competence, capabilities and objectivity of the Council's actuary who carried out the pension fund valuation; • undertaking procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary and performing any additional procedures suggested within the report; • confirming the consistency of the pension fund gross asset and gross liability figures and associated disclosures in the notes to the financial statements with the actuarial report from the actuary; • obtaining assurances from the auditor of West Midlands Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements • performing analytical procedures in respect of the gross pension fund assets and liabilities. • evaluating the instructions issued by management to their management expert (the actuary Barnett Waddingham) for this estimate and the scope of the actuary's work; • assessing the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; and • testing the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary. The Council's accounting policy on the valuation of the net pension fund liability is shown in note 33 to the financial statements and related disclosures are included in note 28. There were two issues from this work. The first was the Pension Fund's actuary , Hymans, used an estimated return on investments and understated the rate of return. This resulted in investments being understated by £9.175m. In addition when the time lag difference which is seen when final fund manager reports are received post production of the actuary's IAS19 report, it was noted that there was a further understatement of assets of £ 7.295m. As this was a material difference in the net pensions liability, the Council requested a revised IAS19 report. This corrected for the first issue only (£9.175m) meaning that there was a remaining non material understatement of £7.295m.

2. Financial Statements - other risks

Risks identified in our Audit Plan	Commentary
Value of Infrastructure assets and the presentation of the gross cost and accumulated depreciation in the PPE note Infrastructure assets includes roads, highways and streetlighting. As at 31 March 2021, the net book value of infrastructure assets was £418m which is a significant multiple of materiality. In accordance with the LG Code, Infrastructure assets are measured using the historical cost basis, and carried at depreciated historical cost. With respect to the financial statements, there are two risks which we plan to address: 1.The risk that the value of infrastructure assets is materially misstated as a result of applying an inappropriate Useful Economic Life (UEL) to components of infrastructure assets. 2.The risk that the presentation of the PPE note is materially misstated insofar as the gross cost and accumulated depreciation of Infrastructure assets is overstated. It will be overstated if management do not derecognise components of Infrastructure when they are replaced. For the avoidance of any doubt, these two risks have not been assessed as a significant risk at this stage, but we have assessed that there is some risk of material misstatement that requires an audit response.	We have: **•Reconciled the Fixed Asset Register to the Financial statements** **•Using our own point estimate, considered the reasonableness of depreciation charge to Infrastructure assets** **•Obtained assurance that the UEL applied to Infrastructure assets is reasonable** **•Documented our understanding of management's process for derecognising Infrastructure assets on replacement and obtain assurances that the disclosure in the PPE note is not materially misstated** We are completing the work as set out above. The Council does not derecognise Infrastructure assets on replacement. This is a national issue and, as set out on page 4, the Department for Levelling Up, Housing & Communities (DLUHC) has drawn up a Statutory Instrument which came into force on 25 December 2022. It therefore is hoped that this Statutory Instrument, together with updates to the CIPFA Code, will resolve the majority of the ongoing audit challenges related to infrastructure asset balances. We expect to complete this work in February 2023.

2.Financial statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Accounting area	Summary of management's policy	Audit Comments	Assessment
Provisions for NNDR appeals	The Council are responsible for repaying a proportion of successful rateable value appeals. Management's calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates.	The Council has made a provision for the Business Rate appeals that have been received but not settled at year end and an assessment of potential appeals. The Council's estimate is based on the likelihood of various types of claims having to be settled and the estimated value of the settlement. The Council's provision follows a similar basis to the previous year and overall we are satisfied with the approach taken and that the provision is not materially misstated.	Green
Land and Buildings – Council Housing -	The Council owns 21,397 dwellings and is required to revalue these properties in accordance with MHCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged an external valuer to complete the valuation of these properties. The year end valuation of Council Housing was £937m in the draft accounts, a net increase from the 2019/20 balance of £925m.	We challenged the basis for this valuation and whether it meets the Code requirements. This included comparison to external housing valuation indices. There were no significant issues from this work.	Green

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2.Financial statements – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Land and Buildings – Other	Other land and buildings comprises specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged its in-house valuer to complete the valuation of properties as at 31 March 2020 on a five yearly cyclical basis. Management has considered the year end value of non-valued properties and the potential valuation change in the assets revalued at 31 March 2020 to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties value.	Our work in this area was again significantly delayed. As a result of significant problems in the valuation of property in the last two years in particular . the Council outsourced this valuation work in 2021/22. Unfortunately due to staffing problems at the new external valuer, the Council did not receive a draft valuation report until 16 September 2022 (the final report arrived later still) which meant the Council could not issue draft accounts until 18 October 2022. This meant the Council missed the statutory deadline of 30 July. Subsequently there were significant delays in obtaining evidence from the valuers to support a sample of the valuations and some of this is still outstanding. This remains an area of concern for us and we consider that this reflects poorly on the governance of the Council. Urgent action is needed to resolve this issue and to strengthen controls in this area for future years. Audit work is therefore currently incomplete. The Council currently hold £37.9m of fully depreciated assets (at 1/4/2021) on the balance sheet. An additional £5m were fully depreciated in year.	Red

2.Financial statements – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Net pension liability	The Council's net pension liability in its draft accounts at 31 March 2021 is £795m (PY £557m) comprises the West Midlands Pension Fund Local Government and unfunded defined benefit pension scheme obligations. The Council uses Hymans to provide actuarial valuations of the Council's assets and liabilities. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.	PwC were engaged by the NAO as consulting actuary to undertake a central review of the actuaries used by the Local Government Pension Scheme (LGPS). They produce a report designed to provide support to auditors when assessing the competence and objectivity of, and assumptions and approach adopted by, actuaries producing IAS 19 figures in respect of the LGPS, Police and Fire schemes as at 31 March 2022. We use this report to inform our assessment of the valuation of the pension fund liak the Authority's accounts. We have compared the assumptions used by the Authority actuary against industry benchmarks. Based on the work performed we are able to conclude that management's assumptions overall are reasonable.	Amber

Commercial in confidence

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.7%	2.7% - 2.75%	●
Pension increase rate	3.2%	3.15%-3.3% p.a	●
Salary growth	4.2%	0.5-2.5% above CPI ranges of 3.15%-3.3% p.a	●
Life expectancy – Males currently aged 45 / 65	Retiring today:: Males: 21.2 years Retiring in 20 years: after CMI 2020 update: Males: 22.9 years	Male Pensioners: 20.1 – 22.7 Non-pensioners: 21.4 – 24.3	●
Life expectancy – Females currently aged 45 / 65	Retiring today: Females: 23.6 years Retiring in 20 years: after CMI 2020 update: Females: 25.4 years	Females: Pensioners: 22.9 – 24.9 Non-pensioners: 24.8 – 26.7	●

2.Financial statements – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Net pension liability		We have also reviewed the: • Completeness and accuracy of the underlying information used to determine the estimate • Reasonableness of the Authority's share of LGPS pension assets. • Reasonableness of increase/decrease in estimate • Adequacy of disclosure of estimate in the financial statements There were two significant issues from this work. The first was the Pension Fund's actuary , Hymans, used an estimated and understated rate of return of £9.175m. In addition when the time lag difference which is seen when final fund manager reports are received post production of the actuary's IAS19 report, it was noted that there was a further understatement of assets of £ 7.295m. As this was a material difference in the net pensions liability, the Council requested a revised IAS19 report. This corrected for the first issue only (£9.175m) meaning that there was a remaining non material understatement of £7.295m.	

Assessment
- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial statements – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Valuation of investment in Birmingham Airport	The Council holds shares in Birmingham Airport Holdings Limited (BAHL) and is required to record this investment in the accounts at fair value. As shares in this company are not traded frequently the Council has had to estimate the value of its investment. The Council has drafted an estimation approach in conjunction with other West Midlands Metropolitan Councils that also hold shares in BAHL	We assessed management's expert as competent to carry out the valuation. Due to the additional risks, we employed our own valuation expert to review their work. We did not identify any significant issues in this work.	Green

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process and key assumptions to be reasonable

Estimates and judgements–review of issues raised in prior year

Issue and risk previously communicated	Update on actions taken to address the issue
Estimates and judgements -PFI (Paragon Schools) disclosure The Council is required to disclose the future unitary payments (split into service charges, repayment of Liability, and finance costs) for the life of the schemes. For the Paragon Schools disclosure we identified differences between the model used by the Council and our own model. The differences were across the split of the unitary payment (service charge, liability and finance costs). Overall there was a trivial impact on the total future unitary payments disclosed.	The draft financial statements contains the required disclosure. As in previous years differences were noted, across the split of the unitary payment, between the model used by the Council and our own model. These differences are set out in the table below and overall there is a trivial impact on the total future unitary payments disclosed. Officers consider that their model is appropriate and have not adjusted for this.

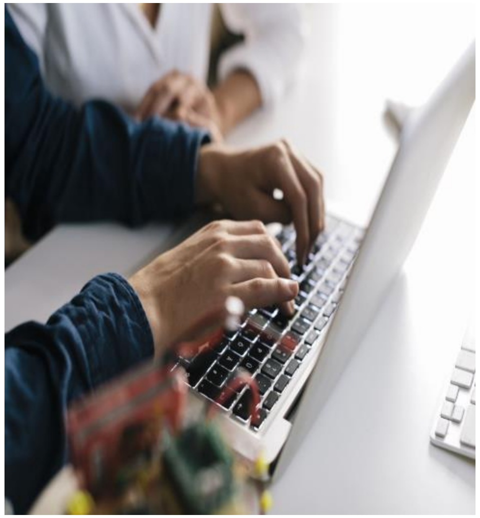
	Service Charge £000	Finance costs £000	Contingent Rent £000
Within 1 year	462	(284)	478
2-5 years	2,077	(942)	2,400
6-10 years	3,013	(448)	3,113
11-15 years	0	0	0
Total	**5,552**	**(1,674)**	**5,991**

2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Standards Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed but we do recommend that the Council review the related parties included in the accounts as they do not fully meet the definition in the Code of Practice of Local Authority Accounting.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation was requested from the Council which is included in the Audit and Standards Committee papers.

2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests to third party banks and other financial institutions and a number of other local authorities. This permission was granted and the requests were sent. Of these requests all were returned with positive confirmations. There are a number of third party balances where it is more efficient to undertook alternative procedures, including long term debt with the PWLB where we received central notification of the balances and temporary borrowing where the cash had been repaid before the audit commenced.
Accounting practices	Our review found no material omissions in the financial statements but there were some areas where there was not full compliance. Note 36: Assumptions Made About the Future, and Other Major Sources of Estimation Uncertainty does not fully comply with the Code in reporting on uncertainty including the requirement to include a sensitivity analysis for all assumptions noted.
Audit evidence and explanations/ significant difficulties	Most information and explanations requested from management was provided promptly in carrying out the audit. The only significant difficulty we experienced was in obtaining information from the Council's valuer. This is the second year that this has occurred.

2. Financial Statements - other communication requirements

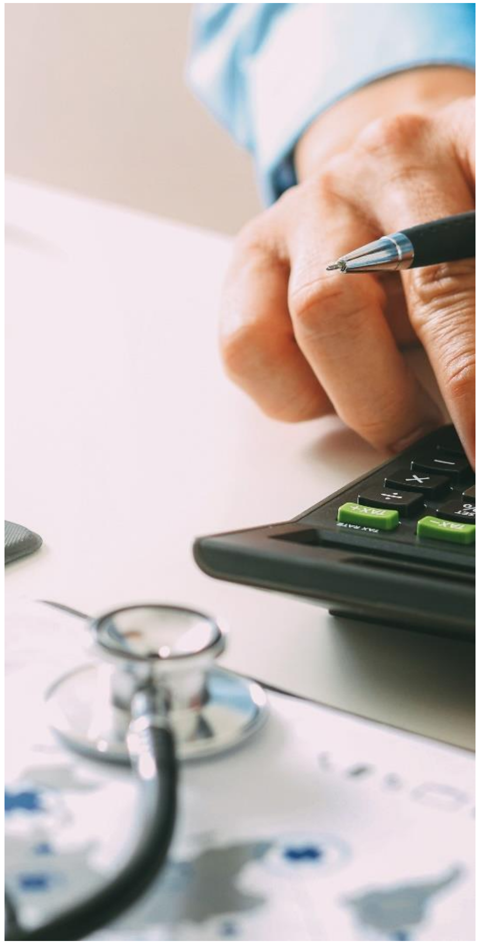
Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement and Narrative Report , is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix E
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. We have nothing to report on these matters



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the instructions are yet to be sent out by the relevant government department, we have not yet been able to complete this work.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2021/22 audit of **the Council** in the audit report, as detailed in Appendix E, due to incomplete VFM work and WGA.

3. Value for Money arrangements

Revised approach to Value for Money work

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which come into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. We expect to issue our Auditor's Annual Report by 31 March 2023. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We did not identify any risks of significant weaknesses at the planning stage.

4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified which were charged from the beginning of the financial year to current date, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing capital receipts grant	5,000 (2020/21 and 2021/22)	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is small in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Teachers Pension Return	6,000 (2020/21) and 7,500 (2021/22)	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is small in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Housing Benefit Claim	19,900 (2020/21 and 2021/22)	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is small in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified which were charged from the beginning of the financial year to current date, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Non audit related			
Digital Forensics Work	20k	Self-Interest and Self review	Our Digital Forensics Group provided Freeths LLP with a data hosting platform so that they can undertake an investigative review on behalf of Dudley Metropolitan Council. The service is to be provided to Freeths LLP who will recharge the fee to Dudley Metropolitan Borough Council. We will not be reviewing the data and no judgement/opinions will be made on the data. The level of this fee taken on its own is not considered a significant threat to independence as the fee for this work is £20,000 in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level..

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors All services have been approved by the Audit and Standards Committee None of the services provided are subject to contingent fees.

Appendices

A. Action plan – Audit of Financial Statements

We have identified recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium	No terms of engagement were agreed with one of the Council's external valuers.	**Ensure terms of engagement are agreed with all external valuers on a timely basis in future.**
High	There was a significant delay in obtaining the valuation report for property plant and equipment as at 31 March 2022 from the Council's external valuation team. As a result the Council missed the statutory deadline for publishing a draft statement of accounts. There was subsequently a delay in obtaining evidence to support the sample of valuations chosen.	Urgent action is needed to resolve this issue and to ensure that key documents supporting land and buildings valuations are available in future from start of final accounts audit and are accurate. We consider that the Council should undertake a governance review of the valuation process and determine how it can resolve the current delays
High	There is not a formal process for the routine authorisation of journals. The finance team do carry out some spot checks focussing in particular on accruals due to the heightened risk. Budgetary control is also expected to pick up errors or fraud, however, we consider that the lack of authorisation processes exposes the Council to the risk of fraud and error.	Introduce a process for authorisation of journals
Medium	The council currently hold £37.9m of fully depreciated assets (at 1/4/2021) on the balance sheet. An additional £5m were fully depreciated in year.	Review existence of the VPE population to ensure that assets recorded are still held by the council.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Follow up of prior year recommendations

We identified the following issues in the audit of the Council's 2020/21 financial statements, which resulted in the following recommendations being reported in our 2020/21 Audit Findings report

Assessment	Recommendations	Update on actions taken to address the issue
● Medium	Improve the process for identifying asset disposals for accounts purposes. This will include improved communication processes between the relevant departments and central finance team.	Implemented. No errors found in this area in 2021/22 audit.
● High	Urgent action is needed to resolve this issue and to ensure that key documents supporting land and buildings valuations are available in future from start of final accounts audit and are accurate. We consider that the Council should undertake a governance review of the valuation team and determine how it can resolve the current delays	Please see Appendix A action plan. This remains a concern
● High	Introduce a process for authorisation of journals	Please see Appendix A action plan. This remains a concern

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
There were two significant issues from this work. The first was the Pension Fund's actuary , Hymans, used an estimated and understated rate of return of £9.175m. In addition when the time lag difference which is seen when final fund manager reports are received post production of the actuary's IAS!9 report, it was noted that there was a further understatement of assets of £ 7.295m. As this was a material difference in the net pensions liability, the Council requested a revised IAS19 report. This corrected for the first issue only (£9.175m) meaning that there was a remaining non material understatement of £7.295m.	9,175	9,175	9,175
During 2021/22 the Council significantly reduced the value of its business rates appeal provision. As a result of the 2020/21 accounts still being open, due to the national infrastructure issues, we requested the Council look at the provision for business rate appeals in the 2020/21 accounts. This led to the Business rates appeal provision as at 1st April 2021 being reduced by £10.53m and the closing balance at 31.3.22 remains unchanged. Similarly we requested that the Council revise the net pensions liability as at 31/3/21 to reflect changes in pension fund asset values from those originally estimated and this meant that the related opening balances for this changed in 2021/22 accounts. The net pensions liability as at 1 April 2021 was reduced by £5.9m.			

Appendix C

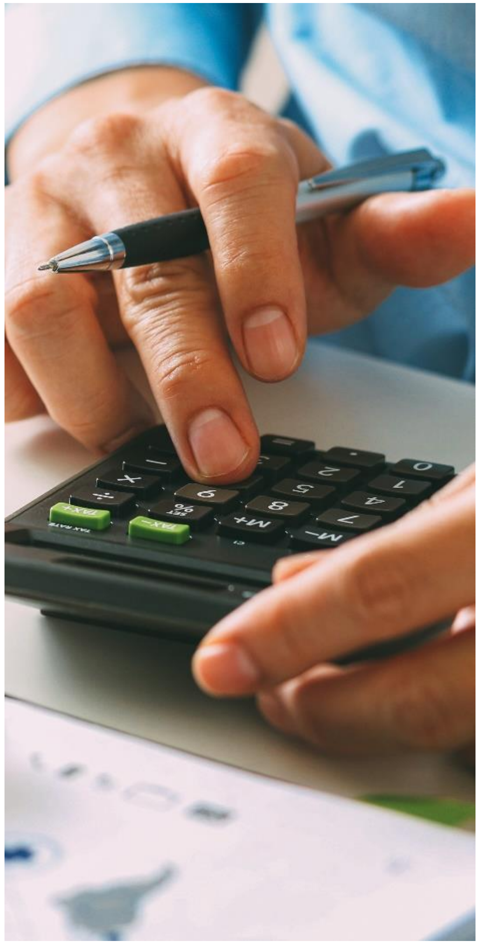
Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements. In addition to these some amendments were made for formatting and typographical errors.

Disclosure omission	Details	Adjusted
Various	A number of presentational, grammatical and numerical adjustments and additions were completed to the financial statements to improve the readability and understandability of disclosures and to ensure that they are in line with the current International Financial Reporting Standards.	✓
Financial Instruments	Some changes were necessary to financial instrument notes to improve disclosure and aid clarity and consistency including adding details for expected credit loss.	✓
Note 34	**Note 34 includes a reasonable explanation of critical judgements in applying accounting policies but does not disclose the impact of the judgments on the accounts**	✓

C. Audit Adjustments



Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. The Audit and Standards Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
There were two significant issues from this work. The first was the Pension Fund's actuary , Hymans, used an estimated and understated rate of return of £9.175m. In addition when the time lag difference which is seen when final fund manager reports are received post production of the actuary's IAS!9 report, it was noted that there was a further understatement of assets of £ 7.295m. As this was a material difference in the net pensions liability, the Council requested a revised IAS19 report. This corrected for the first issue only (£9.175m) meaning that there was a remaining non material understatement of £7.295m. If amended, it would have reduced the Council's net pension liability and increased the return on assets in the other comprehensive income.	7,295	7,295	7,295	Not material

D. Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit fees	Proposed fee(£)	Final fee(£)
Council Audit	185,809	185,809
Total audit fees (excluding VAT)	185,809	185,809

See detail on next page

Non-audit fees for other services	Proposed fee (£)	Final fee (£)
Audit Related Services –housing benefits assurance	19,900	TBC
Audit Related Services –teachers pensions (21/22)	7,500 (£6,000 in 20/21)	TBC
Audit related-capital receipts return	5,000	TBC
Digital Forensics Work	20,000	TBC

Nationally we have revised fees charged by grants to reflect the actual time it takes to complete this work.

Non audit fees for other services differ from that included in the statement of accounts note (£31,000). The Digital Forensics Work (£20,000) was provided and billed to Freeths LLP who were commissioned to carry out some work on behalf of the Council. We did not carry this work out for the Council and therefore there is no expenditure relating to that with us in the accounts.

E. Audit opinion

Our audit opinion is included below.

We anticipate we will provide the Council with an unmodified audit report

Independent auditor's report to the members of Dudley Metropolitan Borough Council

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of Dudley Metropolitan Borough Council (the 'Authority') for the year ended 31 March 2022, which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2021/22.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2022 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2021/22; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Director of Finance and Legal Services' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

In our evaluation of the Director of Finance and Legal Services' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2021/22 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Director of Finance and Legal Services's use of the going concern basis of accounting in the preparation of the financial statements is appropriate

E. Audit opinion (continued)

The responsibilities of the Director of Finance and Legal Services with respect to going concern are described in the 'Responsibilities of the Authority, the Director of Finance and Legal Services and Those Charged with Governance for the financial statements' section of this report.

Other information

The Director of Finance and Legal Services is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements, and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Director of Finance and Legal Services and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities set out on page 124, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance and Legal Services. The Director of Finance and Legal Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2021/22, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance and Legal Services determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

E. Audit opinion (continued)

In preparing the financial statements, the Director of Finance and Legal Services is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit and Standards is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- .

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2021/22, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, The Local Government and Housing Act 1989, the Local government Act 1972 and the Local Government Act 2003

- We enquired of senior officers and the Audit and Standards concerning the Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit and Standards Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls and any other fraud risks identified for the audit. We determined that the principal risks were in relation to:

- journals that altered the Council's financial performance for the year
- potential management bias in determining accounting estimates, especially in relation to

  - the calculation of the valuation of the Council's land and buildings and defined benefit pensions liability valuations; and

  -accruals of income and expenditure at the end of the financial year.

E. Audit opinion (continued)

- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Director of Finance and Legal Services has in place to prevent and detect fraud;
  - journal entry testing, with a particular focus on significant journals at the year-end which had an impact on the Council's financial performance;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings and defined benefit pensions liability valuations;
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to land and buildings and defined benefit pensions liability valuations.
- Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the local government sector
  - understanding of the legal and regulatory requirements specific to the Authority including:
    - **the provisions of the applicable legislation**
    - **guidance issued by CIPFA, LASAAC and SOLACE**
    - **the applicable statutory provisions.**
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Authority's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2022.

E. Audit opinion (continued)

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2022. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

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

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for Dudley Metropolitan Borough Council for the year ended 31 March 2022 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report and we had completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the year ended 31 March 2022.

We are satisfied that this work does not have a material effect on the financial statements.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Mark Stocks, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

Birmingham

Date

Council House, Priory Road, Dudley, West Midlands DY1 1HF
www.dudley.gov.uk

Dudley Metropolitan Borough Council

Service:	Please ask for:	Contact Details
Financial Services	Iain Newman	01384 814802 Iain.newman@dudley.gov.uk

Grant Thornton UK LLP
103 Colmore Road
Birmingham B3 3AG

13th February 2023

Dear Sirs

Dudley Metropolitan Borough Council Council
Financial Statements for the year ended 31 March 2022

This representation letter is provided in connection with the audit of the financial statements of Dudley Metropolitan Borough Council for the year ended 31 March 2022 for the purpose of expressing an opinion as to whether the Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include the valuation of the net pensions liability, the valuation of Property Plant and Equipment. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

vii. Except as disclosed in the Council financial statements:

  a. there are no unrecorded liabilities, actual or contingent
  b. none of the assets of the Council has been assigned, pledged or mortgaged
  c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.

xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiv. We have updated our going concern assessment. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that :

  a. the nature of the Council means that, notwithstanding any intention to cease the Council operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

c. the Council’s system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements

xv. The Council has complied with all aspects of ring-fenced grants that could have a material effect on the Council’s financial statements in the event of non-compliance.

Information Provided

xvi. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the Council’s financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. access to persons within the Council via remote arrangements,from whom you determined it necessary to obtain audit evidence.

xvii. We have communicated to you all deficiencies in internal control of which management is aware.

xviii. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xix. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xx. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council, and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xxi. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xxii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxiii. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.

xxiv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

xxv. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

xxvi. The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit and Standards Committee at its meeting on 13th February 2023

Yours faithfully

Name……………………………

Position………………………….

Date…………………………….

Name……………………………

Position………………………….

Date…………………………….

Signed on behalf of the Council

Agenda Item No. 5

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 – 13th February 2023

Report of the Director of Finance and Legal Services

Treasury Management

Purpose

1. The purpose of this report is:

- To outline treasury activity in the year 2022/23 up to the end of December 2022.
- To seek approval of the Treasury Strategy Statement 2023/24.

Recommendations

2. It is recommended:

- That the Committee notes the treasury activities in 2022/23 outlined in this report.
- That the Committee approves the Treasury Strategy 2023/24 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 Services to update the prudential indicators detailed in section 3 of Appendix 2 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 27th February 2023.

<u>Background</u>

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 section 3 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 16th February 2023. As the indicators may change when the HRA capital programme is finalised, delegation is sought for the Director of Finance and Legal Services to amend the indicators before the Treasury Strategy is approved by Council on 27th February.

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 £740m on our own account and another £78m 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 increasing interest rates. The Bank Base Rate has been increased a number of times since the previous Treasury Management report was taken to this Committee (see Appendix 2 for more information).

7. Appendix 2 contains some detailed economic commentary but in summary the Monetary Policy Committee is expected to increase interest rates further to counter inflationary pressures (which are expected to fall slowly through 2023 and 2024).

8. CIPFA released the new editions of the Treasury Management Code and Prudential Code in December 2021. Due to the timing of the release, local authorities were not required 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 as well as the introduction of a liability benchmark which we have added into our prudential indicators for 2023/24.

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. 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 2022/23 - Dudley Fund

10. Treasury activities in the current year have been undertaken in the context of the Treasury Strategy Statement 2022/23 approved by Audit Committee and Full Council in February 2022. 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 5th January 2023 have averaged £22.5m. The average return on these investments since the start of the year was 1.15% (however the weighted average interest rate of investments held at 6th January 2023 was 3.02%). All investments were placed with institutions that satisfied the criteria for credit-worthiness set out in the Treasury Strategy Statement 2022/23. The performance of our investments is largely dependent on movements in short-term (up to one year) rates. Our investment activity for 2022/23 (to date) is set out in more detail in Appendix 1.

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 2022 was £587.3 million. The average rate of interest on these borrowings was 3.76% and they were due to mature on dates ranging

from the current year to 2072. To date five new loans have been taken out in 2022/23. All of these loans were with PWLB; one for £15m at a rate of 3.87% with a duration of 50 years, one for £10m at a rate of 4.03% with a duration of 6 years and most recently 3 loans taken in January for £5m each at a rate of 4.13% with maturity dates in 2029.

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 is likely to be taken by the end of the 2022/23 financial year.

Treasury activity 2022/23 - WMDAF

15. The Council has taken 4 short term loans in the year to date to manage daily cash flow for the WMDAF. The average value of the borrowing has been £2.6m at an average rate of 2.3% for an average duration of 151 days. The latest estimate of interest payable by members of the WMDAF in 2022/23 is 5.3%.

16. The Council has made two short term investments in the year to manage daily cash flow for the WMDAF. The average value of the investments have been £2.5m at an average rate of 1.5% for an average duration of 18 days.

Treasury Strategy Statement 2023/24

17. 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 2023/24 is attached as Appendix 2.

18. 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 is expected to rise to 4.25% by March 2023 but drop down to 4.00% by March 2024.
- **Medium-term rates**. 5-year PWLB certainty rate is expected to be 4.20% in March 2023 and drop slightly to 3.90% by March 2024.
- **Long- term rates**. 50-year PWLB certainty rate is expected to be 4.30% in March 2023 and drop to 3.90% by March 2024.

19. 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.

20. 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

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

Law

22. The Council has adopted CIPFA's Treasury Management in the Public Services: Code of Practice 2021 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 Levelling Up, Housing and Communities (DLUHC) 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 Act 2003 to have regard to both the CIPFA code and the DLUHC guidance.

Risk Management

23. 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

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

Human Resources / Organisational Development

25. There are no Organisational Development/Transformation implications associated with this report.

Commercial / Procurement

26. 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.

Environment / Climate Change

27. The Council is required to consider environmental, social and governance considerations when making investments. It will not invest in fossil fuel companies.

Council Priorities and Projects

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

Iain Newman
Director of Finance and Legal Services

Report Author : Jennifer McGregor
Senior Principal Accountant
Telephone: 01384 814202
Email: jennifer.mcgregor@dudley.gov.uk

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 2022/23 to 5th January 2023

Counterparties	**Number of investments**	**Average value £ million**	**Average rate %**	**Average duration (days)**
Debt Management Office	177	14.76	1.82	10
Other Local Authorities	None	N/A	N/A	N/A
Bank of Scotland Call Account	n/a	0.04	0.00	Call
Santander Call Account	n/a	4.17	0.60	Call
Santander Notice Account	n/a	0.02	1.03	35 day notice
HSBC Call Account	n/a	3.20	0.05	Call
HSBC Notice Account	n/a	0.02	1.39	30 day notice
Barclays Call Account	n/a	0.31	0.21	Call

Appendix 2

Note:
It is important to note that the Treasury Strategy Statement is adopted by the Council, based on 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.

DUDLEY METROPOLITAN BOROUGH COUNCIL
TREASURY STRATEGY STATEMENT 2023/24

1.0 Introduction

1.1 This Treasury Strategy Statement details the expected activities of the treasury function in the financial year 2023/24. 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 2023 is as follows:

	£m
Long-term debt:	
- PWLB fixed rate	571.3
- PWLB variable rate	0.0
- Market fixed rate	31.0
- Market LOBO*	10.0
Short-term debt	20.0
Total debt	632.3

*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 3.87%.

2.3 The average level of investments held by the Council during 2022/23 to December 2021 was £22.6m. Cashflow monitoring indicates that long term borrowing is likely to 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 2023 is as follows:

	£m
Long-term debt:	
- PWLB fixed rate	55.5
- Market LOBO	10.0
Short-term debt	1.5
Total debt	**67.0**

2.5 The average rate of interest charged to the West Midlands fund is expected to be 5.30%.

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.

	2021/22 £m	**2022/23 Revised £m**	**2023/24 Revised £m**	**2024/25 Revised £m**	**2025/26 Revised £m**
Authorised limit for external debt *: Borrowing	n/a	872	886	892	820
Other long term liabilities	n/a	12	12	11	9
Total	n/a	884	898	903	829
Operational boundary *: Borrowing	n/a	735	825	825	782
other long term liabilities	n/a	12	12	11	10
Total	n/a	747	837	836	792
Actual External Debt: Borrowing	680.0	n/a	n/a	n/a	n/a
Other long term liabilities	14.4	n/a	n/a	n/a	n/a
Total	**694.4**	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.

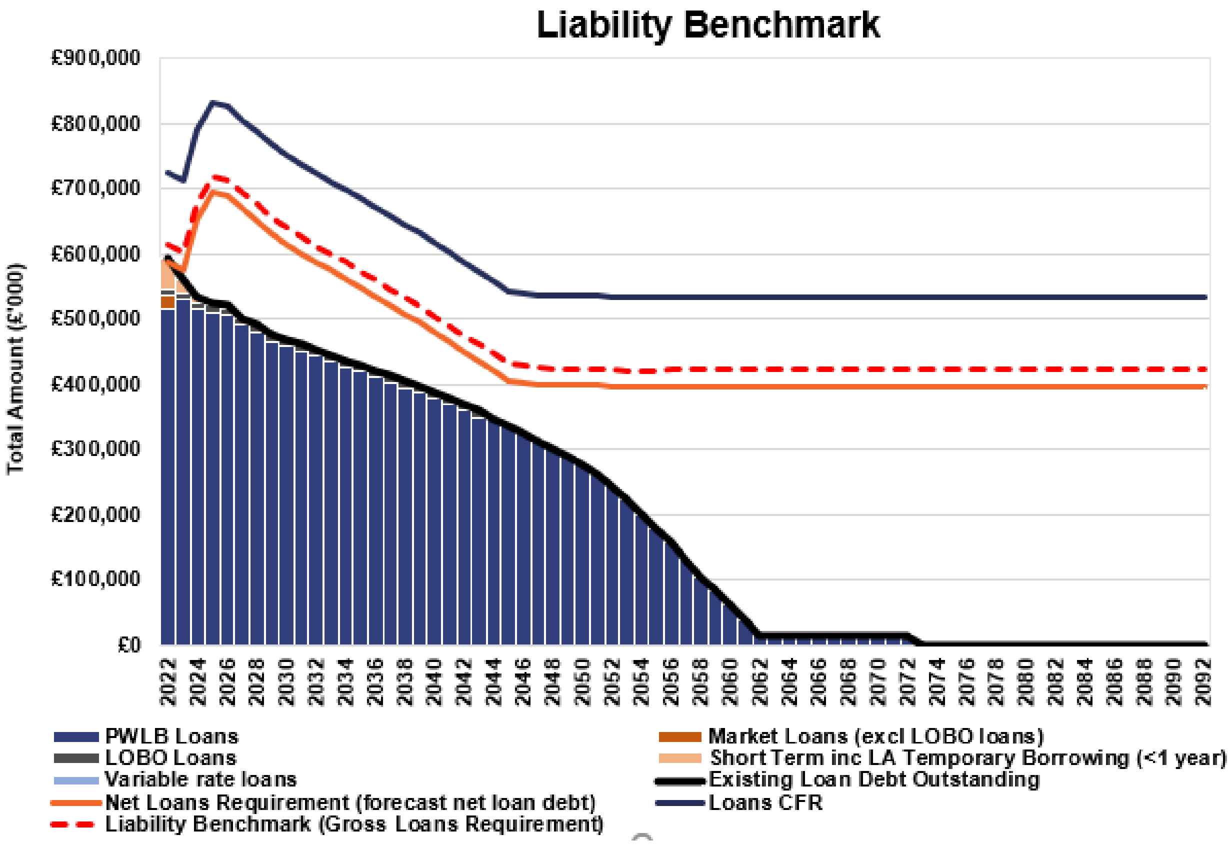
The Council has met this requirement in 2022/23 and expects to do so in future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

3.4 Liability Benchmark

The revised Prudential Code introduced a new prudential indicator called the Liability Benchmark (LB). The Council is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum. There are four components to the LB:-

- Existing loan debt outstanding – the Council's existing loans that are still outstanding in future years,
- Loans capital financing requirement (CFR) – this will include only approved prudential borrowing
- Net loans requirement – this is the Council's gross loan debt less treasury management investments at the last financial year end projected into the future
- Liability benchmark – (also known as the gross loans requirement) which is the net loans requirement plus short-term liquidity allowance.

As the chart shows there is currently a gap between the existing loan debt outstanding and liability benchmark this indicates that further borrowing is likely to be required in the next few years likely to be required in the next few years.



3.5 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.

	2022/23	**2023/24**	**2024/25**	**2025/26**
Upper limit for fixed interest rate exposure	100	100	100	100
Upper limit for variable rate exposure	10	10	10	10

3.6 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 Limi %	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 Limi %	Lower Limit %
Under 12 months	55	25
12 months and within 24 months	55	20
24 months and within 5 years	40	0

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

3.7 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 current economic backdrop is one of stubborn inflationary pressures, the easing of COVID restrictions in most developed countries and the Russian invasion of Ukraine. The combination of these has led to greater volatility in the Bank Rate (and PWLB rates) throughout 2022. The Monetary Policy Committee (MPC) has raised the Bank Rate throughout 2022 and the most recent increase took the Bank Rate to 4.00% in February 2023. The market expects the rate to increase further (up to 4.5% by May 2023) but to then fall gradually through the second half of 2023/24 and beyond.

4.2 The CPI inflation figure for the final quarter of 2022 peaked at 11.1%, however as further increases in gas and electricity price caps are pencilled in for April 2023 it is possible that inflation will reach even higher levels before it is expected to drop down later in 2023.

4.3 Although UK unemployment fell to a 48-year low in 2022 of 3.6% the predictions for GDP are that there will be further contraction. This is the same for all major worldwide economies.

5.0 Prospects for Interest Rates

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

	December 2022 (Actuals)	**December 2023 (Forecasts)**	**December 2024 (Forecasts)**	**December 2025 (Forecasts)**
Bank Rate	3.50%	4.50%	3.25%	2.50%
5yr PWLB rate	4.20%	4.00%	3.50%	3.10%
10yr PWLB rate	4.30%	4.10%	3.60%	3.30%
25yr PWLB rate	4.60%	4.40%	3.90%	3.50%
50yr PWLB rate	4.30%	4.10%	3.60%	3.20%

5.2 As per 4.1 The Bank rate was increased to 4.00% in February 2023, Link are expecting the rate to increase further in 2023 but to peak at 4.50%. The difficulty then is when to start reducing the rate. This will depend on the inflation levels - cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

5.3 Link Asset Services will continue to monitor economic data releases and information released by the Monetary Policy Committee (MPC) who set the Bank Rate. The economy is also obviously impacted by the ongoing conflict between Russia and Ukraine and tensions between other countries could also have a negative economic impact.

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 Levelling Up, Housing and Communities (DLUHC) 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/ Moody's /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 2023/24 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 currently banks with HSBC; however the Council is changing banks during 2023/24 to Lloyds Plc. At the present time, both HSBC and Lloyds Plc meet the minimum credit criteria. Even if the credit rating of the Council's main bank falls below the Council's minimum criteria the main bank 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.

6.7 *Environmental, Social & Governance (ESG) Considerations*

6.7.1 The Council is required to consider environmental, social and governance considerations when making investments. It will not invest in fossil fuel companies.

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 only non-treasury investments currently held by the Council are shares held with Birmingham Airport which were valued at £16.8m at 31st March 2022. These are held as a service type investment as they were not purchased in order to generate a financial return; rather they are for regeneration purposes only. There are no current plans to make any further non-treasury investments.

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 2023/24, 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 2023/24 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 2023/24.

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

Meeting of the Audit and Standards Committee – 13th February, 2023

Report of the Monitoring Officer

Annual Report of the Committee on Standards in Public Life

Purpose of report

1. To receive the annual report of the Committee on Standards in Public Life.

Recommendation

2. That the Committee note and comment on the annual report.

Background

3. The annual report of the Committee on Standards in Public Life for 2021/22 is attached. The remit of the Committee is wide-ranging but broadly it covers standards of conduct of all holders of public office whether elected or appointed.

4. The report refers to the seven principles of public life. The principles include selflessness, integrity, objectivity, accountability, openness, honesty and leadership. These principles are fully reflected in the Members' Code of Conduct as set out in the Constitution.

5. The report includes an overview of the work undertaken in 2021/22 and ongoing activity. The issues identified in the report are of general interest to the public sector and Members are invited to note the contents of the document.

6. On 28th February, 2022, the Council approved a report on the Annual Review of the Constitution. This included confirmation of the recommendations of the Audit and Standards Committee concerning the adoption of the revised Members' Code of Conduct and Standards Arrangements effective from 6th May, 2022. Mandatory training on the

Members' Code of Conduct and Standards Arrangements was provided for new and existing Members of the Council on 18th May, 2022. At the time of writing this report, there have been no further changes in primary or secondary legislation.

Finance

7. There are no direct financial implications arising from this report.

Law

8. The legislative framework relating to local government standards, including the duty to promote and maintain high standards of conduct, is set out in the Localism Act 2011.

Risk Management

9. The requirements of the Council's Constitution and governance arrangements ensure that the Council considers any ongoing material risks as part of the Council's Risk Management Framework.

Equality Impact

10. The Council is committed to equality and diversity and this is reflected in the Constitution, including the Member and Employee Codes of Conduct.

Human Resources/Organisational Development

11. The Council's standards arrangements are administered by the Monitoring Officer within the resources available to him.

Commercial/Procurement

12. The Constitution includes governance documents that set a framework in which the Council's commercial/procurement activity is properly undertaken. This includes the Council's Standing Orders relating to Contracts.

Environment/Climate Change

13. There are no direct environmental implications impacting on the Council's work to address Climate Change and achieve our Net Zero target by 2041.

Council Priorities and Projects

14. The Council's Constitution, including the Member and Employee Codes of Conduct, are key governance documents which underpin the delivery of key Council priorities including the Borough Vision, Council Plan and Future Council Programme.

Mohammed Farooq
Monitoring Officer

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Email: steve.griffiths@dudley.gov.uk

List of Background Documents

Appendix – Annual Report of the Committee on Standards in Public Life 2021/22
Report and Minutes of the Council dated 28th February, 2022

Committee on Standards in Public Life

Annual Report July 2021 – June 2022

Honesty | Objectivity | Openness | Selflessness | Integrity | Accountability | Leadership

THE SEVEN PRINCIPLES OF PUBLIC LIFE

The Seven Principles of Public Life apply to anyone who works as a public office holder. This includes all those who are elected or appointed to public office, nationally or locally, and all people appointed to work in the public sector. The Principles also apply to all those in the private sector delivering public services.

HONESTY

Holders of public office should be truthful.

OBJECTIVITY

Holders of public office must act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.

OPENNESS

Holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing.

SELFLESSNESS

Holders of public office should act solely in terms of the public interest.

INTEGRITY

Holders of public office must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests and relationships.

ACCOUNTABILITY

Holders of public office are accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.

LEADERSHIP

Holders of public office should exhibit these principles in their own behaviour and treat others with respect. They should actively promote and robustly support the principles and challenge poor behaviour wherever it occurs.

The Seven Principles were established in the Committee's First Report in 1995; the accompanying descriptors were revised following a review in the 14th Report, Standards Matter, published January 2013 and in the 23rd Report, Upholding Standards in Public Life, published November 2021.

PREVIOUS REPORTS

2021, Upholding Standards in Public Life.

2021, Regulating Election Finance

2020, Artificial Intelligence and Public Standards

2019, Local Government Ethical Standards

2018, MPs' Outside Interests

2018, The Continuing Importance of Ethical Standards for Public Service Providers

2017, Intimidation in Public Life

2016, Striking the Balance: Upholding the 7 Principles in Regulation

2015, Tone from the Top: Leadership, Ethics and Accountability in Policing

2014. Ethics in Practice: Promoting Ethical Standards in Public Life

2014, Ethical Standards for Providers of Public Services

2013, Strengthening Transparency around Lobbying

2013, Standards Matter: a Review of Best Practice in Promoting Good Behaviour in Public Life

2011, Political Party Finance: Ending the Big Donor Culture

2009, MPs' Expenses and Allowances: Supporting Parliament, Safeguarding the Taxpayer

2007, Review of the Electoral Commission

2005, Getting the Balance Right: Implementing Standards of Conduct in Public Life

2003, Defining the Boundaries within the Executive: Ministers, Special Advisers and the Permanent Civil Service

2002, Standards of Conduct in the House of Commons

2000, Standards of Conduct in the House of Lords

2000, Reinforcing Standards: A summary

1998 The Funding of Political Parties in the United Kingdom

1997, Review of Standards of Conduct in Executive NDPBs, NHS Trusts and Local Public Spending Bodies

1997, Standards of Conduct of local government in England, Scotland and Wales

1996, Local Public Spending Bodies

1995, MPs, Ministers and Civil Servants, Executive Quangos

COMMITTEE MEMBERSHIP

Terms of Appointment

The independent Chair and the four independent members are appointed under the government's Governance Code for Public Appointments for five-year, non-renewable terms. Vacancies are advertised on the public appointments website. The appointments are made by the Prime Minister.

Three political members are nominated for three-year, renewable terms by the respective party leaders and confirmed by the Prime Minister.

Lord (Jonathan) Evans of Weardale KC DL, Chair
1 November 2018 - 31 October 2023

Dame Shirley Pearce DBE
31 March 2018 - 30 March 2023

Ewen Fergusson
1 August 2021 - 31 July 2026

Professor Gillian Peele
1 August 2021 - 31 July 2026

Rt Hon Dame Margaret Beckett DBE MP (Labour)
Reappointed 31 October 2019 - 30 October 2022

Rt Hon Lord (Andrew) Stunell OBE (Liberal Democrat)
Reappointed 1 December 2019 - 30 November 2022

Rt Hon Sir Jeremy Wright QC MP (Conservative)
21 November 2019 - 20 November 2022

There is a vacancy on the Committee for an independent member.

Members for part of the period of this report

Dr Jane Martin CBE
1 January 2017 - 31 December 2021

Monisha Shah
1 December 2015 - 30 July 2021

FOREWORD BY THE CHAIR

I am pleased to present the Committee on Standards in Public Life's Annual Report for 2021/2022, my fourth as its Chair.

The Committee's role – established twenty-eight years ago – is to promote the Nolan Principles of honesty, objectivity, openness, selflessness, integrity, accountability and leadership across public life by advising on the institutions, rules and processes necessary to support high standards of conduct.

These Principles outline the standards that the public expect from those who serve them: they are integral to the unwritten contract between those taking decisions and those subject to them. They are central to sustaining public trust in government, and to the health and good functioning of our democracy. The Principles apply to politicians, civil servants, local government officials, those in the National Health Service, the police, indeed all those in public service as well as those in private companies providing public services. High standards are necessary for efficient and effective decision making and policy delivery in the public sector. They are an enabler rather than a hindrance and they help set the framework within which politics and policy is conducted in our country.

It is regrettable that standards issues should have become increasingly contested and politicised in recent years. This can be deeply harmful both to public perception of standards in public life and to the legitimacy of the political process, and to ensuring that people in the public sector are treated fairly, equitably and are properly held to account for standards failures.

The Committee's work - conducting evidence-based scrutiny of the regulatory framework - has been vital to maintaining commonly agreed standards that keep accountability to the public at the forefront, and helped prevent debates on standards issues being driven by purely partisan concerns.

This year has undeniably seen increased concern about standards of conduct in public life, and, while there is no such thing as a 'golden age' of standards, it is evident that the institutions and processes that support high standards of conduct are under considerable pressure and reforms to strengthen them are required.

We await a full response to our *Upholding Standards in Public Life* report which we published last November. This report made 34 recommendations to strengthen arrangements in central government. Those recommendations were a package of measures to deliver stronger rules, greater independence for standards regulators and a stronger compliance culture in central government.

To be effective, standards structures and processes require timely, ongoing and proactive attention. Retrospectively correcting standards failures is complicated and time consuming, drawing resources from other important work. That is why it is disappointing that reports from this Committee and others that would have delivered demonstrable strengthening of the standards regime have been overlooked. Issues that remain unresolved can have serious consequences for public trust in politicians, public office holders and institutions, as well as cost to the public purse.

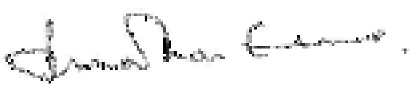
As part of our *Upholding Standards in Public Life* report, we looked at the salience of the Seven Principles today. Evidence showed that they continue to be the right ones, but that there was a need to be more explicit about how people in public life should behave towards each other. We reflected this in a revised descriptor of Leadership: *Holders of public office should exhibit these principles in their own behaviour* ***and treat others with respect****. They should actively promote and robustly support the principles and challenge poor behaviour wherever it occurs.*

The Committee's current focus is a review of what leadership means in practice. A robust regulatory system for maintaining high standards is crucial, but it is not enough on its own. We are collecting evidence on how a wide range of organisations ensure that high ethical standards are upheld when competing with the pressure from work, time, resources and professional demands.

The Committee recognises that it has been a turbulent period for the country and that the impact of the pandemic, the intense strain on many aspects of people's lives, and the immediacy of response has, in some instances, caused usual procedures to be put aside. But, if we are looking to 'reset', it is time to engage with some of these difficult and long-standing standards issues, to reassure the public that the Nolan Principles remain at the heart of public life in the UK.

I would like formally to welcome Ewen Fergusson and Professor Gillian Peele who joined the Committee in August 2021, and say farewell to Dr Jane Martin CBE, whose term of appointment ended in December 2021. We are especially grateful to Jane for her outstanding work leading our Local Government Ethical Standards report. Jane's deep expertise was a real asset to the review which was so warmly welcomed by the sector, and for which we remain in her debt. I would also like to thank all members of the Committee, the Chair of our Research Advisory Board, and the Secretariat for their adaptability and commitment during this past year.

Finally, I would like personally to thank all those who have contributed to our work - from a range of sectors and members of the public. We can only do our work with the input from a wide variety of voices, and those with first-hand experience and expertise of issues. We are indebted to all those who generously gave us their time and expertise.



Lord (Jonathan) Evans of Weardale KCB DL
Chair

THE COMMITTEE'S REMIT

The purpose of the Committee on Standards in Public Life is to provide evidence-based advice to those in public office on maintaining high standards of conduct.

The Committee is an advisory non-departmental public body sponsored by the Cabinet Office which advises the Prime Minister on arrangements for upholding ethical standards across the whole of public life in England.

We conduct inquiries into areas of current concern about standards in public life; revisit areas to see if and how our recommendations have been put into effect; and we can also look ahead to emerging issues relating to public standards.

The Committee was established as a standing committee in October 1994, by the then Prime Minister, with the following terms of reference:

> **"To examine current concerns about standards of conduct of all holders of public office, including arrangements relating to financial and commercial activities, and make recommendations as to any changes in present arrangements which might be required to ensure the highest standards of propriety in public life."**

The remit of the Committee excludes investigation of individual allegations of misconduct. We are not a regulator and cannot investigate individual complaints.

On 12 November 1997, the terms of reference were extended by the then Prime Minister:

> **"To review issues in relation to the funding of political parties, and to make recommendations as to any changes in present arrangements."**

The terms of reference were clarified following the Triennial Review of the Committee in 2013. The then Minister for the Cabinet Office confirmed that the Committee "should not inquire into matters relating to the devolved legislatures and governments except with the agreement of those bodies", and that "the Government understands the Committee's remit to examine 'standards of conduct of all holders of public office' as encompassing all those involved in the delivery of public services, not solely those appointed or elected to public office."

THE COMMITTEE'S ROLE AND HOW IT GOES ABOUT ITS WORK

1. The Committee identifies areas of concern and undertakes impartial, evidence-based, reviews, making recommendations to uphold and drive improvement in standards in public life based on evidence received. Our independence of both government and Parliament is key.

2. We make informed contributions to public debates about ethical standards, including through submissions to public consultations and participating in seminars and discussion events. We proactively identify and respond to emerging ethical risks and engage with a wide range of partners on the ethical standards agenda.

3. We are committed to building a strong evidence-base for our reviews and to working with others to ensure that high ethical standards are met and that the Principles of Public Life are understood and embedded across public life.

4. Our recent reports have been welcomed by the relevant sectors. Our reports on Local Government Ethical Standards, Regulating Election Finance and Upholding Standards in Public Life were commended for understanding the issues under review and offering balanced, considered recommendations in often complex areas.

5. The Committee is not a regulator, we have no statutory powers and no remit to investigate individual cases. Our effectiveness depends on our independence, impartiality, and our ability to make powerful arguments for change - which in turn is based on our ability to conduct in-depth reviews, with a strong evidence base after wide-ranging consultation. We aim to follow-up our reviews with the relevant stakeholders to ensure that our recommendations stand the strongest possible chance of being implemented.

6. We are part of a complex landscape. There is a wide range of different regulatory bodies involved in investigating, promoting and maintaining standards, based on the Nolan Principles - some of which came about as a result of the Committee's recommendations over the past 27 years.

7. You can hear more about how we carry out our work in our videos here.

COMMITTEE MEMBERSHIP

8. The Committee comprises the independent Chair, four independent members and three political members nominated by the Conservative, Labour and Liberal Democrat parties. This mix of independent and political membership has served the Committee well, allowing the Committee to maintain a considered and impartial view whilst also understanding political perspectives.

9. Independent members are appointed for a five-year, non-renewable term through open competition; political members are appointed for a three-year term which can be renewed. Party members are nominated by their party leader. The Chair and all members, independent and political, are appointed by the Prime Minister.

10. The workload of Committee members is high. Independent members are asked to co-lead reviews, attend evidence gathering meetings and hearings, and to consider drafts of consultations and reports.

11. The Committee has carried a vacancy for an independent member since January 2022. The recruitment process is run by the Cabinet Office. We are pleased that the recruitment process is now underway and we look forward to welcoming a new independent member in due course.

GOVERNMENT RESPONSES TO OUR REPORTS

12. Whilst the Committee has no statutory basis, it has been the convention that the government responds in a timely manner to reports published by this Committee, considers each of our recommendations and offers a considered response in a published document.

13. In recent years this has not been the case. Government responses have been slower, and with respect to some of the Committee's reports, the government has not responded at all.[1]

Election Finance

14. We have not yet seen a full, considered response by government to our major review into the regulation of election finance published in July 2021.

Local Government Ethical Standards

15. It took the government over three years to respond to our review on local government ethical standards. Our evidence-based report was welcomed by the sector, backing our call to strengthen the arrangements in place to support high ethical standards, whilst respecting the benefits of a localised approach.

16. The government response accepted just a few of our recommendations in principle and rejected most. We believe this is a missed opportunity to update and improve the locally-based standards regime in local government. We would encourage those in local government to take up the government's stated commitment to work with local authorities and representative organisations to ensure the hard work done by

[1] Ethical Standards for Public Service Providers 2014; Striking the Balance, Upholding the Seven Principles in Regulation 2016; The Continuing Importance of Ethical Standards for Public Service Providers 2018.

many working at a local level is not put at risk by a small minority of individuals who do not live up to the high standards expected.

Upholding Standards in Public Life

17. At the time of writing, we are still awaiting the full government response to our *Upholding Standards in Public Life* report, published in November 2021, with our interim findings published in June 2021. A policy statement in response to this report, and that of Nigel Boardman, was promised in the New Year.[2]

18. The government published a policy statement on the Ministerial Code on 27 May 2022, which whilst making some improvement, did not go far enough. Whilst the new Code now sets out graduated sanctions for breaches of the Code as we recommended, our recommendation was linked to greater independence for the Adviser as part of a mutually dependent package of reforms. The new process for the Independent Adviser initiating reforms, whilst being an improvement in process, does not create the independence we called for. The Prime Minister's consent is still required before the Independent Adviser may start an investigation.

19. At present, following the resignation in June 2022 of Lord Geidt as the Independent Adviser on Ministers' Interests, there is no Independent Adviser on Ministers' Interests in post. The Committee has urged the government to make an appointment to this important and sensitive role, while the government undertakes its review of how this role works.

20. Our view on these changes is clearly set out in the Chair's blogs published on 1 and 16 June 2022.

OUR MAIN AREAS OF WORK JULY 2021 - JUNE 2022

Regulating Election Finance, July 2021

21. In July 2021, we published a review of the complex subject of the regulation of election finance, *Regulating Election Finance*. We looked at the regulation and enforcement of donations and campaign expenditure by candidates, political parties and non-party campaigners in election campaigns.

22. Given the Committee's longstanding interest in this area, we wanted to consider whether the current framework for regulating campaign finance laws was coherent and proportionate.[3] We felt this was an area where we could make a helpful contribution to the debate and we wanted to look at whether the current system continues to deliver.

[2] https://questions-statements.parliament.uk/written-statements/detail/2021-12-16/hcws500
[3] Our predecessors recommended the setting up of the Electoral Commission in 1998 and reviewed its work in 2007.

23. In line with our imperative of evidence-based reports, we heard from a broad range of contributors – political parties, third party campaigners, candidates, law enforcement bodies, academics, pro-democracy organisations, and the Electoral Commission. We ran a public consultation, public focus groups and held bilateral meetings. We also hosted roundtables with returning officers, smaller parties and independent candidates, and academics and organisations. As always, we are indebted to all those people who gave their time and expertise so willingly. We are particularly grateful to Piers Coleman, specialist adviser to the review, and Dr Sam Power, Lecturer in Corruption Analysis, University of Sussex, for their support and expert advice throughout.

24. We set out a package of practical recommendations to modernise and improve the system for regulating the money spent to influence the outcome of elections and referendums. Our recommendations would make the regime more effective, transparent and proportionate.

25. They are intended to balance the needs of those regulated by the system with the right of the public to know how money is being spent in trying to influence their vote; and the need for effective enforcement when rules are broken. Our report focused on encouraging compliance through developing the system of civil sanctions overseen by a strong and independent Electoral Commission.

26. Our report did not make any direct recommendations about the governance and accountability of the Electoral Commission. That was not the purpose of our review since we were concerned principally with the Commission's duties and powers as a regulator of donations and campaign finance laws.

27. However, as a Committee, we are clear that it is vital to our democracy that we have a strong, independent Electoral Commission – one that is insulated from political pressures and at arm's length from the government. We were, and remain, extremely concerned that the government pressed ahead with aspects of the Election Bill that we believed would be detrimental to the work and independence of the Electoral Commission.

28. The Electoral Commission is unique among regulators. It must operate within a highly charged political environment. It must support people to comply with the law through guidance and advice, hold parties and campaigners to account and deliver transparency for voters – and it must do so while maintaining the confidence of the public and the very organisations it has been charged by Parliament with regulating. This is a challenging task in itself – and it has been a particularly turbulent few years for the Commission. While the Commission has some strong critics, the large majority of people we spoke to emphasised the importance and value of the Commission's work.

Upholding Standards in Public Life - Standards Matter 2, November 2021

29. The Committee published its latest report, *Upholding Standards in Public Life* on 1 November 2021. This was the final report of the *Standards Matter 2* review. (Findings were published in June 2021.)

30. The report included recommendations for reforming four areas of standards regulation in central government: the Ministerial Code and the Independent Adviser; ACOBA and the Business Appointment Rules; transparency around lobbying; and the regulation of public appointments. This was the first time CSPL published extensive recommendations in these areas for nearly ten years.

31. The Committee also called for new primary legislation to establish in statute the independence of standards regulators, and for a new compliance function to be established across government.

32. Lord Evans launched the report with a speech at the Institute for Government on 4 November 2021. We are awaiting a response from government to our recommendations.

33. As part of the review the Committee surveyed the public's and stakeholders' views on the ongoing suitability and relevance of the Seven Principles of Public Life. The Committee found Nolan's original Seven Principles to be enduring and long standing, but decided to amend the descriptor to the Leadership principle to include a focus on treating others with respect.

34. The review's final report followed a year of evidence gathering, which included engagement with ministers, senior civil servants, standards regulators, academics, trade unions, representative bodies, NGOs and think tanks. The Committee also ran a public consultation and public sector survey, commissioned public polling, and held focus groups. We are grateful to all who contributed.

Leading in Practice

35. In March 2022, we launched our *Leading in Practice* review. This review is a natural follow on to our *Upholding Standards in Public Life* report.

36. While a strong regulatory system is crucial to upholding high ethical standards, it is not enough on its own. Just as important is supporting and encouraging people to behave ethically and creating a culture which supports them to make ethical decisions, particularly in grey areas where there is not a specific rule to follow.

37. This review is looking at how to build and sustain within organisations a climate conducive to ethical behaviour. In particular, we are examining the role of leadership - at all levels - in embedding the Seven Principles of Public Life in the culture and practices of public sector organisations. We are speaking to public sector institutions

as well as looking at good practice in the private and charity sectors to maximise our learning.

38. In the past 4 months, we have taken evidence from a wide range of organisations and from leaders at all levels.

39. We intend to publish our report early in 2023.

PREVIOUS REPORTS: UPDATES

Artificial Intelligence and Public Standards, February 2020

40. The Committee published its report on *AI and Public Standards* in February 2020. It made a number of recommendations about the need for effective and informed governance of the use of AI in the public sector.

41. The review found that the Nolan Principles remain a valid guide for public sector practice and do not need reformulating for AI, but three are particularly relevant – openness, accountability and objectivity.

42. We found that far from needing a single regulator, successful AI governance is a question of clear regulation and proper controls for managing and mitigating risk. We said that all regulators should consider and respond to the challenges of AI in the fields for which they have responsibility.

43. In November 2020, we wrote to regulators asking them for an update on how they are adapting to the challenges posed by AI. We received a range of responses with some regulators being quite prepared to respond to the regulatory requirements and impact of AI and others noting that the regulation of AI is beyond their scope. Most regulators are in the early stages of thinking about these issues but some regulators are already considering the implications of AI to their regulatory models and governance practices.

44. We welcome the government's recent response to the report and continue to maintain a watching brief on progress made against the report's recommendations.

45. Since the publication of the Committee's report, some key developments in the UK's AI policy landscape have taken place:

    - The government has published updated guidance on using AI in the public sector and AI procurement. These are more user friendly than previous iterations but it is still unclear how the various sets of principles work together.

    - The government published its National AI Strategy in September 2021. As part of that, the Centre for Data Ethics and Innovation published a "roadmap to AI assurance" which takes a similar approach to our report in framing AI governance as not dissimilar to traditional risk management.

- The Cabinet Office published an algorithmic transparency standard which requires public bodies using algorithms to support decision-making to provide information on how and why they are using them. This is a welcome step forward.

- The future functions of the Centre for Data Ethics and Innovation were consulted on as part of the 2020 National Data Strategy but they remain part of DCMS and are not yet on an independent statutory footing, as we recommended they should be.

Local Government Ethical Standards, January 2019

46. In January 2019, the Committee published a report and recommendations on local government ethical standards, an area of long-standing interest for CSPL.

47. We undertook this review to assure ourselves that the current framework, post the 2011 Localism Act, was working and conducive to high standards in public life, rather than in response to any specific allegations of wrongdoing.

48. That review took a year from announcement to publication. We took a range of evidence from local authorities, councillors, officers, Independent Persons, expert and representative groups. We visited a range of councils and received written evidence from members of the public in order to frame our conclusions and recommendations. We received 319 written responses as part of our public consultation; we held 2 roundtable events, 30 individual meetings, and visited 5 local authorities in England from different geographies and tiers.

49. The review clearly showed that local authorities want to retain responsibility for ethical standards, for implementing and applying the Seven Principles of Public Life, but they want to be given the tools and powers to be able to do so effectively, to address the minority of councillors that engage in misconduct.

50. As noted earlier in this report, we are disappointed that the government in its response rejected most of our recommendations, stating that it thought that the best route for change was best practice by local authorities. We hope that the government will work with the sector and move to take up our recommendations in the future.

WATCHING BRIEFS

Review of MPs' Code of Conduct

51. The Standards Committee published its initial report on the review of the MPs' Code of Conduct with proposals for public consultation on 29 November 2021.

52. The Committee contributed with written and oral evidence to this consultation, following up on the Committee's first round of evidence in October 2020.

53. The Committee's second round of written and oral evidence focused on the potential introduction of "reasonable limits" on MPs' outside employment, reforms to the investigations and sanctioning process, and a new proposed ban on MPs acting as paid political consultants and strategists. The Chair wrote to the Standards Committee on 21 January 2022 and appeared before the Standards Committee on 25 January 2022.

54. The Standards Committee published its final report and proposed amendments to the Code of Conduct on 25 May 2022.

Bullying and Harassment

55. When allegations of widespread bullying and harassment in Parliament came to light in late 2018, it was clear that fundamental reform was needed to change the culture of both Houses and the way Parliament regulated the conduct of parliamentarians and staff.

56. The establishment of the Independent Complaints and Grievance Scheme (ICGS) was a significant step forward, based on the important principle that those working in both Houses of Parliament would be subject to an independent and impartial process dedicated to upholding the new Behaviour Code.

57. Recognising the importance of these reforms to the way standards are upheld in Parliament, and the emergence of further worrying cases in 2022, CSPL maintains its close watching brief in this area.

Impact of Covid-19 on Standards in Public Life

58. We have continued to monitor the impact on Covid-19 on public standards over the past year, looking at standards issues arising as a result of the pandemic, including concerns about any compromise of the Nolan Principles; changes to parliamentary procedure and scrutiny; challenges around democratic accountability; and any impact on public trust.

BLOGS PUBLISHED DURING THE PERIOD OF THIS REPORT

Independent adviser role should be strengthened, Lord (Jonathan) Evans, June 2022
The government should go beyond a "low level of ambition" on the Ministerial Code, Lord (Jonathan) Evans, June 2022
Standards Bodies, Who's Who 3, Professor Gillian Peele, April 2022
Leading in Practice, Ewen Fergusson, March 2022
Standards Bodies, Who's Who 2, Dame Shirley Pearce, February 2022
Standards Commission for Scotland: Honesty and Trust, guest blog by Standards Commission for Scotland, January 2022
Standards Bodies, Who's Who, Lord (Jonathan) Evans, November 2021
Amending the Descriptor to Leadership, Dr Jane Martin, November 2021

High Standards begin at home, Lord (Jonathan) Evans, November 2021
Review of the UK government's Draft Electoral Commission Strategy and Policy Statement, Guest blog by Dr Alistair Clark, October 2021
Reforming Party Funding Arrangements, Lord (Jonathan) Evans, October 2021
An Opportunity to reform Election Finance, Dame Shirley Pearce, July 2021
Follow the money – time to repair election finance regulation, Lord (Jonathan) Evans, July 2021

ANNEXES

ANNEX G: EXTERNAL EVENTS

September 2021

7 September: Lord Evans spoke at a Non-Executive Director Induction Event

November 2021

4 November: Lord Evans spoke at the Institute for Government one day Standards Conference launching the Committee's *Upholding Standards in Public Life* report

December 2021

2 December: Lord Evans spoke at the National Association of Local Councils (NALC) Future Communities Conference - online.

January 2022

11 January: Lord Evans gave evidence to PACAC on their inquiry Propriety of governance in light of Greensill

18 January: Lord Evans spoke at a Non-Executive Director Induction Event

25 January: Lord Evans gave evidence to the Commons Standards Committee on their review of the MPs' Code of Conduct

March 2022

3 March: Lord Evans spoke at a seminar hosted by the All-Party Parliamentary Group on anti-corruption and responsible tax, on Public Standards

16 March: Lord Evans spoke at the Cabinet Office and Civil Service Governance Teams Away Day

30 March: Lord Evans spoke at a Public Administration International (PAI) event to political parties from Macedonia

April 2022

26 April: Ewen Fergusson spoke at Non-Executive Director Induction Event

May 2022

13 May: Lord Evans spoke at a Leadership Conference for Local Government Lawyers

25 May: Ewen Fergusson spoke to the Public Relations Consultants Association (PRCA) about our Upholding Standards in Public Life report.

ANNEX H: COMMITTEE SUBMISSIONS TO PUBLIC CONSULTATIONS

October 2021: Cabinet Office consultation on Public Procurement

January 2022: House of Commons Standards Committee Review of the MPs' Code of Conduct.

April 2022: Impress consultation on Code of Conduct

ANNEX I: FINANCIAL INFORMATION

The Chair is paid a remuneration of £36k pa with the expectation that he commits an average of 5-6 days a month, although this time increases significantly during periods of Committee reviews.

Independent members of the Committee on Standards in Public Life may claim £240 for each day they work on Committee business and claim for expenses incurred.

There has been a vacancy for an independent member since 1 January 2022.

The 3 political members of the Committee do not receive any fees or expenses.

As an advisory non-departmental public body, the Committee on Standards in Public Life receives a delegated budget from the Cabinet Office. Day-to-day responsibility for financial controls and budgetary mechanisms are delegated to the Secretary of the Committee. Creation of new posts are subject to the Cabinet Office Approvals process.

Members of the Secretariat are permanent civil servants employed by the Cabinet Office. There are 5 full-time members of the Secretariat.

The Committee's media and communications activity is managed by a contracted Press Officer.

The Committee's spend for 1 April 2021 - 31 March 2022 was £471k.

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