

Meeting of the Audit and Standards Committee

**Monday, 19th February, 2024 at 6.00pm
in Committee Room 3
at the Council House, Priory Road, Dudley**

Agenda - Public Session (Meeting open to the public and press)

1. Apologies for absence.
2. To report the appointment of any substitute members serving for this meeting of the Committee.
3. To receive any declarations of interest under the Members' Code of Conduct.
4. To confirm and sign the minutes of the meetings held on 6th and 18th December, 2023 as a correct record (Pages 4 – 34)
5. Corporate Portfolio Management Office Verto System Demonstration
6. Hybrid Working and Future Plans Presentation
7. [Treasury Management \(Pages 35 – 55\)](#)
8. [Audit and Standards Committee Progress Tracker and Future Business \(Pages 56 – 59\)](#)
9. 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).
10. Resolution to exclude the public and press

Chair to move:

“That the public and press be excluded from the meeting for the following item of business on the ground that it involves the likely disclosure of exempt information under Part I of Schedule 12A to the Local Government Act 1972, as amended, for the reasons stated on the agenda.”

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.

Agenda - Private Session (Meeting not open to the public and press)

11. [Annual Audit Report for the Deputy Chief Executive \(Pages 60 – 200\)](#)

(The report contains exempt information relating to any individual(s) and to the financial or business affairs of any particular person (including the authority holding that information))



Chief Executive

Dated: 9th February, 2024

Distribution:

Members of the Audit and Standards Committee:

Councillor A Lees (Chair)

Councillor D Borley (Vice-Chair)

Councillors S Ali, T Creed, J Cowell, M Evans, J Foster, S Henley and W Little

Please note the following:

Health and Safety

- In view of ongoing health and safety requirements in the workplace, you are asked to comply with any safety instructions applicable to the venue. Various mitigating actions are in place to minimise any risks and to ensure we adhere to the latest guidance.

Public Gallery

- Seating in the public gallery is subject to limits on capacity and will be allocated on a 'first come' basis.

Toilets

- Toilet facilities are available on site.

No smoking

- There is no smoking on the premises in line with national legislation. It is an offence to smoke in or on the premises. You cannot use e-cigarettes and/or similar vaping devices.

In Case of Emergency

- In the event of the alarms sounding, please leave the building by the nearest exit. There are Officers who will assist you in the event of this happening, please follow their instructions.

Submitting Apologies for Absence

- Elected Members can submit apologies by contacting Democratic Services (see our contact details below).

Private and Confidential Information

- Any agendas containing reports with 'exempt' information should be treated as private and confidential. It is your responsibility to ensure that information containing private and personal data is kept safe and secure at all times. Confidential papers should be handed to Democratic Services for secure disposal. If you choose to retain the documents you should ensure that the information is securely stored and destroyed within six months.

Recording and Reporting

- The use of mobile devices or electronic facilities is permitted for the purposes of recording/reporting during the public session of the meeting. The use of any such devices must not disrupt the meeting – Please turn off any ringtones or set your devices to silent.

General

- Public Wi-Fi is available.
- Information about the Council and our meetings can be viewed on the website www.dudley.gov.uk

If you need advice or assistance

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

If you are reading these documents on an electronic device, you have saved the Council £7.00 (on average) per printed agenda and helped reduce the Council's carbon footprint

**Minutes of the Audit and Standards Committee
Wednesday 6th December, 2023 at 6.00pm
In Committee Room 3, The Council House, Dudley**

Present:

Councillor A Lees (Chair)

Councillor D Borley (Vice-Chair)

Councillors S Ali, T Creed, J Cowell, M Evans, J Foster, D Stanley and W Little.

Dudley MBC Officers:

B Heran (Deputy Chief Executive), I Newman (Director of Finance and Legal Services), G Harrison (Head of Audit and Risk Management Services) and K Taylor (Senior Democratic Services Officer).

Officers in Attendance via Microsoft Teams:

M Farooq (Monitoring Officer and Lead for Law and Governance), E Newman (Principal Auditor) and A Taylor (Senior Principal Auditor)

Also in Attendance:

H Martin (Director of Regeneration and Enterprise) – for Agenda Item No. 6 – Risk Management;

J Martin (HR Delivery Manager – Employee Relations) – for Agenda Item No. 9 – Suspensions under the provisions of the Employee Improvement and Disciplinary Procedure or relevant Schools Disciplinary Procedure;

M Bowsher (Director of Adult Social Care – via Microsoft Teams), C Driscoll (Director of Children's Services), M Abuaffan (Director of Public Health and Wellbeing), C Blunn (Corporate Performance and Programme Manager) and J Whyley (Strategic Partnership Manager) – for Agenda Item No. 10 – Annual Audit Report for the Chief Executive.

23. Apology for Absence

An apology for absence from the meeting was submitted on behalf of Councillor S Henley.

24. **Appointment of Substitute Member**

It was noted that Councillor D Stanley had been appointed as a substitute Member for Councillor S Henley for this meeting of the Committee only.

25. **Declarations of Interest**

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

26. **Minutes**

In referring to Minute No. 15 – Minutes, paragraph 1, Councillor J Foster referred to the significant discussion undertaken during the meeting and considered that this should have been reflected in the minutes. In responding to a request, the Chair agreed to circulate a copy of the e-mail he had sent outlining concerns and comments raised by the Committee in relation to the External Audit Grant Thornton Annual Audit Plan 2022-23 and Annual Risk Assessment 2022-23 and response to Members for information.

Councillor S Ali sought clarification as to whether any feedback had been received following discussions held by the Strategic Executive Board into a proposed restructure, following the Committee's recommendation to the Chief Executive to give further detailed consideration to the External Auditor's recommendation concerning the position of the Monitoring Officer.

(At this juncture, the Director of Finance and Legal Services withdrew from the meeting)

The Deputy Chief Executive advised that an organisational redesign was being considered as part of Phase 2 of the Improvement and Sustainability Plan, and although there had been some initial discussions held by the Strategic Executive Board, there was still some further work to undertake. The Deputy Chief Executive agreed to provide an update at a future meeting of the Committee once proposals had been confirmed, which was expected to be within the next quarter.

(The Director of Finance and Legal Services then returned to the meeting)

Resolved

That the minutes of the meeting held on 25th September, 2023 be approved as a correct record and signed.

27. **Change in Order of Business**

Pursuant to Council Procedure Rule 13(c) it was:-

Resolved

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

28. **Exclusion of the Public and Press**

Resolved

That the public and press be excluded from the meeting for the following item of business, on the grounds of 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) as defined under Part I of Schedule 12A to the Local Government Act 1972, as amended.

29. **Annual Audit Report of the Chief Executive**

A report of the Director of Finance and Legal Services was submitted summarising the audit work undertaken in relation to the Directors and Heads of Service who reported directly to the Chief Executive for the financial year 2022/2023.

In presenting the report submitted, the Head of Audit and Risk Management Services advised that eleven assurance audits had been undertaken, of which nine had received minimal or limited assurance ratings. It was noted that these ratings had been given due to either a critical finding being raised or a number of high findings. Further information in relation to the critical and high priority findings were outlined in Appendices 2 and 3, respectively, attached to the report submitted.

In addition to the eleven assurance audits, eight other reviews were undertaken and in total 158 actions were raised. A full list of the audits, including the number of actions raised and assurance ratings, were detailed in Appendix 1 to the report. Mention was also made of the number of unimplemented actions from the previous reviews. It was further noted that the information included in Appendices 2, 3 and 4 had previously been agreed with Directorate Management and that due to the size of the report, it was agreed that a summary of the main points raised would be included rather than the audit findings. The format of the report would be reviewed in advance of the next municipal year.

It was noted that the comment recorded under Implementation Update was the current status of the actions that had been raised, and Critical and High priority actions would be followed up by Audit and Risk Management Services accordingly.

The Head of Audit and Risk Management Services further commented on the 12 areas of audit activity undertaken relating to Schools, the findings of which would be considered by the appropriate School Governing Body/Committee.

The implementation status of the Critical, High and Unimplemented findings for each audit was outlined in paragraph 9 of the report submitted.

Members were informed of the performance in relation to the issuing of final reports and management responses to the audit, and it was noted that 70% of management responses were provided within the 4 week target and 40% of final reports issued within 6 weeks of the draft report.

Reference was made to post-audit questionnaires issued on completion of an audit, in that nine of the ten returned stated they had received a very good or good service and one satisfactory service.

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

Arising from the presentation of the report, Members made comments and raised questions on individual audits, which were responded to at the meeting. The Committee would be provided with written responses to the following questions:

- a) Further details in relation to the current number of Foster Carers within Dudley and the numbers needed to deliver the required level of Foster Carers.
- b) A briefing note updating Members on progress made on the development of the Air Quality Action Plan.

Further to comments made in relation to employees working remotely and concerns surrounding performance, the Deputy Chief Executive agreed to submit a report to the Committee in February, 2024 outlining future plans for employees returning to the workplace where possible, how performance was managed for agile workers together with the pressures that the Local Authority was facing as a workforce.

In responding to a question raised by Councillor T Creed, the Deputy Chief Executive explained that the Directors and Officers had been in attendance today to provide mitigation to audit findings detailed in Appendix 3 of the report submitted, which had evidenced that several actions were progressing. The importance of ensuring the best service to residents was emphasised however whilst acknowledging the limited resources, priorities and challenges that were faced, the Local Authority continually strived for improvement.

Resolved

- (1) That the information contained in the report and Appendices to the report submitted on audit work undertaken for those Directors and Heads of Service who reported directly to the Chief Executive for the financial year 2022/23, be received and noted.
- (2) That Officers provide Members with detailed responses to questions raised at the meeting.
- (3) That the Deputy Chief Executive be requested to submit a further report to the Audit and Standards Committee in February, 2024 in relation to hybrid working and future plans.

(At this juncture the meeting returned to public session)

30. **Annual Report of the Committee on Standards in Public Life**

A report of the Monitoring Officer was submitted on the annual report of the Committee on Standards in Public Life for the period July, 2022 to June, 2023 and was attached as an Appendix to the report submitted.

In presenting a summary of the report, the Monitoring Officer advised that the remit of the Committee on Standards in Public Life was wide-ranging but broadly covered the standards of conduct of all holders of public office whether elected or appointed, including West Midlands Police, the NHS and Parliament.

Reference was made to the Local Government Ethical Standards review undertaken in 2019 where the government in their response, rejected the majority of the recommendations made. It was noted that the Audit and Standards Committee had previously written to the Government Minister reinforcing the frustration felt by Members in relation to the limitations on sanctions that could be enforced by Standards Sub-Committee. The response to the letter stated that the sanctions regime implemented was pursuant to the Localism Act, and that the Government had not agreed to update or enhance the locally based standards regime in Local Government.

Councillor J Foster, in her role as Shadow Deputy Leader and Champion for Standards of Public Life, stated that as this was an annual report, the Committee were reviewing the work that had already been undertaken and suggested that it would be beneficial to receive an overview of future work programmes. This may enable the Audit and Standards Committee to have the opportunity to contribute and offer views for the Committee on Standards in Public Life to consider as part of their work programme. An indication of the work may also help inform the Audit and Standards Committee work programme moving forward.

Councillor J Foster also commented on the composition of the Committee on Standards in Public Life in particular that the membership was very light on Local Authority experience and diversity given that a number of complaints that were handled within the local government sector were related to race and other protective characteristics. It was therefore proposed that the Audit and Standards Committee send a letter to the Chair of the Committee on Standards in Public Life outlining the suggestions and comments made.

In responding to comments made, the Monitoring Officer confirmed that the Committee on Standards in Public Life had undertaken wider consultation on public service ethics and to improvements to the standards system, including the Ethical Standards review in 2019. It was also noted that the Independent Chair and members of the Committee were appointed by Central Government.

Following further discussion, the Chair, on behalf of the Committee and in consultation with the Monitoring Officer, agreed to write a letter to the Chair of the Committee on Standards in Public Life in relation to the lack of local government experience and diversity within the membership of the Board, re-emphasising the frustration of the limitations on sanctions that could be enforced by Standards Sub-Committees and an indication of upcoming work within the next 12 months.

Resolved

- (1) That the Annual Report of the Committee on Standards in Public Life, be noted.
 - (2) That the Chair, in consultation with the Monitoring Officer, write a letter to the Chair of the Committee on Standards in Public Life outlining the comments made by Members above.
-

31. Risk Management Report

A report of the Director of Finance and Legal Services was submitted on the risks reported to Strategic Executive Board (SEB) and the status allocated by the Risk Owner. Appendix A to the report, outlined full details of risks reported to SEB, and in addition to risks tabled in Appendix A, the Committee were requested to identify any additional risks that it considered should be included on the SEB risk report and identify any particular risk for detailed scrutiny at the April, 2024 meeting of the Committee.

In presenting the report, the Head of Audit and Risk Management Services stated that there were seventeen risks rated very high at the gross level and five rated very high at net level which related to budget, regeneration benefits, programme management, funding for the proposed METRO route and breach of the Homes Standard regarding building safety and compliance.

It was noted that following a review of the SEB Risks by the Strategic Executive Board on 15th November, 2023, it was agreed that an additional SEB Risk was to be identified which was defined, and ratings agreed in relation to the Council's failure to deliver the actions raised within the Corporate Peer Review Action Plan, failing to address actions raised to improve the budget position, governance arrangements and management controls across the organisation.

Further details in relation to the five directorate Net risks that were rated Very High was outlined in Appendix C of the report submitted. All risks that were rated Very High are above the Council's risks appetite, are generally unacceptable and where possible to manage the risk down to acceptable levels, immediate action should be taken.

At this juncture, the Director of Regeneration and Enterprise gave a detailed presentation on Risk R.408 relating to the failure to seize the opportunities and exploit the benefits that are envisaged from the huge regeneration programme investment that impacts on the council's vision for 2030. It was stated that this was a broad risk encompassing several elements which could involve the failure to take opportunity to bid for funds when available and bring forward development as well as failure to realise the benefits that could come from those investments if the Local Authority were able to capitalise upon them. Additional factors including project timescales made the risk difficult to measure.

An audit of Regeneration was undertaken in 2023 which included consideration of this risk and related Directorate risk on recruitment and retention in key skill areas. The findings highlighted issues in relation to recruitment, retention, capability, and capacity, together with the resources required to deliver programs. Although there was not a dedicated Regeneration Team within the Local Authority, there were a number of Officers within the directorate to assist in developing and delivering bids.

Members were advised that there were currently 50 projects that were in the pipeline in various different stages of development and range of complexities and scales. The main mitigations related to ensuring resources to accommodate the ambitious program either through growth or realigning resources and strategically prioritising activity.

A number of controls had been implemented including the introduction of Corporate Performance Management Office forms that captured the potential benefits of each project at the beginning of the process. It was also noted that any bidding for external funding from the Government required the Local Authority to develop an economic business case that determined whether to approve the funds based on a Benefit Cost-Ratio assessment. This enabled the Local Authority to prioritise projects that would yield the greatest rate of return.

It was reported that bids were also subject to a theory of change model to identify the social, economic or environmental issues that an area faced and how the investment and project would address those issues moving forward.

The Director of Regeneration and Enterprise referred to the work undertaken on the draft Economic Regeneration Strategy and the emerging themes identified including investing in people and skills, reinventing town centres, creating vibrant, creative and cultural environments and unlocking enterprise and innovation. It was anticipated that the final Economic Regeneration Strategy would be submitted to the Cabinet for approval in March, 2024.

A Strategic Framework would be developed outlining which projects and bids should be prioritised and progressed which would require robust governance processes and procedures, therefore to support this, a Capital Programme Board had been established to review all major capital programmes.

It was noted that an Interim Regeneration Lead had been appointed to help drive forward the development of the Strategy together with an action plan and commercial plan outlining how sites could be brought forward individually. Regular engagement was also undertaken with key funding bodies including Homes England and the West Midlands Combined Authority to identify how funds could be accessed.

Further consideration was also being given to increase staffing resources through temporary staff that were funded through capital grants wherever permissible.

Reference was made to further controls that would be undertaken including implementing all actions identified from the Regeneration Audit, adopting the Economic Regeneration Strategy and strategically aligning the workplan in accordance with priorities and resources. The need to re-establish the Dudley and Brierley Hill Town Boards to ensure they reflected local communities was emphasised together with introducing additional Boards in areas that had emerging regeneration programs such as Lye and Halesowen.

Interim appointments within the Directorate would be capitalised to upskill existing officers to ensure sustainability and work would also continue with the West Midlands Combined Authority on a place-based approach to funding.

In concluding, the Director of Regeneration and Enterprise acknowledged that further work was needed but that she was reassured that a number of projects had been completed and a number that were in successful delivery. A number of significant funding bids that were successful was reported including £20m under the Longer-Term Deal for Towns, £20m for Brierley Hill and £20m for Halesowen as part of the Levelling Up Fund Round 3. Members were assured that the Local Authority would continue to work to ensure that there was a strategic and robust pipeline so that funding opportunities could be capitalised on as appropriate.

Arising from the presentation, Members asked questions, made comments and responses were provided where necessary as follows:-

- a) Councillor D Stanley referred to R.580 Withdrawal of the funding for the METRO route between Dudley Town Centre and Brierley Hill and the proposed extension to the Waterfront and requested a map outlining the proposed indicative route from Cottage Street, Brierley Hill to the Waterfront. He also sought assurance as to whether the funding of the METRO route had been secured.

In responding, the Director of Regeneration and Enterprise undertook to provide Councillor Stanley with the indicative route as requested. Although the West Midlands Combined Authority had confirmed that the route was fully funded, it was noted that some of the allocation was subject to business case approval by the Department of Transport.

In responding to comments made, Councillor S Ali considered that there was still some uncertainty as to whether the route between Dudley Town Centre and Brierley Hill was fully funded.

- b) Councillor S Ali referred to staffing capacity within the Directorate in particular that the right skills were missing in order to actively identify potential funding and developing high quality bid applications rather than resourcing externally and sought clarification as what the gaps and priorities were.

In responding, the Director of Regeneration and Enterprise although acknowledging that there were a number of strategic skill gaps internally, considered there was some benefit for external support and experience for funding bids on occasions. Reference was also made to the challenges faced with recruitment and retention and the difficulty in competing with the private sector in terms of salary and number of positions available. It was noted that specific bid writing qualifications was not held within the current staffing, however the recently appointed Head of Regeneration Projects did have that skill set which would be capitalised to upskill existing officers.

In responding to comments made, Councillor S Ali emphasised that successful awarding of funding was dependent on the quality of the bids submitted, and although there was some merit in external support, the knowledge of staff that were already embedded within the local authority was essential.

The Director of Regeneration and Enterprise clarified that although external consultants had been engaged, internal Council Officers were still needed to support the process and consultants to provide them with local information and knowledge.

- c) Councillor M Evans referred specifically to regenerating town centres and the proposed infrastructure following the implementation of the METRO route and sought clarification as to what measures had been proposed to address the decline in quality shops and markets in Town Centres in particular in Dudley.

The Director of Regeneration and Enterprise acknowledged the comments made and confirmed that this area was referenced within the emerging Economic Regeneration Strategy and that there were a number of steps that were needed to be taken, including setting an overarching vision and strategic direction for Town Centres. With regard to Dudley Town Centre, the vision of the Local authority was to link with attractions and improve local facilities and housing in order to increase footfall within Town Centres by undertaking a multi-faceted approach to revitalise and rejuvenate areas. The challenges faced in accommodating individual operating models of potential businesses within Town Centres was also referred to.

- d) Councillor S Ali referred to the establishment of Town Fund Boards in particular that it had appeared to be impinged by Members of Parliament and emphasised the importance of Local Elected Members involvement once re-established.

In responding, the Director of Regeneration and Enterprise acknowledged the need for local Ward Councillor involvement in all existing and emerging boards. It was stated that with regard to the Brierley Hill Town Fund Board, the membership of a Member of Parliament was in accordance with national policy and funding criteria. It was essential that the Town Fund Boards reflected the communities that were being represented to ensure that the regeneration programmes were driven by the communities that reside and work there.

Councillor D Borley referred to the Town Fund Board in Lye in which he had been heavily involved with together with his ward colleagues and emphasised the need for regeneration in Lye and agreed that improvements to housing was necessary to increase footfall.

- e) In referring to recommendation 2 of the report submitted for the Committee to identify any additional risks that should be included on the SEB risk report, Councillor S Ali suggested that a Section 114 explicit risk should be included on the risk register and monitored in terms of the current position and direction and any actions that were being taken.
- f) In responding to a question raised by Councillor D Stanley as to whether a similar programme to the Halesowen BID initiative could be established within the other townships, the Director of Regeneration and Enterprise confirmed that some feasibility work had been commissioned to consider areas specifically Dudley and Stourbridge and would provide further feedback on progress made once available.
- g) Councillor J Cowell referred to the significant number of risks within the report with a target end date of 1st January, 2009 and requested that the Deputy Chief Executive encourage Directors and officers to consider a more realistic and meaningful date on all action points with that target date.

Further to the recommendation by Councillor S Ali in relation to an additional SEB risk relating to Section 114 of the Local Government Act 1988, the Committee recommended the following amendment to risk R. 392:

“The Council is unable to meet its commitment to deliver savings (including services funded from the HRA and other ring fenced funds) as they fall due because annual income is insufficient and reserves have been fully depleted, thus triggering a requirement to issue a report under Section 114 of the Local Government Finance Act 1988”

Councillor J Foster referred to recommendation 2 of the report submitted and the difficulties faced by Members in identifying any additional risks that it considered should be included on the SEB risk report, without receipt of quality data. The Director of Finance and Legal Services stated that it was hoped that officers had already identified significant risks however this was an opportunity for the Committee to suggest any other risks as appropriate. Further consideration would be given to rewriting the recommendation for future reports.

Resolved

- (1) That the information contained in the report and Appendix A to the report submitted detailing the SEB risks, be noted.
- (2) That the information contained in the presentation on risk R.408 relating to the failure to seize the opportunities and exploit the benefits that are envisaged from the huge regeneration programme investment that impacts on the council's vision for 2030, and comments made by Members as outlined above, be noted.
- (3) That the Director of Regeneration and Enterprise be requested to provide a map outlining the proposed indicative METRO route from Cottage Street, Brierley Hill to the Waterfront to Councillor D Stanley for information.
- (4) That risk R.392 be identified as the specific risk for in-depth scrutiny at the April, 2024 meeting of the Committee for consideration.
- (5) That risk R.392 be recommended to be amended to The Council is unable to meet its commitment to deliver savings (including services funded from the HRA and other ringfenced funds) as they fall due because annual income is insufficient and reserves have been fully depleted, thus triggering a requirement to issue a report under Section 114 of the Local Government Finance Act 1988.

32. Questions Under Council Procedure Rule 11.8

There were no questions to the Chair pursuant to Council Procedure Rule 11.8.

33. Exclusion of the Public and Press

Resolved

That the public and press be excluded from the meeting for the following items of business, on the grounds of 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) as defined under Part I of Schedule 12A to the Local Government Act 1972, as amended.

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

The Committee considered a report of the Chief Executive on the number of employees who were suspended pending an investigation into allegation(s) of gross misconduct during the period 1st October, 2022 to 30th September, 2023, inclusive.

In presenting the report, the HR Delivery Manager – Employee Relations reported on the number of suspensions for Council Directorates and Schools, which had slightly increased compared to the previous year, together with the average length in working days of the suspensions and the subsequent outcomes. A conclusion of cases that were carried forward from the previous year were also outlined.

The HR Delivery Manager – Employee Relations advised that suspension would not be the first resort and temporary reassignment would be considered in the first instance whilst an investigation was undertaken. However, this would be dependent upon the nature of the allegation. It was also noted that costs of suspensions would vary significantly dependent upon the salary level and type of contract.

Arising from the presentation of the report and a suggestion made by Councillor J Foster, it was agreed that a breakdown of protected characteristics would be included in future reports.

Resolved

- (1) That the information contained in the report submitted on Suspensions under the provisions of the Employee Improvement and Disciplinary Procedure or relevant Schools Disciplinary Procedure, be noted.
- (2) That a breakdown of protected characteristics be included in future reports.

35. **Audit and Risk Management Services Interim Performance Report**

The Committee considered a report of the Director of Finance and Legal Services on the performance of Audit and Risk Management Services.

In presenting a summary of the report submitted, the Head of Audit and Risk Management Services provided an overview of the work and performance achieved by the end of September, 2023. Further details of the 18 audits undertaken were outlined in Appendix A of the report submitted.

Members were also advised of the follow up work undertaken on audits that had previously been reported to the Committee as receiving a 'Minimal' assurance rating.

An update was provided on a prosecution case in particular that following the Council Proceeds of Crime Act Hearing, the perpetrator was ordered to repay criminal gains and court costs to the Local Authority. It was also noted that good progress had been made on the Fraud Action Plan.

Arising from the presentation of the report, the Committee commended the report submitted which demonstrated the excellent work undertaken by the Audit and Risk Management Services Team.

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

Following a request by the Chair, the Head of Audit and Risk Management Services agreed to present a demonstration of the Spectrum Audit System at a future Committee meeting.

Following comments made in relation to the valuable service and lack of resources available, the Chair, on behalf of the Committee, agreed to write to the Leader requesting that the Audit and Risk Management Services staff were ringfenced in any future restructuring proposals.

Following a suggestion made by Councillor J Foster, further consideration would be given to a standard agenda item on future work programmes for the Committee to assist with forward planning and allow for any emerging threats or opportunities to be discussed by the Committee.

Resolved

- (1) That the information contained in the report submitted on the performance of Audit and Risk Management Services, be noted.

- (2) That a demonstration of the Spectrum Audit System be presented to a future Committee meeting.
- (3) That the Chair, on behalf of the Committee, write to the Leader requesting that the Audit and Risk Management Services staff be ringfenced in any future restructuring proposals.
- (4) Further consideration be given to a standard agenda item on future work programmes for the Committee.

At this juncture, the Deputy Chief Executive reflected on comments made during the agenda item on the Annual Audit Report for the Chief Executive and clarified that the report submitted were exception reports showing those items which were uncompleted, and that a significant number of audits had been undertaken and completed across the Directorates.

The meeting ended at 8.05pm

CHAIR

**Minutes of the Audit and Standards Committee
Monday 18th December, 2023 at 6.00pm
In Committee Room 3, The Council House, Dudley**

Present:

Councillor A Lees (Chair)

Councillor D Borley (Vice-Chair)

Councillors S Ali, T Creed, J Cowell, M Evans, J Foster, S Henley and W Little.

Dudley MBC Officers:

B Heran (Deputy Chief Executive – via MS Teams), I Newman (Director of Finance and Legal Services), M Farooq (Monitoring Officer and Lead for Law and Governance), R Cooper (Head of Financial Services), L Jones-Moore (Finance Manager), J McGregor (Senior Principal Accountant), and K Taylor (Senior Democratic Services Officer).

Also in Attendance:

Councillor P Harley, Leader of the Council

Councillor S Clark, Cabinet Member for Finance, Legal and Human Resources

A Smith – External Auditor (Grant Thornton)

36 Comments of the Chair

The Chair welcomed everyone to the meeting and everyone introduced themselves.

37 Apology for Absence

There were no apologies submitted for this meeting of the Committee.

38 **Appointment of Substitute Member**

There were no substitute Members appointed for this meeting of the Committee.

39 **Declarations of Interest**

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

40 **Grant Thornton Auditor's Annual Report**

The Committee considered a report of the Director of Finance and Legal on Grant Thornton's draft Auditor's Annual Report combined for both 2021-22 and 2022-23.

In presenting a summary of the report, A Smith confirmed that the report contained a combined commentary on the local authority's arrangements for both 2021/22 and 2022/23 to ensure that work was as timely as possible and of relevance to the management of the Council.

Significant weaknesses had been identified in the Councils arrangements in relation to financial sustainability, governance and improving economy, efficiency and effectiveness. In addressing these concerns, four key recommendations had been made including those relating to the Council's financial position and the need to replenish reserves and rebuild them to become financially resilient moving forward. The urgent action required from members to support officers in setting a balanced budget, identifying new sources of income and delivering savings plans was emphasised.

A reset in relationship between officers and members was also recommended to help restore trust and respect, which could be achieved through the development of a charter, setting out the expected standards of behaviours together with a joint statement from the Leader and the Leader of the Opposition Group calling out previous behaviour and a commitment to improving standards of conduct going forward.

A further recommendation related to the Council settling the requirements of the Regulatory Notice issued by the Regulator of Social Housing with respect to the identification of a failure to meet minimum service standards. The External Auditors would continue to review progress made against the key recommendations through their audit work plan and should sufficient progress not be made during the year, consideration would be given to the use of wider powers, including statutory recommendations. Additional improvement recommendations were also contained within the Appendix to the report submitted.

In concluding, Members were advised that of the 16 recommendations raised during previous audit work, 10 had made sufficient progress and had since been subsequently closed. The remaining six recommendations remained in progress, some of which were linked back to the key recommendations raised within the report submitted.

Arising from the presentation of the report, Members asked questions, made comments and responses were provided where necessary as follows:-

- a) Councillor J Cowell referred to concerns expressed by the External Auditors on the extent to which Members were engaged with the financial challenges and queried whether wider basic financial training could be considered for Members. Although accepting comments made regarding poor member and officer relationships, consideration should also be given to bad practice and poor relationships between officers.

Reference was also made to the five key performance indicators referred to within the Auditor's Annual Report relating to the Housing and Communities Directorate that had not been met. Councillor Cowell expressed concern about the varied targets each year and whether the purpose of this was to ensure targets were delivered rather than trying to address the challenges.

It was also considered that service areas should be required to add their contracts to the contracts register to ensure procurement had oversight and more emphasis was needed in this area.

With regard to the information concerning the review by the independent monitoring officer of the management arrangements for MIPIM, it was clear that comprehensive training and support was needed for all staff.

- b) In responding to a question raised by Councillor J Cowell as to whether figures for properties, plant and equipment as part of the valuation reports could be collated in a timely manner for future reports, the Director of Finance and Legal acknowledged that this was not as timely as desired however, the Local Authority was in the position that the accounts should be signed off imminently as all valuation information had now been received. Further work would be undertaken with colleagues in Regeneration to confirm an appropriate timetable to ensure that the information was available in advance for 2023/24.

The Head of Financial Services also stated that improvements had been made compared to previous years by introducing contract management and key performance indicators. It was noted that a 5-year contract relating to valuations would be explored once the 2023/24 valuations had been received.

The Deputy Chief Executive acknowledged that although the Local Authority was in a better position and good progress had been made to enable the accounts to be signed off, issues surrounding capacity both internally and externally had impacted on the delivery by the Local Authority.

- c) In responding to comments made and questions raised by Councillor J Cowell, the Deputy Chief Executive referred to the report received by the Committee in September, 2023 in relation to the action plan that had been developed to address governance and lessons learnt following the Council's attendance at MIPIM. As part of the action plan, increased training on contract management and budget management would be provided to assist managers with project management.
- d) Councillor S Ali welcomed the report submitted which he considered reflected negatively on the administration and highlighted incompetence in managing finances which had resulted in there being a significant risk to the Council's financial sustainability. Urgent action was needed to address the issues raised. Reference was made to the executive summary which referred to the urgent review of the Medium-Term Financial Strategy; implementation of a credible plan and use of reserves that he suggested had now been depleted. Whilst it was acknowledged that the budget had been set for a number of years, savings had not been delivered.

Councillor Ali further stated that despite proposals and risks being put forward by Officers, these had not been accepted or considered by the administration. It was further reported that concerns had been raised by this Committee about governance and decision making in July 2023 where it was agreed that the Chair would write to the Leader and the Cabinet Member for Finance, Legal and Human Resources outlining the concerns raised and comments made. However, the response received was not considered acceptable or substantial given the position faced by the Council, therefore it was evident that the issues relating to governance and lack of consideration of the risks highlighted had not been taken seriously.

Councillor Ali acknowledged comments made by External Auditors in relation to inappropriate behaviour which was unacceptable and would hopefully be resolved between both Group Leaders. He also considered that the Council's financial position posed a significant risk to regeneration projects which did not instil confidence in investors.

With regard to Housing finances, Councillor Ali recommended that this should be better managed and centralised under the Director of Finance and Legal and the Cabinet Member for Finance, Legal and Human Resources portfolio moving forward.

Reference was made to the review of settings of saving schemes to ensure decisions were based on robust analysis and the use of realistic evidence-based targets rather than optimistic ones that may be achievable in practice. It was suggested that despite risks being highlighted at budget meetings, these continued to be implemented.

Although the External Auditor's Report suggested that the matters in relation to MIPIM had been addressed, Councillor Ali still considered that there remained various outstanding issues including members involvement with the decision-making process which had still not been investigated. As this remained unresolved it was therefore requested that this matter be investigated and a report submitted to a future meeting.

- e) Councillor S Ali sought a substantive response to previous questions raised in relation to the External Auditor's recommendation concerning the position of the Monitoring Officer

(At this juncture, the Director of Finance and Legal and the Monitoring Officer withdrew from the meeting)

Councillor J Cowell considered the current position to be fundamentally flawed in that the Monitoring Officer position was reporting directly to the Section 151 Officer which she considered to be two separate fields and disciplines. Despite a number of questions raised, a definitive response had still not been received.

The Deputy Chief Executive referred to the organisational redesign which was being considered as part of the Improvement and Sustainability Plan, reflecting the Council's challenging financial position and future sustainability of the organisation. The redesign would consider the future design for every service area taking into account the needs of communities and businesses, together with the senior management restructure, which included both the Section 151 Officer and Monitoring Officer. This work was being treated as a matter of urgency and the recommendation made by the External Auditors was acknowledged. Members were also advised that the link between the three statutory officers was reflected in the current structure and that meetings were undertaken on a regular basis to discuss statutory issues.

(At this juncture, the Director of Finance and Legal Services and the Monitoring Officer returned to the meeting)

- f) In referring to comments made by Councillor S Ali, the Chair considered the term 'incompetence' to be inappropriate due to the extenuating circumstances faced at this time. It was suggested that procurement and housing had been considered in detail by the Committee this municipal year and again reiterated that the Committee could make recommendations, raise concerns and recommend a particular area for more in-depth review to any Select Committee as appropriate.

With reference to comments made relating to MIPIM, the Chair referred to the detailed report presented to the Committee in September, 2023 on the improvements to programme, project and contract management.

- g) In responding to comments made, the Leader of the Council then referred to the actions agreed by the Appointments Committee in April, 2023. The Committee had considered the findings of the Independent Monitoring Officer on the review of arrangements for the Dudley MBC MIPIM Delegation 2019-23. The Leader expressed his disappointment that there had been no opposition group members in attendance at that meeting which would have provided an opportunity for Members to suggest alternative proposals and recommendations.

With regard to comments made relating to Housing, the Leader commented positively on the work undertaken by the Director of Housing and Communities and Cabinet Member where significant improvements had been made. It was anticipated that the Statutory Notice would be removed in the near future. Reference was also made to the measures approved by the Cabinet which would increase the Housing Revenue Account reserves to the national average of approximately £11m within the next three years. The need for realistic and achievable savings proposals by Officers was also emphasised.

With regard to comments concerning officer proposals not being accepted by the administration, the Leader refuted the claims and referred to the subsequent decisions made in particular areas including green waste. There was a general consensus across the political groups that steps were needed to improve the base rate in terms of Council Tax. Reference was also made to the significant investment from the private sector on major regeneration projects, including the Metro, Very Light Rail and the Entertainment Quarter in Dudley. It was also noted that a £500k capital receipt had also been achieved following the disposal of three buildings that were surplus to requirements.

It was also suggested that appropriate behaviour and respect should be demonstrated by both Elected Members and Officers recognising the pressures faced by Members and it was suggested that further training was needed for new Councillors and Officers. It had also been proposed by both Group Leaders that, in future, any complaints should be considered by the Group Whips and Leaders in the first instance prior to consideration by the Monitoring Officer.

- h) In responding to comments made, Councillor S Ali suggested that he had raised a number of concerns previously, alongside his colleagues, which were reflected within the minutes and again reiterated that the report was negative and should be acknowledged and addressed. Regeneration was welcomed by the Opposition Group, however, the External Auditors had raised a significant risk within this area in view of the financial position.

With regard to the MIPIM report, there were two issues identified relating to the Officers recommendations and the decision-making process by Officers and Elected Members separately. The report in terms of MIPIM failed to present a conclusive outcome. At the time of the Appointments Committee, the Opposition Group Members had outlined their views and the reasons for not attending the meeting.

Whilst acknowledging comments made by the Leader in relation to improving reserves in the Housing Revenue Account, this was as a result of implementing a maximum rise in rents and service charges at a particularly difficult time faced by residents financially. Councillor Ali also disagreed with comments in that the Opposition Group Leader had accepted the need for a high increase in Council Tax, but that in considering the current position of the Council there were limited options available.

- i) The Chair confirmed that the scope of the Audit and Standards Committee in considering the MIPIM report had considered the chronology of events and subsequent failings which resulted in the Committee formulating recommendations for next stages. The Chair also referred to the significant financial pressures faced within the Adult Social Care directorate which had been reported during the Autumn.
- j) Councillor J Foster welcomed the External Auditor's Report and considered there to be some parallels with the Local Government Association Peer Review Report that had recently been published. She also confirmed that a cross-party Member/Officer Charter had previously been developed and that it had appeared that this had not been reviewed for some time and therefore a mechanism was needed to re-establish this document across the authority.

Councillor Foster agreed with comments made concerning new Member training in terms of the expectations, however, she also emphasised the need to include political nous training in the Council induction training sessions for Officers, to highlight how the role of the Councillor fits into the overall democracy picture.

Reference was made to the standards regime, reflected within the LGA Peer Review Report, particularly that this area was not monitored effectively within the Local Authority or by Key Performance Indicators. It was considered that there was an insufficient range of structured options to deal with matters appropriately as they arise, therefore more structure was needed to ensure that matters were dealt with at the earliest opportunity before escalating.

Councillor Foster therefore suggested that the External Auditors consider reviewing the Local Authority's Standards and Scrutiny regime and make recommendations accordingly. Both functions within the Local Authority were under-resourced which may have impacted on the way in which they were currently performing, and concerns were raised that these did not meet the threshold for investment or expenditure in view of the financial measures implemented.

- k) In responding to comments made by Councillor J Foster in relation to training, the Deputy Chief Executive referred to recent discussions held in relation to improved scrutiny training and the Member Training and Development Programme for the next Municipal Year. Further consideration would be given to the support available from the Local Government Association. Members were advised that training was considered as part of the Improvement and Sustainability Plan. This aimed to ensure a sustainable Council going forward, assist local democracy and decision-making processes and to ensure effective scrutiny. It was suggested that a cross-party Member/Officer Working Group may be beneficial to review this area further.
- l) A Smith acknowledged the publication of the LGA Peer Review Report and confirmed that the areas highlighted within the report would be considered in more depth during the External Auditors work plan in 2023/24.
- m) In responding to a question raised by Councillor M Evans, A Smith confirmed that Grant Thornton had audited approximately 40% of the Local Authorities based in England.
- n) Councillor M Evans considered the points on relationships between Members and Officers to be incorrect and reflected on the process involved whereby Members considered savings proposals made by Officers which were either accepted or rejected as a collective. The need for further training and cross-party collaborative working was also emphasised.
- o) The Leader of the Council confirmed that a Budget Summit meeting had been arranged for Friday 22nd December, 2023 to which the Opposition Leader and Deputy Leader had been invited to discuss the current financial position and proposals to be considered by both Political Groups.

- p) Councillor J Cowell reiterated previous comments concerning the decline in officer relationships and how this impacted on services and personal health and wellbeing. She also sought clarification as to whether there was an indicative timetable for the implementation of the Improvement and Sustainability Plan.

The Deputy Chief Executive confirmed that the Improvement and Sustainability Plan was an ongoing piece of work to be implemented in three phases as a direct response to the LGA Peer Review and External Auditor's Report. This would be addressing the urgent financial challenges, organisational redesign and revisiting the corporate strategy.

There would be a need to maintain the continuous improvement needed. It was noted that the Strategic Executive Board met twice per week to develop the Improvement and Sustainability Plan, which would be considered and approved by the External Assurance Board. The Plan would also be considered by the Overview and Scrutiny Committee to provide any feedback or comments on the robustness of the plan.

Although it was acknowledged that this was a lengthy plan, the proposals would change the way the organisation was structured to enable the Local Authority to operate within available resources and focus on the needs of residents and identify key areas where vulnerable customers required support.

Resolved

That the information contained in the report submitted on the Grant Thornton draft Auditor's Annual Report for 2021/22 and 2022/23, attached as Appendix 1, be received and noted.

41 External Audit Findings Report 2022/23

The Committee considered a report of the Director of Finance and Legal on the external auditor's Audit Findings Report 2022/23, together with the draft Letter of Representation, as set out in Appendix 2, to be submitted by the Council to external auditors.

A Smith expressed his sincere thanks for the engagement and cooperation by the Finance Team and presented a summary of the appendix of the report submitted, advising that the materiality of the audit of the Council's financial statements was £10.6m. An overview of the significant audit risks contained within the audit plan was provided, particularly in relation to the presumed risk on the management override of controls. Additional work had been undertaken on the authorisation of journals, where it was confirmed that no issues had been identified. It was noted that one technical adjustment was required in relation to the valuation of pension fund net liability.

Further details on issues identified in relation to property valuations was outlined on page 76 of the report submitted.

In conclusion, the External Auditor anticipated that the revised accounts would be completed imminently for final sign-off of the Financial Statements following receipt of the signed Statement of Accounts and Letter of Representation.

Resolved

- (1) That the information contained in the report submitted on the Council's External Auditor's audit findings 2022/23, attached as Appendix 1, be received and noted.
- (2) That the draft Letter of Representation, as set out in Appendix 2 to the report submitted, be noted and the Chair, following consultation with the Director of Finance and Legal Services be authorised to sign and date the final version of the Letter of Representation in due course.

42. Statement of Accounts 2022/23

The Committee considered a report of the Director of Finance and Legal on the Statement of Accounts 2022/23. The Statement of Accounts, and the audit of them, was the main formal and public report on the financial standing of the local authority. A copy of the Statement of Accounts 2022/23 had been circulated separately to Members. Officers of the Finance Team were commended for the work undertaken in producing the Statement of Accounts.

The Director of Finance and Legal gave a brief presentation, outlined the authority's funding basis and clarified that the presentation of the accounts was from two perspectives. These were funding and spending (governed by statutory regulations) and external reporting (governed by the Code of Practice/International Financial Reporting Standards (IFRS)). It was stated that both views were reconciled together in one statement known as the Movement in Reserves Statement (MiRS) detailed on page 25 of the accounts submitted. A simplified version of the MiRS table was presented to the Committee.

The Director of Finance and Legal reported on the Audit progress and confirmed that some queries were outstanding in relation to the payroll system and Pensions. Members were also advised of the proposed recommendation of the Committee in that the Chair of the Audit and Standards Committee, following consultation with the Director of Finance and Legal, would be authorised to approve any changes to the Statement of Accounts arising from audit work, provided there was no impact on useable reserves at 31st March, 2023.

Arising from the presentation, the Chair commented positively on the report and the outstanding growth demonstrated. Councillor M Evans also expressed his appreciation for the excellent work undertaken and presentation given.

Resolved

- (1) That the information contained in the report on the Statement of Accounts 2022/23, be approved and the Chair of the Audit and Standards Committee be authorised to sign and date the Statement of Accounts.
 - (2) That the Chair of the Audit and Standards Committee, following consultation with the Director of Finance and Legal, be authorised to approve any changes to the Statement of Accounts arising from audit work, following this Committee meeting, provided there is no impact on useable reserves at 31st March, 2023.
-

43 **Annual Governance Statement**

The Committee considered a report of the Director of Finance and Legal on the Council's Annual Governance Statement for 2022/23. This was required to be included as part of the Annual Statement of Accounts and detailed how the Council had complied with the local Code of Corporate Governance, the effectiveness of the governance framework and described any significant governance issues and how these would be addressed.

In presenting the report, the Director of Finance and Legal confirmed that the proposed Annual Governance Statement had incorporated areas and reflected comments that had previously been discussed by the Committee including housing compliance and improvement in processes following lessons learnt from MIPIM.

The Director of Finance and Legal referred specifically to paragraph 5.3.2 of the Annual Governance Statement which had been updated to reflect the latest forecast in terms of the financial position for the current year and risks that been highlighted to Cabinet in October, 2023. Paragraph 6.2 had been included to reflect the LGA Peer Review; the seriousness of the recommendations made by Grant Thornton Annual Auditor's Report and the creation of the externally chaired Improvement and Assurance Board.

Arising from the presentation, Members asked questions, made comments and responses were provided where necessary as follows:-

- a) Councillor J Cowell expressed concern and the need for action on paragraphs 4.7.3 and 4.7.4, in particular of the increase in sickness figures associated to work-related stress and turnover rate which had seen 420 new starters and 580 leavers, which highlighted low morale and lack of support to staff.

Reference was also made to the wording in paragraph 4.11.5 in relation to the Dudley Housing Board which suggested that it provided a community-based scrutiny function of the housing service to help ensure that services meet residents' needs and were of the highest standard. However, this was not representative of the current format of the Board. The Regulator of Social Housing Tenant Involvement Standard referred specially to tenants and not residents generally, therefore steps were needed to ensure the views of tenants were obtained.

With regard to paragraph 4.12.5, in that the Local Authority was not providing satisfactory remedy in advance of complaints being considered by the Ombudsman, Councillor Cowell emphasised the importance of improving the existing complaints process and suggested initial work with the complainant and involving them in investigations at an early stage.

- b) In responding to a question raised by Councillor J Cowell in relation to the representation of the Shadow Cabinet Member for Housing on the new overarching Customer Board, the Deputy Chief Executive agreed with comments made and undertook to review accordingly.
- c) In responding to comments made by Councillor J Cowell, the Deputy Chief Executive confirmed that with regard to the Dudley Housing Board, an action plan was being developed on the voice of customers and tenants; how that could be delivered and how they were represented in community meetings including the Housing Board. There were two external non-executive directors with customer backgrounds so that they could challenge the Local Authority to ensure that improvements were being made for tenants. Members were also advised of a Community Housing Base pilot in Halesowen, potentially co-hosted with external partners including the Police and NHS. If successful, it was proposed that this would be implemented across the Borough. The Community Bases would allow more face-to-face interaction with tenants to address any issues before they become formal complaints and would help build relationships.

With regard to staff morale, as part of the organisational redesign, Heads of Service, Service Managers and all staff across the organisation would be invited to contribute towards the process. It was acknowledged that further work was needed to improve staff morale and motivation recognising that staff delivered valuable services and were an asset to the Local Authority. The Committee was assured of the importance to the senior management team that staff would be engaged in any organisational redesign process.

Resolved

- (1) That the Annual Governance Statement, as set out in Appendix A to the report submitted, be approved and referred to the Leader of the Council and Chief Executive for signature.

- (2) That the Annual Governance Statement be re-presented to Audit and Standards Committee for approval should there be any significant changes in governance between the date of this Committee and the date of signing of the accounts.
-

44 **Questions Under Council Procedure Rule 11.8**

There were no questions to the Chair pursuant to Council Procedure Rule 11.8.

45 **Comments of the Chair**

The Chair thanked all those present for their attendance and contributions during the meeting and wished everyone a Happy Christmas.

The meeting ended at 7.35pm

CHAIR

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 – 19th February 2024

Report of the Director of Finance and Legal

Treasury Management

Purpose

1. The purpose of this report is:
 - To outline treasury activity in the year 2023/24 up to the end of December 2023.
 - To seek approval of the Treasury Strategy Statement 2024/25.

Recommendations

2. It is recommended:
 - That the Committee notes the treasury activities in 2023/24 outlined in this report.
 - That the Committee approves the Treasury Strategy 2024/25 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 26th February 2024.

Background

3. At the time of writing this report, work was on-going to finalise the three-year capital programme for the Housing Revenue Account (HRA) which impacts the determination of the prudential indicators detailed in 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 15th February 2024. 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 26th 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 £731m on our own account and another £61m 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. The Bank of England Base Rate has remained at 5.25% 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 decrease interest rates slowly through 2024 and 2025.
8. 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 2023/24 - Dudley Fund

9. Treasury activities in the current year have been undertaken in the context of the Treasury Strategy Statement 2023/24 approved by Audit Committee and Full Council in February 2023. In that document we anticipated that long term borrowing would be required in the next 12 months due to cashflow need.
10. Our investments up to 31st December 2023 have averaged £34.9m. The average return on these investments since the start of the year was 3.87% (however the weighted average interest rate of investments held at 31st December 2023 was 5.14%). All investments were placed with institutions that satisfied the criteria for credit-worthiness set out in the Treasury Strategy Statement 2023/24. The performance of our investments is largely dependent on movements in short-term (up to one year) rates. Our investment activity for 2023/24 (to 31st December 2023) is set out in more detail in Appendix 1.
11. 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 and reasonable returns. We use this account extensively due the fact that we have strict credit criteria in our Investment Strategy for non-government counterparties.
12. The average value of long-term borrowings up to the 31st December 2023 was £618.9 million. The average rate of interest on these borrowings was 3.92% and they were due to mature on dates ranging from the current year to 2072. To date only one new loan with a duration greater than one year has been taken out in 2023/24. This loan was with PWLB and was for £10m with a maturity date of March 2026.
13. The Council has also taken 2 short-term loans in the year to date to manage daily cash flow; these both had a duration of 14 days. One was for £2m at a rate of 5.60% and the other was for £1m at a rate of 5.70%. These were both with other local authorities and have now been repaid.

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 2023/24 financial year; the current estimate is a further £40m before the end of the year which is driven by cashflow needs. This borrowing is driven by current capital spending, it will be replacement of internal borrowing by external loans.

Treasury activity 2023/24 - WMDAF

15. At the start of 2023/24 WMDAF held a LOBO of £10m with a maturity date of 26th February 2026 at a rate of 4.6%. In August 2023 the Council was approached by the lender who wished to increase the interest rate to 7.37% and therefore the Council decided to repay the loan in full to avoid the increased rate. To replace this loan a new PWLB loan with the same principal value and maturity date was taken out at a rate of 5.68%.
16. The Council has also taken 4 short term loans in the year to date to manage daily cash flow (and to cover a short-term shortfall of funds prior to receiving the new PWLB loan) for the WMDAF. The average value of the borrowing has been £8.5m at an average rate of 5.5% for an average duration of 62 days. The latest estimate of interest payable by members of the WMDAF in 2023/24 is 5.6%.
17. The Council has made five short term investments with the DMO in the year to manage daily cash flow for the WMDAF. The average value of the investments have been £3.1m at an average rate of 5.17% for an average duration of 63 days.

Treasury Strategy Statement 2024/25

18. 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 2024/25 is attached as Appendix 2.
19. 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 remain at 5.25% during early 2024 but drop down to 4.75% around September 2024 and expected to drop further by March 2025 to 3.75%.

- **Medium-term rates.** 5-year PWLB certainty rate is expected to be 4.50% in March 2024 and drop slightly to 4.10% by March 2025.
- **Long- term rates.** 50-year PWLB certainty rate is expected to be 5.00% in March 2024 and drop to 4.40% by March 2025.

20. 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.

21. 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

22. Forecasts of performance against budget for treasury management activities are sensitive to movements in cash flow and interest rates. The revenue impact of any variances are reported regularly to Cabinet as part of the wider Financial Monitoring Regime (FMR).

Law

23. 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

24. 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

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

Human Resources / Organisational Development

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

Commercial / Procurement

27. 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

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

Council Priorities

29. 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

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

List of Background Papers

List of Background Papers

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

Appendix 1

Investment Activity 2023/24 to 31st December 2023

Counterparties	Number of investments	Average value £ million	Average rate %	Average duration (days)
Debt Management Office	177	27.30	4.90	9
Other Local Authorities	1	8.00	4.95	19
Lloyds Call Account	n/a	3.81	5.09	Call
Santander Call Account	n/a	2.44	3.14	Call
Santander Notice Account	n/a	0.02	4.46	35 day notice
HSBC Call Account	n/a	0.71	0.50	Call
Barclays Call Account	n/a	0.08	2.72	Call

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 2024/25

1.0 Introduction

2.1 This Treasury Strategy Statement details the expected activities of the treasury function in the financial year 2024/25. 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

2.2 The Council's estimated debt position as at 1st April 2024 is as follows:

	£m
Long-term debt:	
- PWLB fixed rate	620.7
- PWLB variable rate	0.0
- Market fixed rate	13.0
- Market LOBO*	10.0
Short-term debt	16.5
Total debt	660.2

*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 4.02%.

2.3 The average level of investments held by the Council during 2023/24 to December 2023 was £34.9m. 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 2024 is as follows:

	£m
Long-term debt:	
- PWLB fixed rate	47.5
Short-term debt	0.0
Total debt	47.5

2.5 The average rate of interest charged to the West Midlands fund is expected to be 5.61%.

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.

	2022/23	2023/24	2024/25	2025/26	2026/27
	£m	Revised £m	Revised £m	Revised £m	Revised £m
Authorised limit for external debt *:					
Borrowing	n/a	810	824	839	883
Other long term liabilities	n/a	12	11	10	9
Total	n/a	822	835	849	892
Operational Boundary*					
Borrowing	n/a	738	809	809	842
other long term liabilities	n/a	12	11	10	9
Total	n/a	750	820	819	851
Actual External Debt:					
Borrowing	702.9	n/a	n/a	n/a	n/a
Other long term liabilities	11.9	n/a	n/a	n/a	n/a
Total	714.8	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 so far in 2023/24 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

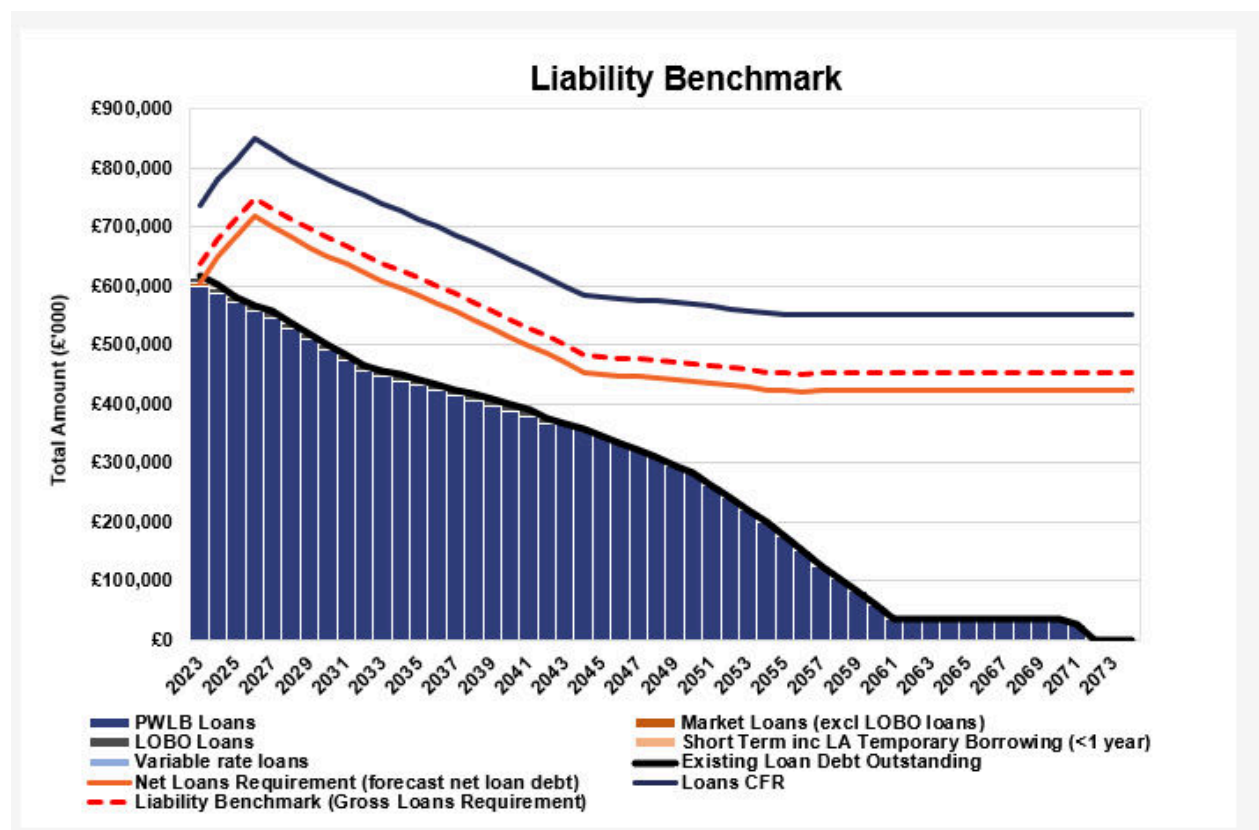
The revised Prudential Code introduced a new prudential indicator called the Liability Benchmark (LB). The Council is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum. There are four components to the LB:-

- 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.



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.

	2023/24	2024/25	2025/26	2026/27
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 Limit %	Lower Limit %
Under 12 months	15	0
12 months and within 24 months	15	0
24 months and within 5 years	20	0
5 years and within 10 years	25	0
10 years and above	100	50

The WMADF will close in March 2026 so no new long term loans will be required. With that in mind no new indicators for upper and lower limits have been proposed for this debt as all debt will be maturing within 12 months by the end of 2024/25.

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 Monetary Policy Committee (MPC) has kept the Bank Rate the same since the last time a change in rate was reported to this Committee (the increase to 5.25% as agreed in August 2023). The market expects the rate to fall gradually later in 2024.

4.2 The CPI inflation figure has fallen since the last report and the rate in November 2023 was the lowest since January 2022 and the Bank of England believes that the rate is now on a downward path.

- 4.3 Link forecast that the recent downward trends in CPI and core inflation will stall for a short time before declining more decisively again later in the this first quarter of 2024. This leads them to believe that the Bank of England won't feel comfortable cutting interest rates until the second half of 2024.

5.0 Prospects for Interest Rates

- 5.1 The Council's Treasury Advisor, Link Asset Services, has provided the following forecast (with the PWLB rates reflecting the certainty rates available to the Council at 0.2% below the published rates):

	December 2023 (Actuals)	December 2024 (Forecasts)	December 2025 (Forecasts)	December 2026 (Forecasts)
Bank Rate	5.25%	4.25%	3.00%	3.00%
5yr PWLB rate	5.00%	4.20%	3.70%	3.50%
10yr PWLB rate	5.10%	4.30%	3.90%	3.70%
25yr PWLB rate	5.50%	4.80%	4.20%	4.10%
50yr PWLB rate	5.30%	4.60%	4.00%	3.90%

- 5.2 As per 4.1 the Bank rate has remained the same as August 2023 (5.25%), Link are expecting the rate to start coming down in the second half of 2024.
- 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.
- 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 invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return or yield. The Council's 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
Banks	F1+/P1/A1+	50%	12 months
	F1/P2/A1	25%	6 months
UK Local Authorities	n/a	No maximum	12 months
UK Government	n/a	No maximum	none
Money Market Funds (MMF)	AAA**	50%	3 months

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

** MMFs only have long term credit ratings so AAA would be the minimum long-term credit rating for these funds.

***N.B. If a number of banks are part of one banking group all banks within that group would fall into one counterparty.

6.4.5 Since the financial crisis of 2008, the Council has not allowed investments in non-UK institutions. This strategy has been based on the implicit assumption that the UK Government would support a failing UK bank. This factor has been less relevant since the Financial Services (Banking Reform) Act 2013 and proposed regulations. The table above now expands the list of banks to include non UK banks. In practice our strategy will still be limited by our low level of investments and cashflow, but the changes should marginally improve return.

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 2024/25 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 Lloyds Plc. At the present time Lloyds Plc meets 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 £32.3m at 31st March 2023. 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 2024/25, 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 2024/25 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 2024/25.

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

Action Tracker – Audit and Standards Committee 2023/24

Subject (Date of Meeting)	Recommendation/action	Responsible Officer/Area	Status/Notes
Review of Programme, Project and Contract Management (25 th September, 2023)	Minute No. 16 (3) - The Head of Chief Executive's Office be requested to arrange a demonstration of the Corporate Portfolio Management Office Verto system at a future meeting of the Committee.	A Paul	Demonstration scheduled for the February, 2024 Committee.
Minutes (6 th December, 2023)	Minute No. 26 - The Chair agreed to circulate a copy of the e-mail he had sent outlining concerns and comments raised by the Committee in relation to the External Audit Grant Thornton Annual Audit Plan 2022-23 and Annual Risk Assessment 2022-23 and response to Members for information.	Chair	Outstanding
Minutes (6 th December, 2023)	Minute No. 26 – The Deputy Chief Executive be requested to provide an update at a future meeting of the Committee with regard to the proposed organisational restructure.	B Heran	To be scheduled.

Annual Audit Report of the Chief Executive (6 th December, 2023)	Minute No. 29 (2) - That the Committee be provided with written responses to the following:		
	<p>a) Further details in relation to the current number of Foster Carers within Dudley and the numbers needed to deliver the required level of Foster Carers.</p> <p>b) A briefing note updating Members on progress made on the development of the Air Quality Action Plan.</p>	<p>C Driscoll</p> <p>M Abu Affan</p>	<p>Outstanding</p> <p>Circulated 6th February, 2024.</p>
Annual Audit Report of the Chief Executive (6 th December, 2023)	Minute No. 29 (3) That the Deputy Chief Executive be requested to submit a further report to the Audit and Standards Committee in February, 2024 in relation to hybrid working and future plans.	B Heran	Presentation scheduled for the February, 2024 Committee.
Annual Report of the Committee on Standards in Public Life (6 th December, 2023)	Minute No. 30 (2) That the Chair, in consultation with the Monitoring Officer, write a letter to the Chair of the Committee on Standards in Public Life outlining the comments made by Members.	Chair / M Farooq	Completed.
Risk Management Report (6 th December, 2023)	Minute No. 31 (3) That the Director of Regeneration and Enterprise be requested to provide a map outlining the proposed indicative METRO route from Cottage Street, Brierley Hill to the Waterfront to Councillor D Stanley for information.	H Martin	Response sent to Cllr Stanley on 8th January, 2024.

Risk Management Report (6 th December, 2023)	Minute No. 31 (5) That risk R.392 be recommended to be amended to The Council is unable to meet its commitment to deliver savings (including services funded from the HRA and other ringfenced funds) as they fall due because annual income is insufficient and reserves have been fully depleted, thus triggering a requirement to issue a report under Section 114 of the Local Government Finance Act 1988.	I Newman	Completed.
Suspensions Report (6 th December, 2023)	Minute No. 34 (2) That a breakdown of protected characteristics be included in future reports.	J Martin	Noted.
Audit and Risk Management Services Interim Performance Report (6 th December, 2023)	Minute No. 35 (2) - That a demonstration of the Spectrum Audit System be presented to a future Committee meeting.	G Harrison	Scheduled for April, 2024 Meeting.
	<p>(3) That the Chair, on behalf of the Committee, write to the Leader requesting that the Audit and Risk Management Services staff be ringfenced in any future restructuring proposals.</p> <p>(4) Further consideration be given to a standard agenda item on future work programmes for the Committee.</p>	<p>Chair</p> <p>Chair / G Harrison</p>	<p>Completed.</p> <p>Agreed.</p>

Future Business – Audit and Standards Committee 2023/24

<u>Date of Meeting</u>	<u>Work Programme</u>	<u>Responsible Officer/Area</u>
24 th April, 2024	Grant Thornton Audit Plan 2023-24 including Informing the Audit Risk Assessment	A Smith – External Auditor T Tobin – External Auditor
	Annual Fraud Report	G Harrison
	Audit and Risk Management Services Annual Audit Plan 2024-25	G Harrison
	Risk Management Report (including in-depth scrutiny on R.392)	G Harrison I Newman
	Audit and Standards Committee Annual Report 2023-24	G Harrison
	Accounting Policies, Critical Accounting Judgements and Key Sources of Estimation Uncertainty	I Newman
2024/25	Housing Assurance Board Report	K Jones