AUDIT COMMITTEE

Tuesday 19th January 2021 at 14.00 hrs
Microsoft Teams

A G E N D A

Note for Members of the Public: Due to the exceptional circumstances this meeting is being held via Microsoft Teams, please contact the OPCCN (details below) prior to the meeting if you wish to submit questions to the Committee on any matter on the public part of the agenda.

Questions should be addressed to the Chair of the Audit Committee.

- The details of the Audit Committee and relevant papers are on the website.
- The deadline for submission of questions is five clear working days before the meeting in order that an appropriate answer to the question can be given.
- Questions should be submitted by email to: - opccn@norfolk.pnn.police.uk or written questions can be sent via post to the Office of the Police & Crime Commissioner. (address below).
- A list of questions will be drawn up in order of receipt and copies of all questions and statements will be circulated to all members of the Committee.
- Each member of the public asking a question must give his or her name and the town that they live within Norfolk. We will publish the question and response on our website but redact individuals' details.

Part 1 – Public Agenda

1. Welcome and Apologies
2. Declarations of Personal and/or Prejudicial Interests
3. 7 Force Procurement Audit findings- RSM – *paper to be sent to members privately*
4. To approve the minutes of the meeting held on 20th October 2020 …page 04
5. Review and update the Action Log ……………………………………page 11

6. Internal Audit – Reports from Head of Internal Audit (TIAA)

6.a 2020/21 Progress Report and Follow up report …………… . page 15
6.b 2021/2022 Internal Audit Plan (Draft)…………………………… page 22

7. Audit Committee Terms of Reference – Report from Chief Finance Officer page 36

8. External Audit
2019/20 Accounts Annual Audit Letter – *document to follow*

9. Treasury Management
2019/20 Half Year Update
2020/21 Strategy (draft) Report from Chief Finance Officer ………... page 43

10. Audit Committee Annual report ……………………………………………page 86

11. Forward Work Plan – Report from Chief Finance Officer ………………page 90

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Part 2 – Private Agenda

12. Fraud update

13. Strategic Risk Register Update – Report from Chief Executive and Chief Constable – OPCCN and Norfolk Constabulary

14. Date of Next Meeting

Tuesday 13th April 2021 at 1400 hrs - Venue TBC

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OPCCN

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如果您希望把这份资料翻译为国语，请致电 01953 424455 或发电子邮件至：opccn@norfolk.pnn.police.uk 联系诺福克警察和犯罪事务专员办公室。

Если вы хотите получить данный документ на русском языке, пожалуйста, обратитесь в Управление полиции и комиссии по рассмотрению правонарушений в графстве Норфолк по тел. 01953 424455 или по электронной почте: opccn@norfolk.pnn.police.uk

Se desejar obter uma cópia deste documento em português, por favor contacte o Gabinete do Comissário da Polícia e Crimes através do 01953 424455 ou pelo e-mail: opccn@norfolk.pnn.police.uk

Jei šio dokumento kopiją norėtumėte gauti lietuvių kalba, prašome susisiekti su Policijos ir nusikalstamumo komisarų tarnyba Norfolko grafystėje (Office of the Police and Crime Commissioner for Norfolk) telefonu 01953 424455 arba elektroninio pašto adresu opccn@norfolk.pnn.police.uk

Jeśli chcieliby Państwo otrzymać kopię niniejszego dokumentu w języku polskim, prosimy skontaktować się z władzami policji hrabstwa Norfolk (Office of the Police and Crime Commissioner for Norfolk) pod numerem 01953 424455 lub pisać na: opccn@norfolk.pnn.police.uk

Audit Committee Meeting

Tuesday 20 October 2020
14:00 hours
Via Microsoft Teams

MINUTES

Members in attendance:

Mr R Bennett (Chair)
Ms A Bennett
Mr A Matthews
Ms J Hills
Mr P Hargrave

Also, in attendance:

Mr P Jasper	Assistant Chief Officer (ACO), Norfolk Constabulary
Ms J Penn	Chief Finance Officer, OPCC (PCC CFO)
Mr C Harris	Head of Internal Audit, TIAA
Ms C Lavery	Audit Manager, TIAA
Mr I Fearn	Head of Financial Accounting & Specialist Functions, Norfolk Constabulary
Mr M Hodgson	Associate Partner EY LLP
Ms V Chong	Assistant Manager EY LLP
Mrs J Curson	Transcribing minutes for Norfolk Constabulary

Part 1 – Public Agenda

1.0 Welcome and Apologies

1.1 Apologies were received from Police and Crime Commissioner Lorne Green, OPCC Chief Executive Mark Stokes, Deputy Chief Constable Paul Sanford and Fiona Dodimead TIAA.

2.0 Declarations of Personal and/or Prejudicial Interest

2.1 None were recorded.

3.0 To approve the minutes of the meeting held on 21 September 2020

3.1 It was noted that P Hargrave was not in attendance at the last meeting as he was unable to connect to MS Teams to join the meeting and therefore had not given his apologies that he was unable to attend. Minutes to be amended to reflect this.

3.2 Members confirmed that the draft minutes are an accurate record and approved signing by the Chair.

4.0 Action log

4.1 The action log was reviewed in detail and the log will be updated to reflect the discussion.

5.0 Statement of Accounts 2019/2020

5.1 The Chair stated that there is a very detailed covering report which sets out everything really clearly and changes to the previous version are highlighted in appendix 1 and confirmed that both documents were really helpful in preparing for the meeting today.

5.2 The Chair also confirmed that the Annual Governance statement, Letter of Representation and EY's results report will also be presented at this Audit Committee meeting.

5.3 The Annual Governance Statement has recently been updated by both the CFO and the ACO.

5.4 P Hargrave raised the issue of the McCloud remedy mentioned within the report and asked whether there was going to be any clarification or any update on this. The ACO informed the meeting that the Constabulary have just responded to the consultation on this, and that has now been submitted together with the NPCC's consultation response. Due to the significant impacts around this, progress has been slow and the outcome will not be known for some time.

5.5 A monthly Pension Remedy Working group has now been set up under guidance from the NPCC which includes XPS who are the Pensions administrators for the officers' scheme. There is still no decision about central government funding the impact of this but NPCC continue to lobby for this.

5.6 I Fearn informed the meeting that the changes that were made between the draft and final accounts were due to changes in the remedy as this was slightly different to what was originally anticipated and the liability was reduced.

5.7 Other changes made to the accounts as detailed in appendix 1 are due to the fact these are now actuals and not estimates.

5.8 Annual Governance Statement

5.9 The final version was presented to the Audit Committee following amendments requested at the previous committee. The ACO confirmed that this is the third meeting that this has been discussed and it has been through a robust process. The document has also been discussed at the Corporate Governance Working Group of which audit committee member J Hills is also a member of and the document has now received thorough scrutiny.

5.10 J Hills raised issue of item 5.2 which shows three reasonable assurance reports for 20/21 but that position has now changed on the basis of the papers before the Audit Committee today and there are now 7 reasonable assurance reports. The ACO agreed that the final version on the website would now be amended to reflect this.

5.11 The Chair thanked J Hills for her work with the Corporate Governance Working Group.

5.12 Audit Results Report

5.13 M Hodgson EY LLP informed meeting that the close down preparation of the draft accounts coincided with the national lockdown and the whole audit has been undertaken remotely as EY are currently prohibited from attending clients' sites. Covid19 itself has given some extra specific audit procedures which are in the audit addendum presented in the summer. These were relating to property, plant and equipment valuations; fair value assets; pension liabilities and the impact on the asset valuations within the pension fund and the consideration and disclosure for going concern.

5.14 The timeline for publication has moved to the 30 November 2020. Taking all that context into account, M Hodgson felt that we are in a good position ahead of signing off those financial statements.

5.15 Work outstanding when EY issued the report on page 45 of the pack was in relation to the pension assurance letter expected from the Norfolk Pension Fund. This letter is now imminent and M Hodgson confirmed that the asset values at the pension fund have not moved materially as result of the audit and, therefore, cannot move materially at the admitted body level so wouldn't have an impact on IS19 actuarial figures for the local government pension scheme element of the accounts.

5.16 In terms of audit differences on pages 47 and 66 of the report, there were no audit differences to report. There are three adjusted differences, two in the report and one late difference in relation to the updated IAS19 pension as previously mentioned from the report by I Fearn.

5.17 There has been some additional disclosure around going concern given the impact of Covid19 as a national pandemic. This relates to the impact on expenditure within the sector and future funding settlements. M Hodgson confirmed that they are happy with this additional disclosure note.

5.18 Audit risks are on pages 49 to 53 of the report; the highlights being that there are no identified fraud indicators as a result of the testing. There were no matters identified in relation to property, plant and equipment valuation. Pensions have been previously discussed and there were no issues that related to PFI accounting.

5.19 In conclusion M Hodgson informed meeting that EY would be able to an issue an unqualified audit opinion which is set out on section 3, page 54 of the report, this does not include property, plant and equipment or going concern which is good news.

5.20 In terms of value for money there was one significant risk around financial resilience and working through procedures EY are satisfied with the reserve position in terms of the medium financial plan, savings to date and how the medium-term financial plan is monitored. Therefore, this is unqualified as well.

5.21 The revised Annual Governance statement is consistent with EY's knowledge, of the PCC's and CC's activities and, therefore, there are no issues with this. There were no objections or correspondence from members of the public through the inspection period that was appropriately advertised.

5.22 In conclusion M Hodgson informed the meeting, that given the constraints since March, its been a very good audit with very few matters to report to the Audit Committee and thanked I Fearn, M Monaco and the team for working through the audit in a remote manner.

5.23 The Chair thanked M Hodgson for the highlighted summary of the report.

5.24 A Bennett queried whether the accounts should be signed off today by the Audit Committee as there are likely to be some changes between now and the 30 November. However, M Hodgson informed the Audit Committee that he would be signing the accounts as soon as he had received sufficient audit assurance which should be within the next couple of weeks. In relation to the audit of the pension fund there are no significant matters coming out of this that would impact on IS19 actuarial figures but clearly there is a matter of process to go through. Other outstanding items are not numerically based so assurances are around processes not numbers. M Hodgson, therefore, confirmed that the Audit Committee should be able to recommend the accounts to the PCC and CC. If, anything further material arose then EY would contact both the ACO, the CFO and the Chair of the Audit Committee. A Bennett confirmed that she was happy with this response.

5.25 The CFO confirmed that as soon as we have received the go ahead then the Committee will be informed that the accounts are being signed and they will then be published on the website.

5.26 The ACO informed the Audit Committee that there was an item on page 47 which discusses robustness in relation to medium term planning which refers to some significant savings in respect 7 Force collaboration. However, we do not actually have any savings in the MTFP connected to 7 Force collaboration and the constabulary would obviously build those in as business cases get approved.

5.27 The Chair also asked if there was anything in the letter of rep that M Hodgson would like to draw to the attention of the Audit Committee. M Hodgson confirmed that this letter would have a standard suite of representations contained within it, but the letter has been updated this year to include a couple of additional sentences in relation to Covid19 related expenses being accounted for.

5.28 The Audit Committee confirmed that they were happy to recommend the signing of draft statement of accounts for the Police and Crime Commissioner and the Chief Constable subject to any changes coming out of the final work that needs to be completed.

5.29 The ACO and the CFO thanked I Fearn and his team for all their hard work with these accounts in very trying circumstances.

5.30 The ACO and the CFO also passed thanks to M Hodgson, V Chong and all the team at EY for all their hard work for auditing during very trying circumstances.

5.31 The CFO also asked M Hodgson what changes there would be for next year. M Hodgson informed the committee that the Redmond review landed about six weeks ago but so far, the recommendations contained within the report have not been implemented by government.

5.32 The Chair thanked, on behalf of the committee, the ACO, the CFO and all the teams for their hard work in preparing these accounts especially in the circumstances and also thanked M Hodgson, V Chong and everyone at EY for their hard work.

5.33 The Chair also confirmed that the Committee is content for the letter of representation to be signed at the appropriate point in time following discussion of the draft at this meeting.

6.0 Internal Audit

6.1 C Harris reported that the progress report has now been renamed the Summary Internal Controls Assurance (SICA) Report and also a new set of working papers is in place which produces a new set of outputs which will provide better information in relation to the work that TIAA undertakes.

6.2 C Harris mentioned to the Committee page 95 of the report which shows that three of the reports are substantial and one reasonable, there are no limited reports and he felt that this shows very good progress with the process and thanked everyone at the constabulary who contributed to this. There are no priority 1 recommendations and no changes to the plan at present.

6.3 C Harris reported that although there had been a delay to the start of the year TIAA are very much back on track to complete the audits, substantial progress has been made, many audits have been finalised and C Harris confident that the programme will be completed by 31 March 2021.

6.4 It was noted that Appendix D details briefing papers which are available to TIAA staff and members of the Audit Committee.

6.5 C Harris informed the meeting that the follow up report is in a new simplified format and many of the recommendations have now been cleared. C Harris also confirmed that 2016/17 and 2017/18 outstanding recommendations will be cleared very shortly.

6.6 A Matthews asked about the expenses report which shows delays in employees making claims and because of this, expenses could be claimed in different financial years and tax years. Suffolk currently has a three-month limit. The ACO informed meeting that this is now being discussed with the Deputy Chief Constable as he ultimately overseas HR processes; policy and reward. This has also been discussed across Norfolk and Suffolk at joint meetings and a more robust approach will now be taken.

6.7 The ACO thanked C Lavery for her all her work that has enabled the number of the recommendations outstanding to be reduced. Both teams are now working closely together to ensure that recommendations are dealt with in a timely manner.

7.0 Forward Work Plan

7.1 The CFO informed meeting that there are dates set until April 2021 and is currently working on the forward programme beyond this date. There is also an outline for the content of the meetings on the 19 January 2021 and 13 April 2021 and subjects for the morning briefings have also been built into the programme. Dates for the rest of the year are currently set in the calendars but some of these may need to be moved slightly once the rules around year end of finalised.

Action 37: The CFO asked TIAA to check the forward plan and confirm that the meeting dates and timings are correct from their point of view.

7.2 The Chair also informed meeting that this time of year there would also be scheduled a private session with the external and internal auditors, whilst we are at the final stages of the preparation of the accounts. The Chair would like this to take place before the January 2021 meeting.

Action 38: It was agreed that the Chair will canvas dates for the private meeting to take place and the CFO confirmed that she would arrange for this to take place via Teams.

7.3 C Harris informed meeting that their audit plan will be listed for the January 2021 meeting and also attend the 13 April 2021 to present the end of year annual assurance. The contract for TIAA is due to be renewed this year but attendance at both of the above meetings would still take place even though they may not receive the contract going forward. It was agreed that the draft audit plan for 2021/22 would be presented at the 19 January 2021 meeting.

The Public Meeting closed

Audit Committee

Action Log

Action Number	Meeting Date	Actions and update	Owner	Status
New actions: 22 October 2019				
003	22.10.19	The Chair requested that a review of the STA register be included on the forward programme for the informal morning briefing sessions of the Audit Committee. This action is to be carried forward to be considered at the next free morning session. **14.1.20** Information on the STAs provided to members in the informal briefing session on 14 January. Members to review outside of the meeting and provide comments to the chair. **21.5.20** Further worked is planned by the newly formed 7Force Procurement Team and TIAA will be linked into this work. Results will be available for Norfolk in due course and the ACO will provide an update on the timeline at the June 2020 meeting. **21.9.20** The audit work on 7 Force Procurement will be complete shortly and the results shared with the Committee. **20.10.20** This audit work will be ready to be discussed at the next Audit Committee meeting taking place on 19 January 2021.	~~R Bennett~~ P Jasper	Live
New Actions: 21 May 2020				
026	21.05.20	**Internal Audit Contract** It was requested by A Bennett that an item that was discussed at the Committee Meeting on 14 January (item 11.1 refers) be added to the action log.	P Jasper	Addendum added to the minutes – action now closed – 17.6.20

		Namely that the Committee members have offered to be part of the appointment process, if required. The PCC CFO informed meeting that work is in progress and once the timeline is ready the Committee will be invited to be involved in the process. **21.9.20** A Bennett confirmed that she was happy that the item was closed but queried about the timeline as this was due to be presented to the Audit Committee. The ACO to arrange for this to be circulated to the Committee. Action to be re-opened. **20.10.20** P Jasper has now circulated the timeline and this will be discussed further during the private part of the agenda.		**21.9.20** Action re-opened for procurement timeline to be circulated. Live
027	21.05.20	**Reasonable Assurance Reports** There had been a number of questions raised by the Committee in relation to the reasonable assurance reports but due to time constraints these will be dealt with outside of the meeting via email. J Penn has a log of these and will ensure that they are forwarded to TIAA to be dealt with. **21.9.20** F Dodimead to circulate the list of questions and responses to the Audit Committee. **20.10.20** Responses have been prepared and C Lavery will circulate this document after the meeting.	~~J Penn~~ ~~F Dodimead~~ C Lavery	Live
New Actions: 21 September 2020				
032	21.09.20	**Covid19 Gold and Silver logs** F Dodimead to ensure that the silver/gold logs are made available to the Audit Committee to ensure these can be cross referenced with any decisions to purchase made outside of the process. **20.10.20** C Lavery will be meeting with *ACC Simon Megicks* to enable sharing of the logs and C Lavery will update the Audit Committee via an email off-line following this meeting.	F Dodimead	Live
033	21.09.20	**Priority 1 recommendations** A Matthews suggested that there should be a fixed timescale for any priority 1 recommendations to be actioned after the audit to ensure the Audit Committee keep track of these recommendations. Rather than a fixed time period, ACO suggestion was that more emphasis being given to P1 progress in reporting from TiAA and responses from Constabulary in order for the committee to hold the constabulary to account on progress. It was agreed that the ACO and TIAA would	P Jasper/F Dodimead	Closed 20 October 2020

		discuss this item at the pre-meets which are being set up. **20.10.20** A follow up summary report has been prepared for this meeting and there are currently no P1s listed in this report. P Jasper suggested that, rather than give a general time limit on any outstanding P1s that the Audit Committee is fully briefed on any individual P1s and this will allow the Audit Committee to ask any questions and to give feedback. C Harris also informed meeting that there is normally a month's time limit on any P1s and would generally expect them to be resolved before the Audit Committee meets. However, sometimes due to operational issues there are delays. Therefore, C Harris confirmed that their reports would now reflect this and show those P1s where they are beyond one month for resolution and the reasons why. **Decision:** It was agreed by the Audit Committee that taking into account the above comments from P Jasper and C Harris that this action could now be closed.		
034	21.09.20	**Incidents of Fraud** It was agreed that Fraud should be a standing item on the agenda even if there is a nil report for the period. The ACO and CFO to action this. **20.10.20** Fraud is now a standing item on the agenda and this action can now be closed.	P Jasper/J Penn	Closed 20 October 2020
035	21.09.20	**Amendments to the Annual Governance Statement** The ACO and CFO to arrange for points 7.5, 7.6 and 7.7 raised in relation to the AGS to be actioned. **20.10.20** To be discussed on the agenda and item can now be closed	P Jasper/J Penn	Closed 20 October 2020
036	21.09.20	**Audit Committee Morning Briefing Sessions** The ACO and the CFO to consider changing the two-hour morning sessions next year to a different day to the Audit Committee meeting. **20.10.20 –** J Penn is working on the plan for next year and will contact the Audit Committee for their views on possible options to change the timings of the morning sessions.	PJasper/J Penn	Live
New actions: 20 October 2020				
037	20.10.20	**Forward Work Plan** The CFO asked TIAA to check the forward work plan and confirm that the meeting dates and timings are correct from their point of view.	TIAA	

038	20.10.20	**Private meeting with Internal and External Auditors** It was agreed that the Chair will canvas dates for the private meeting to take place and the CFO confirmed that she would arrange for this to take place via Teams.	R Bennett/J Penn	Complete - meeting took place on 12 November 2020
039	20.10.20	**Strategic Risk Register** The ACO to arrange with V Curtis the completion of the direction of travel boxes on the Strategic Risk Register to enable the Audit Committee to be able to see if the risk score is going up or down.	P Jasper	
040	20.10.20	**Strategic Risk Register** The ACO to discuss with the Deputy Chief Constable whether the risk score on the failure to prevent re-offending should be higher as raised by A Bennett.	P Jasper	
041	20.10.20	**Internal Audit Tender Process** The ACO to discuss with Suffolk representatives about how the panel should be assembled to ensure this is acceptable to both Norfolk and Suffolk Audit Committees and Norfolk and Suffolk CFOs		
042	20.10.20	**Internal Audit Tender Process** The CFO to check the content of both the Audit Committee terms of reference and the job descriptions of the ACO and CFO.		

Police and Crime Commissioners for Norfolk and Suffolk and Chief Constables of Norfolk and Suffolk Constabularies

Follow Up Review

2020/21

Executive Summary

INTRODUCTION

1. The follow up of internal audit recommendations undertaken by TIAA is undertaken throughout the year and reported to the Audit Committee during the year at each meeting.
2. The summary tables show the number of raised and brought forward priority 1 and priority 2 recommendations implemented since being reported to the October 2020 Audit Committee meeting and those outstanding past their implementation dates.

Figure 1 - Summary of the action taken on Recommendations made

Evaluation	P1 - Urgent Recommendations	P2 - Important Recommendations	Total	Previous Position for comparison
	Number	Number		Total
Implemented Since Last Meeting (previous meeting was October)	1	7	8	31
New Recommendations Added Since Last Meeting (without revised dates)	0	2	2	3
Outstanding with Extended Period Agreed & Not Reached	1	14	15	25
Outstanding with Extended Period & Not Achieved	0	6	6	0

Original Deadline Not Yet Reached	**1**	**11**	**12**	**3**

				Completed since last Audit Committee			Outstanding / Overdue		Outstanding with Extended Period & Not Achieved			Outstanding with Extended Period Agreed & Not Reached		Not Yet Due To Be Implemented	
				P1	P2		P1	P2	P1	P2		P1	P2	P1	P2
Audit Ref	**Audit Area**	**Date Presented to Audit Committee**	**Assurance Level**												
2018/19 Internal Audit Reviews															
NSC1906	Enact Replacement	Nov-18	Reasonable		1										
NSC1909	Key Financials	Mar-19	Reasonable							1					
NSC1915	Establishment	Mar-19	Reasonable							2					
2019/20 Internal Audit Reviews															
NSC2005	Workplace Health	Jul-19	Reasonable							1					
NSC2006	Temporary Contracts	Jul-19	Reasonable		2										
NSC2009	Firearms	Jul-19	Reasonable		1										
NSC2016	Data Protection	Oct-19	Limited												1
NSC2025	External Training Budget	May-20	Reasonable										2		
NSC2027	Allowances and Expenses	May-20	Limited	1						1					
NSC2029	Dog Handling	Oct-19	Limited										3		
NSC2032	ED&I	May-20	Reasonable		2					1					
TOTALS				**1**	**6**	**0**	**0**	**0**	**0**	**6**		**0**	**5**	**0**	**1**
	2020/21 Internal Audit Reports														
NSC2101	Covid-19	Sept-20	Reasonable		1										
NSC2103	Transformation and Business Case	Sept-20	Reasonable												1

				Completed since last Audit Committee			Outstanding / Overdue		Outstanding with Extended Period & Not Achieved			Outstanding with Extended Period Agreed & Not Reached		Not Yet Due To Be Implemented	
				P1	**P2**		**P1**	**P2**	**P1**	**P2**		**P1**	**P2**	**P1**	**P2**
NSC2121	Vetting	Oct-20	Reasonable												**1**
NSC2132	PEQF	Jan-21	Reasonable												**2**
TOTALS				**0**	**1**							**0**	**0**	**0**	**4**
DMS Project and L&D Project															
NSC1804	L&D Skills	Jul-18	Limited									1	6		
NSC1916	Duty Management	Nov-18	Limited										3		
DMS Project and L&D Project Totals				**0**	**0**		**0**	**0**	**0**	**0**		**1**	**9**	**0**	**0**
TOTALS				**1**	**7**		**0**	**0**	**0**	**6**		**1**	**14**	**0**	**4**

KEY FINDINGS

3. Outstanding recommendations are reported to Organisational Board.

4. It is noted that the majority of recommendations continuing to remain outstanding are largely due to resource and IT requirements to be sourced. Long standing recommendations have been retained on the report where relevant and risks are still present that require addressing.

5. There are two large projects in progress that affect recommendations in relation to L&D Skills (NSC1804) and Duty Management System (NSC1916). The recommendations in relation to the distinct areas are summarised here instead of reproducing all related recommendations:

   5.1 L&D Skills (NSC1804) – this issue is around the skills data held by Learning and Development, the timescales were ambitious, following which the service manager has left the Constabularies. Management are taking action to address the outstanding recommendations, and progress by management is being monitored. A business case has been prepared to discuss the role and use of a potential solution to address the issues, progress against this business case is being monitored by the Constabularies project management board. An L&D Audit is scheduled to commence the 18th of January and this will look at existing recommendations.

   5.2 2019 Duty Management System internal audit (NSC1916) and 2017 Duty Management System internal audit (NSC1707) – the introduction of the designated police overtime system POCASO, the enhancement of controls and upgrade of the Duty Management System has resulted in all of the recommendations that related to the NSC1707 Duty Management System audit being completed and the majority of the outstanding recommendations for the NSC1916 Duty Management System audit being completed. There are now only three recommendations outstanding from the NSC1916 audit, and work is progressing to address these. The three recommendations outstanding are dependent on planned upgrades to systems.

THE BREAKDOWN OF THE ACTIONS ON RECOMMENDATIONS KEY:

- The direction of travel for implementing recommendations is shown from right to left.
- The audit will remain on the table until all P1 and P2 recommendations relating to that audit are complete and reported as such to Audit Committee. Once an audit is reported as complete (highlighted in grey), the audit will be removed from the table.
- Outstanding with extended period agreed – outstanding past original deadline and an extension has been agreed with management.
- Outstanding and previously reported as such to Audit Committee – outstanding past agreed deadline and no extension has been agreed.
- New since the last Audit Committee meeting – deadline has recently passed and the recommendation is outstanding.
- Not yet due for implementation – the agreed implementation deadline has not been reached.

SCOPE AND LIMITATIONS OF THE REVIEW

6. The review considers the progress made in implementing the recommendations made in the previous internal audit reports and to establish the extent to which management has taken the necessary actions to address the control issues that gave rise to the internal audit recommendations. The implementation of these recommendations can only provide reasonable and not absolute assurance against misstatement or loss.
7. The responsibility for a sound system of internal controls rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses that may exist. Neither should internal audit work be relied upon to identify all circumstances of fraud or irregularity, should there be any, although the audit procedures have been designed so that any material irregularity has a reasonable probability of discovery. Even sound systems of internal control may not be proof against collusive fraud.
8. For the purposes of this review reliance was placed on management to provide internal audit with full access to staff, accounting records and transactions and to ensure the authenticity of these documents.

RELEASE OF REPORT

9. The table below sets out the history of this report.

Date final report issued:	5^{th} January 2021

Internal Audit

FINAL

Police and Crime Commissioners for Norfolk and Suffolk and Chief Constables of Norfolk and Suffolk Constabularies

Summary Internal Controls Assurance (SICA) Report – Norfolk

2020/21

January 2021

Summary Internal Controls Assurance

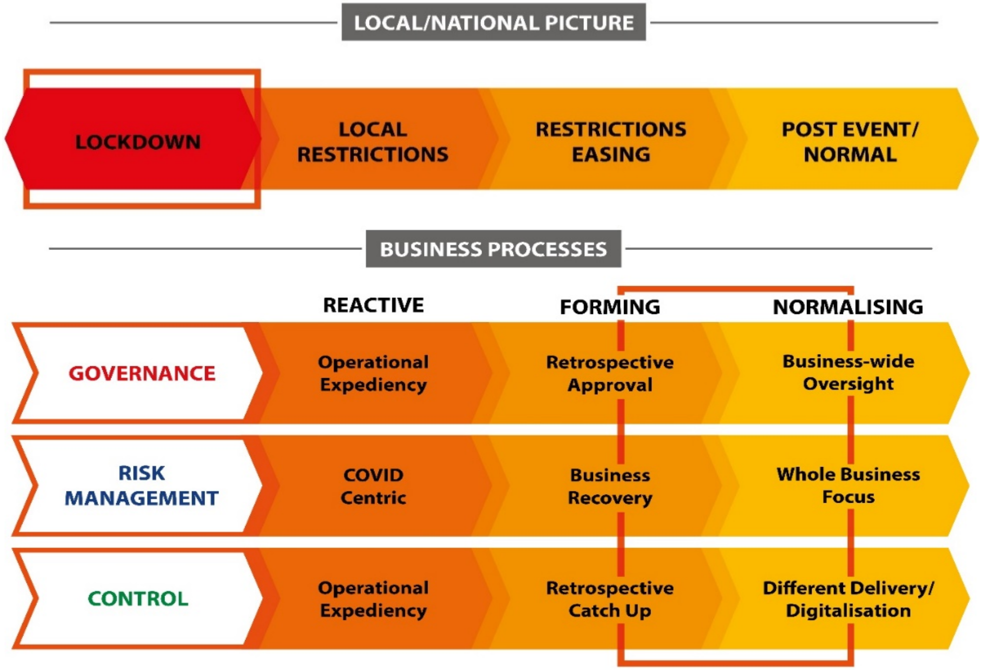
Introduction

1. This summary controls assurance report provides the Audit Committee with an update on the emerging Governance, Risk and Internal Control related issues and the progress of our work at the Police and Crime Commissioners for Norfolk and Suffolk and Chief Constables of Norfolk and Suffolk Constabularies as of the 5th January 2021. The period covered by this summary controls assurance report was impacted by the COVID 19 pandemic.

Emerging Governance, Risk and Internal Control Related Issues

2. COVID 19 is the most significant recent event to impact both strategically and operationally upon modern day Governance, Risk and Internal Control arrangements. There will be a number of phases in relation to the move through the pandemic and each phase has different implications for the Governance, Risk and Internal Control arrangements. Based upon the information gathered from our work at a number of clients, some of the potential strategic impacts for 2020/21 are summarised below. A key consideration is that there is unlikely to be a precise timeline when the organisation moves from one phase to the next and also there will be a consequential timelag as the organisation adapts new ways of operating. The diagrams in the table below signify the assessment of the current local and/or national picture, but also assesses how the organisation has adapted to new ways of working (the 'new normal') at least for the foreseeable future.

Impact on COVID 19 on strategic focus during business interruption



3. There are a range of operational matters arising from the COVID 19 pandemic which impact upon the Governance, Risk and Internal Control arrangements and examples of such have been summarised in Appendix A. During the COVID 19 period it would be prudent for the Police and Crime Commissioners for Norfolk and Suffolk and Chief Constables of Norfolk and Suffolk Constabularies to compare the policies, procedures and internal control processes in effect during the pandemic against the policies, procedures and internal control processes in effect prior to the onset of the pandemic. The matters identified should be risk assessed so as to gain awareness about where the undetected vulnerabilities that may exist so that an informed decision can be made around acceptance of such risks.

Internal Control Framework

Audits completed since the last SICA report to the Audit Committee

4. The table below sets out details of audits finalised since the previous meeting of the Audit Committee.

Audits completed since previous SICA report

		Key Dates			Number of Recommendations			
Review	**Evaluation**	**Draft issued**	**Responses Received**	**Final issued**	**1**	**2**	**3**	**OEM**
Strategic Control and Corporate Governance – Coronavirus Resilience	Substantial	November	November	November	-	-	-	-
Risk Management Advisory	N/A as advisory piece of work	November	November	November	-	-	-	-
PEQF	Reasonable	December	December	January	0	3	0	1

5. The Executive Summaries and the Management Action Plans for each of the finalised reviews are included at Appendix B.

Progress in actioning priority 1 & 2 recommendations

6. We have made no Priority 1 recommendations (i.e. fundamental control issue on which action should be taken immediately) since the previous SICA. The table below summarises the extent to which confirmation has been received that management actions have been taken that the risk exposure identified has been effectively mitigated. A separate follow-up report has been prepared.

Progress against the 2020/21 Annual Plan

7. **COVID 19:** In mid-March, when the potential scale and impact of COVID 19 was becoming evident it was agreed with the Police and Crime Commisioners for Norfolk and Suffolk and Chief Constables of Norfolk and Suffolk Constabularies that the delivery of the internal audit service would be carried out partly remotely thereby minimising the need to physically access the Police and Crime Commissioners for Norfolk and Suffolk and Chief Constables of Norfolk and Suffolk Constabularies premises and to hold face to face meetings.

8. Our progress against the Annual Plan for 2020/21 is set out in Appendix C.

Changes to the Annual Plan 2020/21

9. No changes have been made to the annual plan in the period since the last SICA report was issued.

Frauds/Irregularities

10. We have not been advised of any frauds or irregularities in the period since the last SICA report was issued.

Other Matters

11. We have reviewed recent guidance issued by the Internal Audit Standards Advisory Board (IASAB) in relation to internal auditing during the COVID-19 pandemic. The guidance aims to support heads of internal audit and individual internal auditors in continuing to meet their personal and professional responsibilities for conforming the UK Public Sector Internal Audit Standards (PSIAS). We can confirm continued conformance with the professional standards during this period.

Responsibility/Disclaimer

12. This report has been prepared solely for management's use and must not be recited or referred to in whole or in part to third parties without our prior written consent. The matters raised in this report not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose. TIAA neither owes nor accepts any duty of care to any other party who may receive this report and specifically disclaims any liability for loss, damage or expense of whatsoever nature, which is caused by their reliance on our report.

Covid 19 – Governance, Risk and Control considerations during ‘lockdown’ phase

Area	Possible assurance from internal audit
Governance: The speed of the need to respond to COVID 19 has significantly impacted on the strategic governance infrastructure: • Urgent decisions taken for urgent operational reasons which would normally have gone through Board review and approval • Extension and rollover of procurement contracts • Disruption to management information received by the Board • Operational necessity for management dispensation to scheme of delegation and financial regulations • Move to remote working for reactive operational expediency reasons, rather than as part of a pre-planned strategy	**Strategic Control and Corporate Governance – COVID-19 Resilience:** A review of financial governance and decision making following the business interruption caused by Covid-19**.**
Risk Management: The markers which differentiate COVID 19 pandemic from most business resilience/recovery plans are: • Speed of major disruption to business as usual did not permit normal level of preparation • International as well UK-wide, not local • Level of government intervention • Duration and severity • Move to medium term remote working arrangements by staff and suppliers • Consequential impact upon all the previous strategic risks	**Business as Usual Resumption Arrangements:** Targeted post-event risk mitigation assessment to identify any unintentional gaps in the risk management framework
Internal Control: COVID 19 has provided the perfect storm both in a positive as well as negative manner. The positive aspects are the expeditious embracing of digital business delivery. It is recognised that a number of government and/or regulatory guidance requirements were issued at short notice and many of these were without the normal consultation and similar. On a negative basis the following need to be recognised: • Suppliers and contractors being unable to deliver contracted services • Increased digitalisation introduced at very short notice increases information governance risks • Temporary compromise of effective segregation of duties due to staff absences and/or remote working etc • Fraudsters seeking to take advantage of COVID disruption • Deferment and/or reprioritisation of services • Sudden and significant change in demand patterns for services	**COVID-19 Controls Resilience**: To review the control environment in relation to policy and process design or temporary re-design, taking into account the heightened risk of fraud and changes to ways of working. **Accountability for Additional COVID-19 Funding:** Revisiting the control framework for when emergency payments shift into longer term services – especially where large sums are invested.

Executive Summaries and Management Action Plans

The following Executive Summaries and Management Action Plans are included in this Appendix. Full copies of the reports are available to the Audit Committee on request. Where a review has a 'Limited' or 'No' Assurance assessment the full report has been presented to the Audit Committee and therefore is not included in this Appendix.

Review	Evaluation
Strategic Control and Corporate Governance – Coronavirus Resilience	Substantial
Risk Management Advisory	N/A as no opinion as advisory piece of work
PEQF	Reasonable

Executive Summary – Strategic Control and Corporate Governance – Coronavirus Resilience

OVERALL ASSESSMENT

ASSURANCE OVER KEY STRATEGIC RISK / OBJECTIVE

Effective processes and controls are in place to manage the constabularies' response to Covid-19, which supports the constabularies' ability to fulfil its statutory requirements. The constabularies have been over to recover the costs of PPE. The impact of Covid-19 has not resulted in significant additional costs for the constabularies, and the constabularies have managed to secure in year non pay savings and are currently reporting a forecast underspend for both Forces.

KEY STRATEGIC FINDINGS

- **Gold and Silver command meetings have been established to co-ordinate the constabularies' Covid-19 response.**
- **Working practices have been reviewed to help ensure Covid-19 secure working arrangements are in existence.**
- **A covid-19 analytical hub was established to support the initial covid-19 response to help ensure that the necessary information was provided.**
- **A Gold Command covid-19 risk register in place.**

GOOD PRACTICE IDENTIFIED

- **A peer review has been commissioned to review the constabularies' response to Covid-19 to establish if there were any gaps that needed to be addressed.**
- **Responsibility for monitoring PPE stocks has been assigned to the Stores Team, and this has helped to ensure sufficient PPE stock levels.**

SCOPE

The audit assessed the governance arrangements in place for the forces' response to Covid-19. Assessment will be made of the design of the systems in place and targeted testing will be undertaken, reviewing the systems to establish if there is resilience across the forces' to manage the ongoing response.

ACTION POINTS

Urgent	Important	Routine	Operational
0	**0**	**0**	**0**

Executive Summary – Risk Management Advisory

OVERALL ASSESSMENT

ASSURANCE OVER KEY STRATEGIC RISK / OBJECTIVE

Appropriate risk management system needs to be in place to help ensure risks are managed accordingly.

KEY STRATEGIC FINDINGS

New strategic risk register templates have been developed for Norfolk constabulary and Suffolk constabulary, these have been favourably received by both constabularies.

The constabularies' Risk Manager has joined a number of forums, including the regional risk group SEERPRG - south east eastern region police risk group

Work has been ongoing by the constabularies' Risk Manager to go through the operational risk registers to ensure that the risks recorded on the operational risk registers are actual risks and not issues. Results of this work was presented to and accepted at Organisational Board in November with Deputy Chief Constables oversight and agreement.

GOOD PRACTICE IDENTIFIED

The constabularies Risk Manager has developed a Covid-19 risk register which is being used by Gold Command to help manage their Covid-19 response.

There is a designated issues log in place. This helps with identifying of emerging risks.

SCOPE

As agreed with management the, the audit included a review of risk management processes within Norfolk and Suffolk Constabularies. This report provides an update on risk management for the first six months of the 2020/21 year. A further update will be provided later in the year covering the third and fourth quarters of the 2020/21 year.

ACTION POINTS

Urgent	Important	Routine	Operational
0	0	0	0

Executive Summary – PEQF

OVERALL ASSESSMENT

ASSURANCE OVER KEY STRATEGIC RISK / OBJECTIVE

The Policing Education Qualification Framework (PEQF) is a new professional framework for the training of police officers and staff, it is intended to be a standardised national framework stating the required level of professional training for police officers from constable through to chief officer ranks. Without proper investment and planning there is a risk that the constabularies are not ready to implement PEQF.

KEY STRATEGIC FINDINGS

There is a lack of resilience within the project management team. A deputy project lead has not been assigned to support the PEQF Project Lead.

Review of the vetting team resources needs to be undertaken to establish if there are sufficient resources to undertake vetting of new recruits for the PEQF programme.

There is not a designated budget for PEQF. A budget for PEQF needs to be established so that actual costs can be quantified and monitored.

Communication on the PEQF programme to commence to ensure that all officers and staff are aware of PEQF so that there is support across the constabularies for the programme.

GOOD PRACTICE IDENTIFIED

A formalised governance structure is in place to support implementation of PEQF. A Project Plan has been developed to support implementation of PEQF.

There is engagement with seven force colleagues.

SCOPE

The objective of the audit was to review the systems and controls in place for ensuring appropriateness and readiness of the constabularies for PEQF.

ACTION POINTS

Urgent	Important	Routine	Operational
0	**3**	**0**	**1**

Assurance - Key Findings and Management Action Plan (MAP)

Rec.	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
1	Directed	A PEQF lead has been appointed to manage and co-ordinate the constabularies approach for implementation of PEQF. There is not a deputy Project Lead for the project. There is a lack of resilience within the project if the PEQF Project Lead was to be absent for a substantial period of time. It would be beneficial to appoint a Deputy Project Lead to ensure resilience.	An additional resource be assigned to support the PEQF lead to ensure that there is sufficient resilience within the team.	2	*Resilience to the PEQF lead is provided by the relevant workstreams leads (who are subject matter experts), and responsibilities would default to them should the need arise.*	*n/a*	*Head of People*

2	Delivery	A designated budget has not been set aside for the PEQF project. A budget needs to be set aside so that costs for the project can be monitored. All elements of the programme to be included in the budget of the PEQF, including the cost of ICT to support the PEQF programme.	A designated budget be set aside for PEQF so that costs for the PEQF project can be identified and monitored. All elements of the PEQF programme be included in the budget of the PEQF, including the cost of ICT to support delivery of the PEQF programme.	2	*Specifc PEQF funding has been identified in the Medium-Term Financial Plan to include DHEP training costs, Co-Investment from 24/25 and L&D Resource. In addition the PEQF Lead role is permanently funded.* *This recommendation will be discussed at future PEQF Board. This would need to be a decision approved by the ACOs*	31/03/21	*Assistant Chief Officers*
3	Directed	All new recruits under the PEQF programme need to be vetted. A review needs to be undertaken to ensure that the vetting team have appropriate capacity to enable new recruits under the PEQF to be vetted accordingly.	Review of vetting team capabilities be undertaken to establish if there are sufficient resources to undertake vetting of new recruits for the PEQF programme.	2	*Vetting capability and capacity continue to be under review to ensure delivery against PEQF and Op Uplift plans. It will be ensured that this is added to the Vetting Risk Register, so that this can be monitored. Implementation date of three months hence provided for monitoring purposes*	31/03/21	*Head of People*

Appendix C

Progress against Annual Plan

System	Planned Quarter	Current Status	Comments
Covid-19 Controls	1	Final report issued	
Transformation and Business Case	2	Final report issued	
Estates Strategy and Policy	2	Final report issued	
Vetting	2	Final report issued	
Payroll	2	Final report issued	
Performance Management	2	Final report issued	
Strategic Control and Corporate Governance – Coronavirus Resilience	2	Final report issued	
Risk Management Advisory	2	Progress report issued	
PEQF	3	Final report issued	
Information Goverenance	3	Final report issued	
Procurement Compliance with Contracting Standing Orders within departments	3	Draft report issued	
Recovered Property – Seized Monies	3	Draft report issued	Audit was delayed to quarter 3 at the request of client to due to concerns in relation to social distancing. Audit involves visiting property stores Landmark House and Europa Way
Data Quality	3	Draft report issued	Audit was delayed to quarter three at the request of client to due to staff absence and concerns in relation to social distancing. The audit was paused once it commened at the request of management due to covid-19.
Use of Vehicles and Telematics	4	In progress	The audit has been delayed until quarter four to undertake, so that potential implications in relation to Covid-19 on fleet can be considered.

System	Planned Quarter	Current Status	Comments
Learning and Development	4	In progress	
Key Financials	4	In Progress	
HR Strategy, Workforce, People – Use of Resources	4	Audit scheduled	Audit has been delayed to later in the year at the request of client. HR have requested that the PEQF audit to be the first audit undertaken.
MOPI	4	Audit scheduled	
Risk Maturity Assessment	4	Audit scheduled	
Constabularies Commissioning	4	Audit scheduled	
OBB	4	Audit scheduled	
Shared Services Transaction Centre	4	Audit scheduled	
Corporate Health and Safety	4	Audit scheduled	Audit was delayed due to Covid-19 implications at the request of client.
Recruitment	4	Audit scheduled	
Strategic Control	4	Audit scheduled	
OPCC – Commissioning	4	Audit scheduled	
Collaborations	4	Audit scheduled	Covid-19 implications will be considered when scoping the audit.
IT – Cyber Security	4	Audit scheduled	Covid-19 implications have caused delays in commencing audit
IT – Digital World	4	Audit scheduled	
IT – ERP Governance	4	Audit scheduled	
IT – Device Management Data Storage	4	Audit scheduled	

KEY:

	To be commenced

	Site work commenced

	Draft report issued

	Final report issued

POLICE & CRIME COMMISSIONER NORFOLK

NORFOLK CONSTABULARY
Our Priority is You

ORIGINATOR: Chief Finance Officer OPCC

REASON FOR SUBMISSION: Annual Review of Audit Committee Terms of Reference

SUBMITTED TO: AUDIT COMMITTEE

SUBJECT: Norfolk Audit Committee Terms of Reference

SUMMARY:

The Terms of Reference (TOR) were reviewed in January 2020 and amended. A further review has been undertaken to ensure that the TOR's are still relevant and to reflect the new way the Audit Committee operated in 2020 during the pandemic to ensure business as usual practices with the use of the relevant technology.

RECOMMENDATIONS:

To agree the terms of reference with any relevant amendments.

Details of Report

1. INTRODUCTION

Appendix one is the current agreed terms of reference with highlighted the changes suggested.

2. DISCUSSION

After reviewing the Chartered Institute of Public Finance and Accountancy (CIPFA) Practical Guidance for Audit committees, the terms of reference were amended last year. With the experience of the operation of the Audit Committee during the pandemic it is useful to consider adding these arrangements and the section has been highlighted for consideration by the committee.

After a discussion the number of members to make the meetings quorate has been considered and reflected in the Terms of Reference. In addition a new section covering frequency and notice of meetings has been added to strengthen the TOR.

3. CONCLUSION

While the current terms of reference cover the main areas CIPFA mention in their Position Statement on the Purpose of an Audit Committee the members are asked to review and agree any relevant changes, especially in the areas discussed above.

Norfolk Audit Committee
Terms of Reference

Constitution

The Committee will comprise five named members with appropriate experience and who are independent of the PCC and the Constabulary. One of the members will be the Chair who will be directly appointed by the Police and Crime Commissioner for Norfolk (PCC) and the Chief Constable.

The members will be able to serve no more than 3 terms of no longer than 4-year terms at a time. A committee member can only serve a maximum term of 10 years.

Meetings will be quorate if 3 members of the committee are in attendance. If the Chair is unable to attend, a particular meeting, the attending members will nominate a stand in Chair for the purpose of the meeting.

The Joint Audit Committee will maintain a formal record of its deliberations, commentary, findings and recommendations made in pursuit of their responsibilities. Those records are available for public scrutiny and as such provide public assurance.

To fulfil its purpose as a body to serve the public good the Committee will establish open lines of effective communication with the PCC and CC, their respective offices, their nominated representatives, their respective Chief Finance Officers and the heads of commissioned internal audit and external audit.

Frequency and Notice of Meetings

1. The Committee will meet at least four times a year; the calendar of meetings shall be agreed at the start of each year.
2. One meeting is to include members' scrutiny of and advice on the draft statement of accounts of the PCC and CC, before submission to external audit.
3. Unless otherwise agreed, formal notice of each meeting will be no later than five working days before the date of the meeting. This notice will confirm the venue, time and date together with the agenda of items and supporting papers to be discussed. It will be sent to each member of the Audit Committee and all attendees as agreed by the Chair.

4. The venue will be a mix of physical and online however the decision will be to use the appropriate venue to ensure the most efficient use of all resources.

5. Further meetings outside of the normal cycle of the Committee can be convened at the discretion of the Chair. The PCC and or CC may also ask the Committee to convene further meetings to discuss particular issues on which they want the Audit Committee's advice.

6. Meetings can also be requested by the external or commissioned internal auditors with the agreement of the Chair.

7. Extra ordinary meetings should be convened with a proper period of notice except where there is an emergency. They are subject of quorum requirements and a formal agenda with supporting papers. Minutes are to be kept.

Statement of purpose

1. The Audit Committee is a key component of the corporate governance arrangements of the PCC for Norfolk and the Chief Constable of Norfolk. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.
2. The purpose of the Audit Committee is to provide independent advice and recommendation to the PCC and the Chief Constable on the adequacy of the governance and risk management frameworks, the internal control environment, and financial reporting, thereby helping to ensure efficient and effective assurance arrangements are in place. To this end the Committee is enabled and required to have oversight of, and to provide independent review of, the effectiveness of the governance, risk management and control frameworks, financial reporting and annual governance processes, and internal audit and external audit.
3. These terms of reference will summarise the core functions of the committee in relation to the Office of the Police and Crime Commissioner (OPCC) and to the Constabulary and describe the protocols in place to enable it to operate independently, robustly and effectively.

Governance, risk, control and ethics

The Committee will, in relation to the PCC and the Chief Constable:

4. Review the corporate governance arrangements against the good governance framework and consider annual governance reports and assurances. This will be delegated initially to the annual meetings of the Corporate Governance Working Group.

5. Review the Annual Governance Statement[s] prior to approval and consider whether [it] [they] properly [reflects] [reflect] the governance, risk and control environment and supporting assurances and identify any actions required for improvement.

6. Consider the arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.

7. Consider the framework of assurance and ensure that it adequately addresses the risks and priorities of the OPCC/the Constabulary.

8. Monitor the effective development and operation of risk management, review the risk profile, and monitor progress of the police and crime commissioner/the chief constable in addressing risk-related issues reported to them.

9. Consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.

10. Review arrangements for the assessment of fraud risks and potential harm from fraud and corruption and monitor the effectiveness of the counter-fraud strategy, actions and resources.

11. Support standards and ethics and monitor that the organisations can demonstrate integrity in their actions.

And in relation to the above, to give such advice and make such recommendations on the adequacy of the level of assurance and on improvement as it considers appropriate.

Internal audit

The Committee will:

11. Annually review the internal audit charter and resources.

12. Review and approve the annual internal audit plan. Any proposed revisions to the internal audit plan be delegated to the PCC CFO and ACO to review and challenge, and report back to the Committee.

13. Oversee the appointment and consider the adequacy of the performance of the internal audit service and its independence.

14. Consider the head of internal audit's annual report and opinion, and a regular summary of the progress of internal audit activity against the audit plan, and the level of assurance it can give over corporate governance arrangements.

15. Consider summaries of internal audit reports and such detailed reports as the committee may request from the PCC/Chief Constable including issues raised or recommendations made by the internal audit service, management responses and progress with agreed actions.

16. Consider a report on the effectiveness of internal audit to support the Annual Governance Statement, where required to do so by the Accounts and Audit Regulations

External audit

The Committee will:

17. Comment on the scope and depth of external audit work, its independence and whether it gives satisfactory value for money.
18. Consider the external auditor's annual management letter, relevant reports, and the report to those charged with governance.
19. Consider specific reports as agreed with the external auditor.
20. Advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

    And in relation to the above, to give such advice and make such recommendations on the adequacy of the level of assurance and on improvement as it considers appropriate.

Financial reporting

The Committee will:

21. Review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit of the financial statements that need to be brought to the attention of the police and crime commissioner and/or the chief constable.
22. Consider the external auditor's report to those charged with governance on issues arising from the audit of the financial statements.

    And in relation to the above, to give such advice and make such recommendations on the adequacy of the level of assurance and on improvement as it considers appropriate

Other functions

The Committee will:

23. Examine the annual draft Treasury Management Strategy, monitor its application during the year and make any recommendations to the PCC and to the Chief Constable in this respect.

Accountability arrangements

The Committee will:

24. On a timely basis report to the PCC and the Chief Constable with its advice and recommendations in relation to any matters that it considers relevant to governance, risk management and financial management.

25. Annually report to the PCC and the Chief Constable on its findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks; financial reporting arrangements, and internal and external audit functions.

26. Annually review its performance against its terms of reference and objectives on an annual basis and report the results of this review to the PCC and the Chief Constable.

Presented to Audit Committee 19 January 2021
PCC CFO

ORIGINATOR:	Chief Finance Officer

REASON FOR SUBMISSION:	To review and note.

SUBJECT: Mid-Year Treasury Management Monitoring Report 2020/21

SUMMARY:

The regulatory framework for treasury management requires the Police and Crime Commissioner (PCC) to receive a mid-year monitoring report on treasury activities.

This report provides information on the treasury management activities of the PCC for the period 1st April 2020 to 30th September 2020.

The first half of 2020/21 has seen overshadowed by the Coronavirus Pandemic, UK GDP fell by 21.8% in the first half as the Government's coronavirus measures took hold. It was therefore no surprise that the Monetary Policy Committee (MPC) left Bank Rate unchanged at 0.1% when it met on 6 August 2020. The MPC forecast that there would be excess demand in the economy by Q3 2022 causing CPI inflation to rise above the 2% target in Q3 2022, (based on market interest rate expectations for a further loosening in policy). Nevertheless, even if the Bank were to leave policy unchanged, inflation was still projected to be above 2% in 2023.

At the 30th September 2020, the PCC's external debt excluding PFI was £23.830m, its investments totalled £25m and bank balances £0.836m.

RECOMMENDATION:

The Committee is asked to review and note the report.

1. Introduction

1.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice for Treasury Management in the Public Sector (the Code), requires that the PCC receives a mid-year review of treasury activities in addition to the forward looking annual investment and treasury strategy and backward looking annual treasury report. The Annual Investment and Treasury Strategy for the current year (2020/21) was reviewed by the Audit Committee on 14 January 2020 and approved by the PCC on 5 February 2020.

1.2 The PCC operates a balanced budget, which broadly means income receivable during the year will cover expenditure payable and any planned movement on reserves. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering maximising investment return.

1.3 The second main function of the treasury management service is the financing of the PCC's capital plans. These capital plans provide a guide to the borrowing need of the PCC, essentially the longer term cash flow planning to ensure the PCC can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to the PCC's risk or cost objectives.

1.4 As a consequence treasury management is defined as:

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

1.5 The PCC has delegated responsibility for treasury management decisions taken within the approved strategy to the PCC's Chief Finance Officer. Day to day execution and administration of investment and borrowing decisions are undertaken by the Constabulary.

1.6 The PCC recognises the importance of monitoring treasury management activities, with regular reports being presented to the Audit Committee throughout the year.

1.7 This mid-year review provides commentary on economic conditions produced by Link Asset Services (the PCC's external treasury consultant) and details treasury activities for the period 1 April 2020 to 30 September 2020 including;

cash balances and cash flow management, investment performance, counterparty management and long-term borrowing/debt management.

2. Link Asset Services Economic Update - October 2020

2.1 Economic performance year to date

UK. As expected, the Bank of England's Monetary Policy Committee kept Bank Rate unchanged on 6th August. It also kept unchanged the level of quantitative easing at £745bn. Its forecasts were optimistic in terms of three areas:

- The fall in GDP in the first half of 2020 was revised from 28% to 23% (subsequently revised to -21.8%). This is still one of the largest falls in output of any developed nation. However, it is only to be expected as the UK economy is heavily skewed towards consumer-facing services – an area which was particularly vulnerable to being damaged by lockdown.

- The peak in the unemployment rate was revised down from 9% in Q2 to 7½% by Q4 2020.

- It forecast that there would be excess demand in the economy by Q3 2022 causing CPI inflation to rise above the 2% target in Q3 2022, (based on market interest rate expectations for a further loosening in policy). Nevertheless, even if the Bank were to leave policy unchanged, inflation was still projected to be above 2% in 2023.

It also squashed any idea of using negative interest rates, at least in the next six months or so. It suggested that while negative rates can work in some circumstances, it would be "less effective as a tool to stimulate the economy" at this time when banks are worried about future loan losses. It also has "other instruments available", including QE and the use of forward guidance.

The MPC expected the £300bn of quantitative easing purchases announced between its March and June meetings to continue until the "turn of the year". This implies that the pace of purchases will slow further to about £4bn a week, down from £14bn a week at the height of the crisis and £7bn more recently.

In conclusion, this would indicate that the Bank could now just sit on its hands as the economy was recovering better than expected. However, the MPC acknowledged that the "medium-term projections were a less informative guide than usual" and the minutes had multiple references to downside risks, which were judged to persist both in the short and medium term. One has only to look at the way in which second waves of the virus are now impacting many countries including Britain, to see the dangers. However, rather than a national lockdown, as in March, any spikes in virus infections are now likely to be dealt with by localised measures and this should limit the amount of economic damage caused. In addition, Brexit uncertainties ahead of the year-end deadline are likely to be a drag on recovery. The wind down of the initial generous furlough scheme through to the end of October is another development that could cause the Bank to review the need for more support for the economy later in the year. Admittedly, the Chancellor announced in late September a second six month package from 1st November of government support for jobs whereby it will pay up to 22% of the costs of retaining an employee working a minimum of one third of their normal hours. There was further help for the self-employed, freelancers and the hospitality industry. However, this is a much less generous scheme than the furlough package and will inevitably mean there will be further job losses from the 11% of the workforce still on furlough in mid September.

Overall, the pace of recovery is not expected to be in the form of a rapid V shape, but a more elongated and prolonged one after a sharp recovery in June through to August which left the economy 11.7% smaller than in February. The last three months of 2020 are now likely to show no growth as consumers will probably remain cautious in spending and uncertainty over the outcome of the UK/EU trade negotiations concluding at the end of the year will also be a headwind. If the Bank felt it did need to provide further support to recovery, then it is likely that the tool of choice would be more QE.

There will be some painful longer term adjustments as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever. There is also likely to be a reversal of globalisation as this crisis has shown up how vulnerable long-distance supply chains are. On the other hand, digital services is one area that has already seen huge growth.

One key addition to the Bank's forward guidance was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate.

The Financial Policy Committee (FPC) report on 6th August revised down their expected credit losses for the banking sector to "somewhat less than £80bn". It stated that in its assessment "banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC's central projection". The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.

US. The incoming sets of data during the first week of August were almost universally stronger than expected. With the number of new daily coronavirus infections beginning to abate, recovery from its contraction this year of 10.2% should continue over the coming months and employment growth should also pick up again. However, growth will be dampened by continuing outbreaks of the virus in some states leading to fresh localised restrictions. At its end of August meeting, the Fed tweaked its inflation target from 2% to maintaining an average of 2% over an unspecified time period i.e.following periods when inflation has been running persistently below 2%, appropriate monetary policy will likely aim to achieve inflation moderately above 2% for some time. This change is aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary “trap” like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade so financial markets took note that higher levels of inflation are likely to be in the pipeline; long term bond yields duly rose after the meeting. The Fed also called on Congress to end its political disagreement over providing more support for the unemployed as there is a limit to what monetary policy can do compared to more directed central government fiscal policy. The FOMC’s updated economic and rate projections in mid-September showed that officials expect to leave the fed funds rate at near-zero until at least end-2023 and probably for another year or two beyond that. There is now some expectation that where the Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal.

EU. The economy was recovering well towards the end of Q2 after a sharp drop in GDP, (e.g. France 18.9%, Italy 17.6%). However, the second wave of the virus affecting some countries could cause a significant slowdown in the pace of recovery, especially in countries more dependent on tourism. The fiscal support package, eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support and quickly enough to make an appreciable difference in weaker countries. The ECB has been struggling to get inflation up to its 2% target and it is therefore expected that it will have to provide more monetary policy support through more quantitative easing purchases of bonds in the absence of sufficient fiscal support.

China. After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and has enabled it to recover all of the contraction in Q1. However, this was achieved by major central government funding of yet more infrastructure spending. After years of growth having been focused on this same area, any further spending in this area is likely to lead to increasingly weaker economic returns. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.

Japan. There are some concerns that a second wave of the virus is gaining momentum and could dampen economic recovery from its contraction of 8.5% in GDP. It has been struggling to get out of a deflation trap for many years and to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy. The resignation of Prime Minister Abe is not expected to result in any significant change in economic policy.

World growth. Latin America and India are currently hotspots for virus infections. World growth will be in recession this year. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

Interest rate forecasts

The Council's treasury advisor, Link Group, provided the following forecasts on 11th August 2020 (PWLB rates are certainty rates, gilt yields plus 180bps):

Link Group Interest Rate View 11.8.20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month average earnings	0.05	0.05	0.05	0.05	0.05	-	-	-	-	-
6 month average earnings	0.10	0.10	0.10	0.10	0.10	-	-	-	-	-
12 month average earnings	0.15	0.15	0.15	0.15	0.15	-	-	-	-	-
5yr PWLB Rate	1.90	2.00	2.00	2.00	2.00	2.00	2.10	2.10	2.10	2.10
10yr PWLB Rate	2.10	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30
25yr PWLB Rate	2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70	2.70	2.70
50yr PWLB Rate	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.50	2.50

Additional notes by Link on this forecast table: -

- *Please note that we have made a slight change to our interest rate forecasts table above for forecasts for 3, 6 and 12 months. Traditionally, we have used LIBID forecasts, with the rate calculated using market convention of 1/8th (0.125%) taken off the LIBOR figure. Given that all LIBOR rates up to 6 months are currently running below 0.1%, using that convention would give negative figures as forecasts for those periods. However, the liquidity premium that is still in evidence at the short end of the curve, means that the rates actually being achieved by local authority investors are still modestly in positive territory. While there are differences between counterparty offer rates, our analysis would suggest that an average rate of around 0.05% is achievable for 3 months, 0.1% for 6 months and 0.15% for 12 months.*

- *During 2021, Link will be continuing to look at market developments in this area and will monitor these with a view to communicating with clients when full financial market agreement is reached on how to replace LIBOR. This is likely to be an iteration of the overnight SONIA rate and the use of compounded rates and Overnight Index Swap (OIS) rates for forecasting purposes.*

- *If clients require forecasts for 3 months to 12 months beyond the end of 2021, a temporary fix would be to assume no change in our current forecasts.*

- *We will maintain continuity by providing clients with LIBID investment benchmark rates on the current basis.*

The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its meeting on 6th August (and the subsequent September meeting), although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected within the forecast horizon ending on 31st March 2023 as economic recovery is expected to be only gradual and, therefore, prolonged.

GILT YIELDS / PWLB RATES. There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was heightened expectations that the US could have been heading for a recession in 2020. In addition, there were growing expectations of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued. Combined, these conditions were conducive to very low bond yields. While inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers. This means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. The consequence of this has been the gradual lowering of the overall level of interest rates and bond yields in financial markets over the last 30 years. Over the year prior to the coronavirus crisis, this has seen many bond yields up to 10 years turn negative in the Eurozone. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities.

Gilt yields had therefore already been on a generally falling trend up until the coronavirus crisis hit western economies during March. After gilt yields spiked up during the initial phases of the health crisis in March, we have seen these yields fall sharply to unprecedented lows as major western central banks took rapid action to deal with excessive stress in financial markets, and started massive quantitative easing purchases of government bonds: this also acted to put downward pressure on government bond yields at a time when there has been a huge and quick expansion of government expenditure financed by issuing government bonds. Such unprecedented levels of issuance in “normal” times would have caused bond yields to rise sharply. At the close of the day on 30th September, all gilt yields from 1 to 6 years were in negative territory, while even 25-year yields were at only 0.76% and 50 year at 0.60%.

From the local authority borrowing perspective, HM Treasury imposed two changes of margins over gilt yields for PWLB rates in 2019-20 without any prior warning. The first took place on 9th October 2019, adding an additional 1% margin over gilts to all PWLB period rates. That increase was then at least partially reversed for some forms of borrowing on 11th March 2020, but not for mainstream General Fund capital schemes, at the same time as the Government announced in the Budget a programme of increased infrastructure expenditure. It also announced that there would be a consultation with local authorities on possibly further amending these margins; this was to end on 4th June, but that date was subsequently put back to 31st July. It is clear HM

Treasury will no longer allow local authorities to borrow money from the PWLB to purchase commercial property if the aim is solely to generate an income stream (assets for yield).

Following the changes on 11th March 2020 in margins over gilt yields, the current situation is as follows: -

- PWLB Standard Rate is gilt plus 200 basis points (G+200bps)
- PWLB Certainty Rate is gilt plus 180 basis points (G+180bps)
- PWLB HRA Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB HRA Certainty Rate is gilt plus 80bps (G+80bps)
- Local Infrastructure Rate is gilt plus 60bps (G+60bps)

It is possible that the non-HRA Certainty Rate will be subject to revision downwards after the conclusion of the PWLB consultation; however, the timing of such a change is currently an unknown, although it would be likely to be within the current financial year.

As the interest forecast table for PWLB certainty rates, (gilts plus 180bps), above shows, there is likely to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. Inflation is also likely to be very low during this period and could even turn negative in some major western economies during 2020/21.

The balance of risks to the UK

The overall balance of risks to economic growth in the UK is probably relatively even, but is subject to major uncertainty due to the virus.

There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, could impact gilt yields, (and so PWLB rates), in the UK.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

UK - second nationwide wave of virus infections requiring a national lockdown

UK / EU trade negotiations – if it were to cause significant economic disruption and a fresh major downturn in the rate of growth.

UK - Bank of England takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

A resurgence of the Eurozone sovereign debt crisis. The ECB has taken monetary policy action to support the bonds of EU states, with the positive impact most likely for “weaker” countries. In addition, the EU recently agreed a €750bn fiscal support package. These actions will help shield weaker economic regions for the next year or so. However, in the case of Italy, the cost of the virus crisis has added to its already huge debt mountain and its slow economic growth will leave it vulnerable to markets returning to taking the view that its level of debt is unsupportable. There remains a sharp divide between northern EU countries favouring low debt to GDP and annual balanced budgets and southern countries who want to see jointly issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU in time to come.

Weak capitalisation of some European banks, which could be undermined further depending on extent of credit losses resultant of the pandemic.

German minority government & general election in 2021. In the German general election of September 2017, Angela Merkel’s CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The CDU has done badly in subsequent state elections but the SPD has done particularly badly. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until the general election in 2021. This then leaves a major question mark over who will be the major guiding hand and driver of EU unity when she steps down.

Other minority EU governments. Austria, Sweden, Spain, Portugal, Netherlands, Ireland and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.

Austria, the Czech Republic, Poland and Hungary now form a strongly anti-immigration bloc within the EU. There has also been a rise in anti-immigration sentiment in Germany and France.

Geopolitical risks, for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows.

US – the Presidential election in 2020: this could have repercussions for the US economy and SINO-US trade relations.

Upside risks to current forecasts for UK gilt yields and PWLB rates

UK - stronger than currently expected recovery in UK economy.

Post-Brexit – if an agreement was reached that removed the majority of threats of economic disruption between the EU and the UK.

The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.

3. Cash Balances and Cash Flow Management

3.1 The PCC's cash and short-term investment balances comprise revenue and capital resources, such as general balances and earmarked reserves and the timing differences between the receipt and payment of monies required to meet the cost of PCC services and the capital programme. The average level of cash and short term-investment balances in the year to date totals £23.090m.

3.2 Cash and short-term investment balances are managed internally and have been invested in accordance with the PCC's approved Authorised Lending List.

3.3 A key objective of cash flow management is to minimise balances held in the PCC's bank accounts in order to ensure that the maximum interest is earned. However presently the interest returned on instant access accounts is similar to those earned on short term lending arrangements. These accounts are therefore frequently utilised within counterparty limits as they provide greater liquidity.

3.4 The PCC operates seven bank accounts. Cash balances across all seven accounts are aggregated and surplus cash balances are invested on a daily basis.

3.5 Year to date (excluding investments and repayments), monies received amounts to £134.4m, while payments total £122.7m, resulting in an overall increase in cash balances of £11.7m.

3.6 By continuing to delay borrowing for capital purposes (Section 6) while at the same time actively managing levels of liquid cash, the PCC on occasions has needed to borrow short-term from the money markets to cover daily liquidity. However there has been no short term borrowing in the review period.

4. Investment Performance

4.1 In accordance with the Code, it is the PCC's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the PCC's risk appetite. As set out in Section 3, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.1% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis together with other risks which could impact on the creditworthiness of banks, prompts a low risk strategy. Given this risk environment, investment returns are likely to remain low.

4.2 At the 30th September 2020, the PCC held £25m of investments. The profile of these investments is shown below.

Institutional Sector	Liquid £m	Up to 3 months £m	Up to 6 months £m	Up to 9 months £m	Up to 12 months £m
Part Nationalised Banks	-	-	-	-	-
UK Banks	5.0	-	-	-	-
Non-UK Banks	-	8.0	2.0	-	-
Building Societies	-	-	-	-	-
Other*	10.0	-	-	-	-
Total	**15.0**	**8.0**	**2.0**	**-**	**-**

*Includes: Money Market Funds

4.3 A more detailed investment profile at 30th September 2020 is shown at Appendix 1.

4.4 The average interest rate earned for the year to date is 0.1334%.

4.5 Gross interest earned for the period 1st April 2020 to 30th September 2020 is £0.014m.

5. Counterparty Maintenance

5.1 The PCC CFO is responsible for maintaining an Approved Counterparty List in accordance with the criteria as set out in the approved Annual Investment and Treasury Strategy 2020/21. Credit rating information is supplied by our treasury consultants on all active counterparties. Any rating changes, rating watches (notification of a likely change) and rating outlooks (notification of a possible longer-term change) are provided by our treasury consultants immediately they occur. A wide range of market information such as Credit Default Swap prices and share price is also taken into account. The Approved Counterparty List is therefore actively managed on a day-to-day basis and when an institution no longer meets the PCC approved counterparty criteria, it is immediately removed.

5.2 There have been no credit rating downgrades during the period 1st April 2020 to 30th September 2020 that have resulted in counterparties being removed from the authorised counterparty list.

6. Long Term Borrowing/Debt Management

6.1 The PCC undertakes capital expenditure on long-term assets. This activity gives rise to the need to borrow. Part of the PCC's treasury management activity is to address this borrowing need, either through long term borrowing from external bodies (PWLB or commercial banks) or utilising temporary cash resources within the PCC pending long term borrowing.

6.2 In accordance with the approved 2020/21 Investment and Treasury Strategy, the PCC continues to delay new borrowing for capital purposes, using cash balances on a temporary basis to avoid the cost of 'carrying' debt in the short term. Delaying borrowing and running down the level of investment balances also reduces the PCC's exposure to investment counterparty risk.

6.3 At the 30th September 2020, the PCC's external borrowing (debt outstanding, excluding PFI) totaled £23.830m (PWLB)

6.4 The PCC's overall capital financing requirement (excluding PFI) at 31.3.20 was £32.1m. The projected capital financing requirement at 31.3.21 is approximately £37.9m. This represents unfunded capital expenditure for which approved borrowing can be drawn down. The PCC's CFO, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks identified in the economic forecast (Section 2).

6.5 The Public Works Loans Board (PWLB) provides a facility to restructure debt, including early repayment of loans and encourages local authorities to do so when circumstances permit. This can result in net savings in overall interest charges. Current circumstances do not suggest that refinancing existing PWLB debt would be economically prudent due to the significant repayment penalties. However prevailing PWLB interest rates continue to be monitored in order to identify repayment opportunities.

7. Other

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

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

A report setting out our Capital Strategy will be included in the Budget and Medium Term Financial Plan 2021/25 which will be presented to the Police and Crime Panel on 2 February 2021.

7.2 MiFID II (Markets in Financial Instruments Directive).
On 3 January 2018 the EU introduced regulations under MiFID II. These regulations govern the relationship that financial institutions conducting lending and borrowing transactions have with local authorities (and PCCs). This has little effect on the PCC apart from having to fill in forms sent by each institution dealing with the PCC and for each type of investment instrument in use - apart from for cash deposits with banks and building societies.

8 Conclusion

8.1 The Mid-Year Treasury Management Monitoring Report 2020/21 provides information on the Treasury Management activities of the PCC for the period 1st April 2020 to 30th September 2020.

9 Recommendation

9.1 It is recommended that Audit Committee notes the Mid-Year Treasury Management Monitoring Report 2020/21.

Appendix 1

Outstanding Deposit Profile @ 30 September 2020				
Start	Repay	Counterparty	Rate	Amount
07/08/2020	07/10/2020	DBS Bank Ltd	0.11%	£8,000,000
19/08/2020	19/02/2021	DBS Bank Ltd	0.11%	£2,000,000
21/09/2020	Instant Access	Barclays Bank	0.00%	£2,500,000
07/09/2020	Instant Access	Lloyds Bank	0.05%	£2,500,000
20/05/2020	Instant Access	CCLA	0.12%	£3,000,000
03/07/2020	Instant Access	CCLA	0.12%	£7,000,000
				£25,000,000

Appendix G

The Office of the Police and Crime Commissioner for Norfolk
Annual Investment and Treasury Management Strategy Statement 2021/22

1. Background

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

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

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

1.4 CIPFA defines treasury management as:

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

1.5 This PCC has not engaged in any commercial investments and has no non-treasury investments.

2. Reporting requirements

Capital Strategy

2.1 The CIPFA 2017 Prudential and Treasury Management Codes require, for 2021/22, all local authorities to prepare a capital strategy report, which will provide the following:

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

2.2 The aim of this capital strategy is to ensure that the PCC fully understands the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

2.3 The Capital Strategy will be published separately but is included within the PCC's Budget and MTFP report.

Treasury Management reporting

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

a. Prudential and treasury indicators and treasury strategy (this report) - The first, and most important report is forward looking and covers:

- the capital plans, (including prudential indicators); (Annex 1)
- a minimum revenue provision (MRP) policy, (how unfunded capital expenditure is charged to revenue over time); (Annex 2)
- the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
- an investment strategy, (the parameters on how investments are to be managed).

b. A mid-year treasury management report – This is primarily a progress report and will update the PCC on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

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

3. Treasury Management Strategy for 2021/22

3.1 The strategy for 2020/21 covers two main areas:

Capital issues

- the capital expenditure plans and the associated prudential indicators; see Annex 1.
- the minimum revenue provision (MRP) policy. See Annex 2.

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the PCC;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- the policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance.

Training

3.2 The CIPFA Code requires the responsible officer to ensure that officers with responsibility for treasury management receive adequate training in treasury management. This also applies to Audit Committee members responsible for scrutiny. Training on the Prudential Code and the Capital Strategy was provided to Audit Committee members in October 2018.

Treasury management consultants

3.3 The PCC uses Link Asset Services as its external treasury management advisors. The current contract with Link expires on 31 August 2022.

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

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

The Treasury Management Function

3.6 The CIPFA Code defines treasury management activities as “the management of the PCC’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

3.7 The PCC regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the PCC, and any financial instruments entered into to manage these risks.

3.8 The PCC acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

3.9 The PCC is required to operate a balanced budget, which broadly means that cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensures this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties, providing adequate liquidity before considering investment return.

3.10 A further function of the treasury management service is to provide for the borrowing requirement of the PCC, essentially the longer term cash flow planning, typically 30 years plus, to ensure the PCC can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using internal cash balances on a temporary basis. Debt previously borrowed may be restructured to meet PCC risk or cost objectives.

3.11 The PCC has delegated responsibility for treasury management decisions taken within the approved strategy to the PCC CFO. Day to day execution and administration of investment and borrowing decisions is undertaken by Specialist Accountants based in the Joint Finance Department for Suffolk and Norfolk Constabularies.

3.12 External treasury management services continue to be provided by Link Asset Services in a joint contract with the PCC for Suffolk. Link Asset Services provides a range of services which include:

- Technical support on treasury matters and capital finance issues.
- Economic and interest rate analysis.
- Debt services which includes advice on the timing of long term borrowing.

- Debt rescheduling advice surrounding the existing portfolio.
- Generic investment advice on interest rates, timing and investment instruments.
- Credit ratings/market information service for the three main credit rating agencies (Fitch, Moody's and Standard & Poors).

3.13 Whilst Link Asset Services provide support to the treasury function, under market rules and in accordance with the CIPFA Code of Practice, the final decision on treasury matters remains with the PCC.

3.14 Performance will continue to be monitored and reported to the PCC as part of the budget monitoring report.

3.15 Link Asset Service's Economic Forecast is set out in Annex 3.

4. Investment Strategy 2021/22

4.1 Bank Rate is unlikely to rise from 0.10% for a considerable period. It is very difficult to say when it may start rising so it may be best to assume that investment earnings from money market-related instruments will be sub 0.50% for the foreseeable future.

- Q1 2021 - 0.10%
- Q1 2022 - 0.10%
- Q1 2023 - 0.10%

4.2 The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

Financial Year	Budgeted Interest Earnings
2020/21	0.1%
2021/22	0.1%
2022/23	0.1%
2023/24	0.1%
2024/25	0.25%
Later Years	2.00%

The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture.

The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is subject to major uncertainty due to the virus and how quickly successful vaccines may become available and widely administered to the population. It may also be affected by what, if any, deal the UK agrees as part of Brexit.

There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, or a return of investor confidence in equities, could impact gilt yields, (and so PWLB rates), in the UK.

Negative investment rates
While the Bank of England said in August / September 2020 that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, and in November omitted any mention of negative rates in the minutes of the meeting of the Monetary Policy Committee, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government has provided large sums of grants to local authorities to help deal with the COVID crisis; this has caused some local authorities to have sudden large increases in cash balances searching for an investment home, some of which was only very short term until those sums were able to be passed on.

As for money market funds (MMFs), yields have continued to drift lower. Some managers have already resorted to trimming fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has meant there is a surfeit of money swilling around at the very short end of the market. This has seen a number of market operators, now including the DMADF, offer nil or negative rates for very short term maturities. This is not universal, and MMFs are still offering a marginally positive return, as are a number of financial institutions for investments at the very short end of the yield curve.

Inter-local authority lending and borrowing rates have also declined due to the surge in the levels of cash seeking a short-term home at a time when many local authorities are probably having difficulties over accurately forecasting when disbursements of funds received will occur or when further large receipts will be received from the Government.

4.3 There are 3 key considerations to the treasury management investment process. MHCLG's Investment Guidance ranks these in the following order of importance:

- security of principal invested,

- liquidity for cash flow, and
- investment return (yield).

Each deposit is considered in the context of these 3 factors, in that order.

4.4 MHCLG's Investment Guidance requires local authorities and PCCs to invest prudently and give priority to security and liquidity before yield, as described above. In order to facilitate this objective, the Guidance requires the PCC to have regard to CIPFA's Code of Practice for Treasury Management in the Public Sector.

4.5 The key requirements of both the Code and the Investment Guidance are to produce an Annual Investment and Treasury Strategy covering the following:

- Guidelines for choosing and placing investments – Counterparty Criteria and identification of the maximum period for which funds can be committed – Counterparty Monetary and Time Limits.
- Details of Specified and Non-Specified investment types.

5. Investment Strategy 2021/22 - Counterparty Criteria

5.1 The PCC works closely with its external treasury advisors to determine the criteria for high quality institutions.

5.2 The criteria for providing a pool of high-quality investment counterparties for inclusion on the PCC's 'Approved Authorised Counterparty List' is provided below

- **UK Banks** which have the following minimum ratings from at least one of the three credit rating agencies:

UK Banks	**Fitch**	**Standard & Poors**	**Moody's**
Short Term Ratings	F1	A-1	P-1
Long Term Ratings	A-	A-	A3

- **Non-UK Banks** domiciled in a country which has a minimum sovereign rating of AA+ and have the following minimum ratings from at least one of the credit rating agencies:

Non-UK Banks	**Fitch**	**Standard & Poors**	**Moody's**
Short Term Ratings	F1+	A-1+	P-1
Long Term Ratings	AA-	AA-	Aa3

- **Part Nationalised UK Banks –** Royal Bank of Scotland Group (including Nat West). These banks are included while they continue to be part nationalised or they meet the minimum rating criteria for UK Banks above.

- **The PCC's Corporate Banker –** If the credit ratings of the PCC's corporate banker (currently Barclays Bank plc) fall below the minimum criteria for UK Banks above, then cash balances held with that bank will be for account operation purposes only and balances will be minimised in terms of monetary size and time.

- **Building Societies –** The PCC will use Building Societies which meet the ratings for UK Banks outlined above.

- **Money Market Funds (MMFs) –** which are rated AAA by at least one of the three major rating agencies. MMF's are 'pooled funds' investing in high-quality, high-liquidity, short-term securities such as treasury bills, repurchase agreements and certificate of deposit. Funds offer a high degree of counterparty diversification that include both UK and Overseas Banks.

- **UK Government –** including the Debt Management Account Deposit Facility & Sterling Treasury Bills. Sterling Treasury Bills are short-term (up to six months) 'paper' issued by the UK Government. In the same way that the Government issues Gilts to meet long term funding requirements, Treasury Bills are used by Government to meet short term revenue obligations. They have the security of being issued by the UK Government.

- **Local Authorities, PCCs etc. –** Includes those in England and Wales (as defined in Section 23 of the Local Government Act 2003) or a similar body in Scotland or Northern Ireland.

5.3 All cash invested by the PCC in 2021/22 will be either Sterling deposits (including certificates of deposit) or Sterling Treasury Bills invested with banks and other institutions in accordance with the Approved Authorised Counterparty List.

5.4 The Code of Practice requires local authorities and PCCs to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for use, additional market information will be used to inform investment decisions. This additional market information includes, for example, Credit Default Swap rates and equity prices in order to compare the relative security of counterparties.

5.5 The current maximum lending limit of £10m for any counterparty will be maintained in 2021/22 to reflect the level of cash balances and to avoid large deposits with the DMO. Where there is a surplus of cash due to unplanned cashflows, in order to keep within the counterparty limit with the PCC's bankers, the PCC will place investments using other secure liquid financial instruments, e.g. Money Market Funds.

5.6 In addition to individual institutional lending limits, “Group Limits” will be used whereby the collective investment exposure of individual banks within the same banking group is restricted to a group lending limit of £10m.

5.7 The Strategy permits deposits beyond 365 days (up to a maximum of 2 years) but only with UK banks which meet the credit ratings at paragraph 5.2. Deposits may also be placed with UK Part Nationalised Banks and Local Authorities for periods of up to 2 years.

5.8 A reasonable amount will be held on an instant access basis in order for the PCC to meet any unexpected needs. Instant access accounts are also preferable during periods of credit risk uncertainty in the markets, allowing the PCC to immediately withdraw funds should any concern arise over a particular institution.

6. Investment Strategy 2021/22 – Specified and Non-Specified Investments

6.1 As determined by CLG’s Investment Guidance, Specified Investments offer “high security and high liquidity”. They are Sterling denominated and have a maturity of less than one year or for a longer period but where the PCC has the right to be repaid within one year if he wishes. Institutions of “high” credit quality are deemed to be Specified Investments where the possibility of loss of principal or investment income is small. From the pool of high quality investment counterparties identified in Section 5, the following are deemed to be Specified Investments :

- Banks: UK and Non-UK;
- Part Nationalised UK Banks;
- The PCC’s Corporate Banker (Barclays Bank plc)
- Building Societies (which meet the minimum ratings criteria for Banks);
- Money Market Funds;
- UK Government;
- Local Authorities, PCCs etc.

6.2 Non-Specified Investments are those investments that do not meet the criteria of Specified Investments. From the pool of counterparties identified in Section 5, they include:

- Any investment that cannot be recalled within 365 days of initiation.

6.3 The categorisation of ‘Non-Specified’ does not in any way detract from the credit quality of these institutions, but is merely a requirement of the Government’s guidance.

6.4 The PCC's proposed Strategy for 2021/22 therefore includes both Specified and Non-Specified Investment institutions.

7. Borrowing Strategy 2021/22

7.1 Capital expenditure can be funded immediately by applying capital receipts, capital grants or revenue contributions. Capital expenditure in excess of available capital resources or revenue contributions will increase the PCC's borrowing requirement. The PCC's need to borrow is measured by the Capital Financial Requirement (CFR), which simply represents the total outstanding capital expenditure, which has not yet been funded from either capital or revenue resources.

7.2 For the PCC, borrowing principally relates to long term loans (i.e. loans in excess of 365 days). The borrowing strategy includes decisions on the timing of when further monies should be borrowed.

7.3 Historically, the main source of long term loans has been the Public Works Loan Board (PWLB), which is part of the UK Debt Management Office (DMO). The maximum period for which loans can be advanced by the PWLB is 50 years. On 26 November 2020, HM Treasury reversed the increase of 100 basis points that took place on 9 October 2019, following a response to a consultation that was published on 25 November 2020. Lending by the PWLB is now on the proviso that CFOs confirm that the authority does not intend to buy investment assets primarily for yield at any point in the next three years.

7.4 External borrowing currently stands at £23.81m (excluding PFI). At 31 March 2020 there was a £32.1m Capital Financing Requirement (CFR) relating to unfunded capital expenditure which had been financed from internal resources. The CFR is estimated to be £37.9m at 31 March 2021, £46.3m at 31 March 2022 and £50.5m at 31 March 2023. Additional long term borrowing is estimated at £9.3m for 2021/22, £7.7m for 2022/23 and £5.8m for 2023/24. The borrowing requirement does not include the funding requirement in respect of assets financed through PFI.

7.5 The challenging and uncertain economic outlook outlined by Link Asset Services in Annex 3, together with managing the cost of "carrying debt" requires a flexible approach to borrowing. The PCC, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks identified in Link Asset Services economic overview (Section 3).

7.6 The level of outstanding debt and composition of debt, in terms of individual loans, is kept under review. The PWLB provides a facility to allow the restructure of debt, including premature repayment of loans, and encourages local authorities and PCCs to do so when circumstances permit. This can result in net savings in overall interest charges. The PCC CFO and Link Asset Services will monitor prevailing rates for any opportunities during the year. As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred). Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt

7.7 The PCC has flexibility to borrow funds in the current year for use in future years, but will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the PCC can ensure the security of such funds

7.8 The PCC will continue to use the most appropriate source of borrowing at the time of making application, including; the PWLB, commercial market loans, Local Authorities and the Municipal Bond Agency.

8. Treasury Management Prudential Indicators

8.1 In addition to the key Treasury Indicators included in the Prudential Code and reported separately, there are two treasury management indicators. The purpose of the indicators is to restrict the activity of the treasury function to within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However, if these indicators are too restrictive, they will impair the opportunities to reduce costs/improve performance. The Indicators are:

- **Maturity Structures of Borrowing** – These gross limits are set to reduce the PCC's exposure to large fixed rate sums falling due for refinancing and require upper and lower limits. It is recommended that the PCC sets the following limits for the maturity structures of its borrowing at 31.3.21:

	Actual*	Lower Limit	Upper Limit
Under 12 months	0.8%	0%	15%
12 months and within 24 months	5.0%	0%	15%
24 months and within 5 years	14.7%	0%	45%
5 years and within 10 years	16.6%	0%	75%
10 years and above	62.9%	0%	100%

* Actual is based on existing balances at 10.12.20

- **Upper Limits to the Total of Principal Funds Invested for Greater than 365 Days –** This limit is set with regard to the PCC's liquidity requirements. It is estimated that in 2020/21, the maximum level of PCC funds invested for periods greater than 365 days will be no more than £4.475m.

Annex 1

Prudential Code Indicators 2021/22, 2022/23, 2023/24

1. Background

1.1 The Prudential Code for capital investment came into effect on 1st April 2004. It replaced the complex regulatory framework, which only allowed borrowing if specific government authorisation had been received. The Prudential system is one based on self-regulation. All borrowing undertaken is self-determined under the prudential code. A revised Prudential Code was published in December 2017 and was applied from 2018/19.

1.2 Under Prudential arrangements the PCC can determine the borrowing limit for capital expenditure. The Government does retain reserve powers to restrict borrowing if that is required for national economic reasons.

1.3 The key objectives of the Code are to ensure, within a clear framework, that capital investment plans are affordable, prudent and sustainable. The Code specifies indicators that must be used and factors that must be taken into account. The Code requires the PCC to set and monitor performance on:

- capital expenditure
- affordability
- external debt
- treasury management (now included within Treasury Management strategy)

1.4 The required indicators are:

- Capital Expenditure Forecast
- Capital Financing Requirement
- Actual External Debt
- Authorised Limit for External Debt
- Operational Boundary Limit for External Debt

However authorities are now advised to use local indicators, where this would be beneficial, especially if carry out commercial activities.

1.5 Once determined, the indicators can be changed so long as this is reported to the PCC.

1.6 Actual performance against indicators will be monitored throughout the year. All the indicators will be reviewed and updated annually.

2. The Indicators

2.1 The **Capital Expenditure Payment Forecast** is detailed in Appendix x (of the PCC's Budget and MTFP report 2021/25). The total estimated payments are:

	2021/22	2022/23	2023/24
	£m	£m	£m
Capital Expenditure Forecast	15.155	9.902	8.908

The PCC is being asked for approval to an overall Capital Programme based on the level of capital financing costs contained within the draft revenue budget.

2.2 The **ratio of capital financing costs to net revenue budget** shows the estimated annual revenue costs of borrowing (net interest payable on debt and the minimum revenue provision for repaying the debt), as a proportion of annual income from local taxation and non-specific government grants. The estimates include PFI MRP and interest costs. Estimates of the ratio of capital financing costs to net revenue budget for future years are:

Ratio of Capital Financing Costs to Net Revenue Budget		
2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
4.75%	4.94%	5.19%

2.3 The **capital financing requirement** represents capital expenditure not yet financed by capital receipts, revenue contributions or capital grants. It measures the underlying need to borrow for capital purposes, although this borrowing may not necessarily take place externally. Estimates of the end of year capital financing requirement for future years are:

Capital Financing Requirement			
31/03/21 Estimate	31/03/22 Estimate	31/03/23 Estimate	31/03/24 Estimate
£94.457m	£101.555m	£103.941m	£104.737m

2.4 The guidance on **net borrowing for capital purposes** advises that:

"In order to ensure that over the medium term net borrowing will only be for a capital purpose, the PCC should ensure that net external borrowing 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."

Net borrowing refers to the PCC's total external borrowing net of any temporary cash investments and must work within this requirement.

2.5 The Code defines the **authorised limit for external debt** as the sum of external

borrowing and any other financing long-term liabilities e.g. finance leases. It is recommended that the PCC approve the 2021/22 and future years limits. For 2021/22 this will be the statutory limit determined under section 3(1) of the Local Government Act 2003.
As required by the Code, the PCC is asked to delegate authority to the Chief Finance Officer (OPCCN), within the total limit for any individual year, to effect movement between the separate limits for borrowing and other long-term liabilities. Any such changes made will be reported to the PCC.

Authorised Limit for External Debt			
	2021/22	2022/23	2023/24
	£m	£m	£m
PWLB borrowing	32.885	39.146	43.699
Other long term liabilities (OCC PFI)	23.373	22.679	21.906
Other long term liabilities (PIC PFI)	31.848	30.771	29.634
Headroom	18.527	16.542	14.735
Total	106.633	109.138	109.974

These proposed limits are consistent with the Capital Programme. They provide headroom to allow for operational management, for example unusual cash movements.

2.6 The Code also requires the PCC to approve an **operational boundary limit for external debt** for the same time period. The proposed operational boundary for external debt is the same calculation as the authorised limit without the additional headroom. The operational boundary represents a key management tool for in year monitoring.

Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified again. The PCC is asked to delegate authority to the Chief Finance Officer (OPCCN), within the total operational boundary for any individual year, to make any required changes between the separately agreed figures for borrowing and other long-term liabilities. Any changes will be reported to the PCC.

Operational Boundary Limit for External Debt			
	2021/22	2022/23	2023/24
	£m	£m	£m
PWLB borrowing	32.885	39.146	43.699
Other long term liabilities (OCC PFI)	23.373	22.679	21.906
Other long term liabilities (PIC PFI)	31.848	30.771	29.634

Total	88.106	92.596	95.239

Annex 2

Minimum Revenue Provision (MRP)
MRP Policy and Statement for 2021/22.

1. Introduction

1.1 The PCC is required to make a charge against the revenue budget each year in respect of capital expenditure financed by borrowing or credit arrangement. The annual charge is set aside for the eventual repayment of the loan and is known as the Minimum Revenue Provision (MRP). This is separate from any annual interest charges that are incurred on borrowing.

1.2 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 amend the way in which MRP can be calculated so that each authority must consider what is “prudent”. The regulations are backed up by statutory guidance which gives advice on what might be considered prudent.

2. Options for Making Prudent Provision

2.1 Four options are included in the guidance, which are those likely to be most relevant for the majority of local government bodies. Although other approaches are not ruled out, local government bodies must demonstrate that they are fully consistent with the statutory duty to make prudent revenue provision.

Option 1 - Regulatory Method
Authorities may continue to use the formulae put in place by the previous regulations.

Option 2 - Capital Financing Requirement (CFR) Method

Under this option, MRP is equal to 4% of the non-housing CFR at the end of the preceding financial year.

Option 3 – Asset Life Method
This is to make provision over the estimated life of the asset for which the borrowing is undertaken. This could be done by:
(a) Charging MRP in equal instalments over the life of the asset
(b) Charge MRP on an annuity basis, where MRP is the principal element for the year of the annuity required to repay over the asset’s useful life the amount of capital expenditure financed by borrowing or credit arrangements. The authority should use an appropriate interest rate to calculate the amount. Adjustments to the calculation to take account of repayment by other methods during repayment period (e.g. by the application of capital receipts) should be made as necessary.

Option 4 - Depreciation

MRP is deemed to be equal to the provision required in accordance with deprecation accounting in respect of the asset on which expenditure has been financed by borrowing or credit arrangements. This should include any amount for impairment charged to the income and expenditure accounts.

2.2 The regulations make a distinction between capital expenditure incurred before 1 April 2008 and capital expenditure incurred from 1 April 2008 in terms of the options available.

2.3 Options 1 and 2 are to be used for capital expenditure incurred pre April 2008. Options 3 and 4 are to be used for Capital expenditure incurred post April 2008.

3. MRP Policy

3.1 Before 1 April 2019 the option adopted for expenditure incurred after 1 April 2008 was Option 3a (Equal Instalment method). This method was deemed prudent whilst assets were primarily being internally financed.

3.2 As reserves, cash and investment balances have been consumed following the decrease in direct government funding, it is now necessary to externally finance capital expenditure on long life assets. The current preferred financing method is via the Public Works Loans Board (PWLB) borrowed on an annuity basis.

3.3 Option 3b (Annuity Method) is adopted for capital expenditure chargeable as MRP for the first time after 1 April 2019. The principal reason for this change was for the charge to revenue to reflect the capital repayment basis on the associated finance. This method will therefore adopt a similar MRP basis as those assets financed through lease or PFI arrangements.

3.4 The revised Statutory Guidance released on 2 February 2018 stipulates that this change in policy cannot be applied retrospectively to assets placed in service prior to the date the revised policy was introduced. Therefore Option 3a still applies to capital expenditure chargeable as MRP for the first time prior to 1 April 2019.

4. Recommendations

4.1 It is proposed that the following MRP policy is adopted as follows for 2021/22:

- Capital expenditure incurred before April 2008 is treated in accordance with Option 1 of the regulatory guidance;
- Capital expenditure chargeable as MRP for the first time from 1 April 2008 to 31 March 2019 is treated in accordance with Option 3(a) of the regulatory guidance.
- Capital expenditure chargeable as MRP for the first time after 1 April 2019 is treated in accordance with Option 3(b) of the regulatory guidance.

Annex 3

LINK ASSET SERVICES

ECONOMIC BACKGROUND

UK.

The Bank of England's Monetary Policy Committee kept Bank Rate unchanged on 5th November. However, it revised its economic forecasts to take account of a second national lockdown from 5th November to 2nd December which is obviously going to put back economic recovery and do further damage to the economy. It therefore decided to do a further tranche of quantitative easing (QE) of £150bn, to start in January when the current programme of £300bn of QE announced in March to June, runs out. It did this so that "announcing further asset purchases now should support the economy and help to ensure the unavoidable near-term slowdown in activity was not amplified by a tightening in monetary conditions that could slow the return of inflation to the target".

Its forecasts appeared, at the time, to be rather optimistic in terms of three areas:

- The economy would recover to reach its pre-pandemic level in Q1 2022
- The Bank also expects there to be excess demand in the economy by Q4 2022.
- CPI inflation is therefore projected to be a bit above its 2% target by the start of 2023 and the "inflation risks were judged to be balanced".

Significantly, there was no mention of negative interest rates in the minutes or Monetary Policy Report, suggesting that the MPC remains some way from being persuaded of the case for such a policy, at least for the next 6 -12 months. However, rather than saying that it "stands ready to adjust monetary policy", the MPC this time said that it will take "whatever additional action was necessary to achieve its remit". The latter seems stronger and wider and may indicate the Bank's willingness to embrace new tools.

One key addition to the Bank's forward guidance in August was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. Our Bank Rate forecast currently shows no increase through to quarter 1 2024 but there could well be no increase during the next five years due to the slow rate of recovery of the economy and the need for the Government to see the burden of the elevated debt to GDP ratio falling significantly. Inflation is unlikely to pose a threat requiring increases in Bank Rate during this period as there is likely to be spare capacity in the economy for a considerable time. It is expected to briefly peak at around 2% towards the end of 2021, but this is a temporary short lived factor and so not a concern.

However, the minutes did contain several references to downside risks. The MPC reiterated that the "recovery would take time, and the risks around the GDP projection were judged to be skewed to the downside". It also said "the risk of a more persistent period of elevated unemployment remained material". Downside risks could well include severe restrictions remaining in place in some form during the rest of December and most of January too. That could involve some or all of the lockdown being extended beyond 2nd December, a temporary relaxation of restrictions over Christmas, a resumption of the lockdown in January and lots of regions being subject to Tier 3 restrictions when the lockdown ends. Hopefully, restrictions should progressively ease during the spring. It is only to be expected that some businesses that have barely survived the first lockdown, will fail to survive the second lockdown, especially those businesses that depend on a surge of business in the run up to Christmas each year. This will mean that there will be some level of further permanent loss of economic activity, although the extension of the furlough scheme to the end of 31st March will limit the degree of damage done.

As for upside risks, we have been waiting expectantly for news that various COVID19 vaccines would be cleared as being safe and effective for administering to the general public. The Pfizer announcement on 9th November was very encouraging as its 90% effectiveness was much higher than the 50-60% rate of effectiveness of flu vaccines which might otherwise have been expected. However, their phase three trials are still only two-thirds complete. More data needs to be collected to make sure there are no serious side effects. We don't know exactly how long immunity will last or whether it is effective across all age groups. The Pfizer vaccine specifically also has demanding cold storage requirements of minus 70C that might make it more difficult to roll out. However, the logistics of production and deployment can surely be worked out over the next few months.

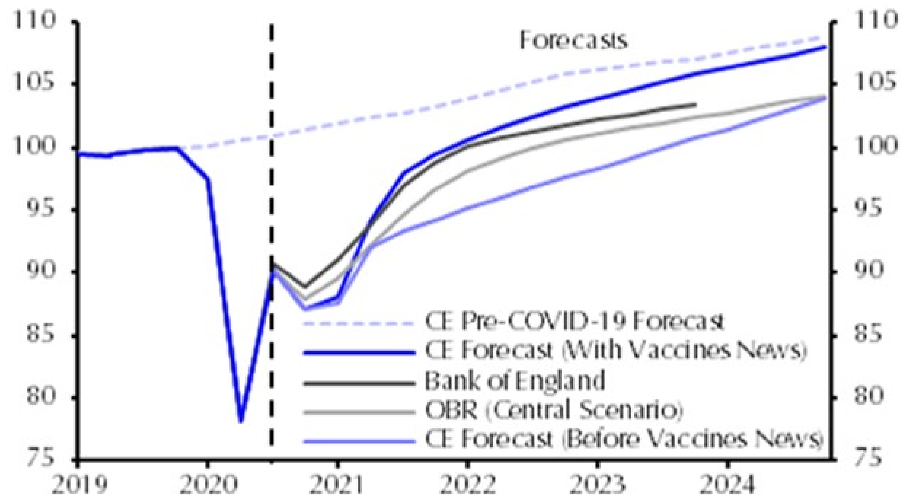
However, there has been even further encouraging news since then with another two vaccines announcing high success rates. Together, these three announcements have enormously boosted confidence that life could largely return to normal during the second half of 2021, with activity in the still-depressed sectors like restaurants, travel and hotels returning to their pre-pandemic levels, which would help to bring the unemployment rate down. With the household saving rate currently being exceptionally high, there is plenty of pent-up demand and purchasing power stored up for these services. A comprehensive roll-out of vaccines might take into late 2021 to fully complete; but if these vaccines prove to be highly effective, then there is a possibility that restrictions could begin to be eased, possibly in Q2 2021, once vulnerable people and front-line workers had been vaccinated. At that point, there would be less reason to fear that hospitals could become overwhelmed any more. Effective vaccines would radically improve the economic outlook once they have been widely administered; it may allow GDP to rise to its pre-virus level a year earlier than otherwise and mean that the unemployment rate peaks at 7% next year instead of 9%. But while this would reduce the need for more QE and/or negative interest rates, increases in Bank Rate would still remain some years away. There is also a potential question as to whether the relatively optimistic outlook of the Monetary Policy Report was swayed by making positive assumptions around effective vaccines being available soon. It should also be borne in mind that as effective vaccines will take time to administer, economic news could well get worse before it starts getting better.

Public borrowing is now forecast by the Office for Budget Responsibility (the OBR) to reach £394bn in the current financial year, the highest ever peace time deficit and equivalent to

19% of GDP. In normal times, such an increase in total gilt issuance would lead to a rise in gilt yields, and so PWLB rates. However, the QE done by the Bank of England has depressed gilt yields to historic low levels, (as has similarly occurred with QE and debt issued in the US, the EU and Japan). This means that new UK debt being issued, and this is being done across the whole yield curve in all maturities, is locking in those historic low levels through until maturity. In addition, the UK has one of the longest average maturities for its entire debt portfolio, of any country in the world. Overall, this means that the total interest bill paid by the Government is manageable despite the huge increase in the total amount of debt. The OBR was also forecasting that the government will still be running a budget deficit of £102bn (3.9% of GDP) by 2025/26. However, initial impressions are that they have taken a pessimistic view of the impact that vaccines could make in the speed of economic recovery.

Overall, the pace of recovery was not expected to be in the form of a rapid V shape, but a more elongated and prolonged one. The initial recovery was sharp but after a disappointing increase in GDP of only 2.1% in August, this left the economy still 9.2% smaller than in February; this suggested that the economic recovery was running out of steam after recovering 64% of its total fall during the crisis. The last three months of 2020 were originally expected to show zero growth due to the impact of widespread local lockdowns, consumers probably remaining cautious in spending, and uncertainty over the outcome of the UK/EU trade negotiations concluding at the end of the year also being a headwind. However, the second national lockdown starting on 5th November for one month is expected to depress GDP by 8% in November while the rebound in December is likely to be muted and vulnerable to the previously mentioned downside risks. It was expected that the second national lockdown would push back recovery of GDP to pre pandemic levels by six months and into sometime during 2023. However, the graph below shows what Capital Economics forecast will happen now that there is high confidence that successful vaccines will be widely administered in the UK in the first half of 2021; this would cause a much quicker recovery than in their previous forecasts.

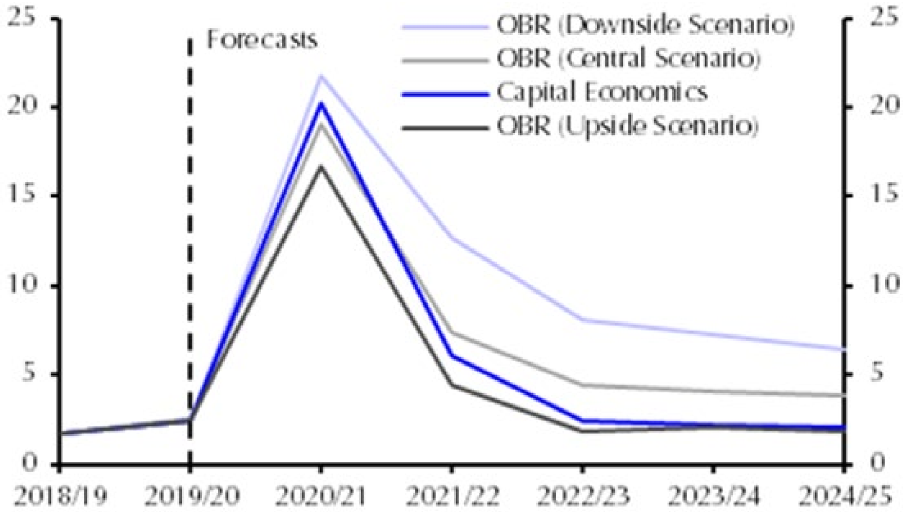
Chart: Level of real GDP   (Q4 2019 = 100)



(if unable to print in colour…... the key describing each line in the above graph is in sequential order from top to bottom in parallel with the lines in the graph.)

This recovery of growth which eliminates the effects of the pandemic by about the middle of the decade would have major repercussions for public finances as it would be consistent with the government deficit falling to 2% of GDP without any tax increases. This would be in line with the OBR's most optimistic forecast in the graph below, rather than their current central scenario which predicts a 4% deficit due to assuming much slower growth. However, Capital Economics forecasts assume that there is a reasonable Brexit deal and also that politicians do not raise taxes or embark on major austerity measures and so, (perversely!), depress economic growth and recovery.

Chart: Public Sector Net Borrowing (As a % of GDP)



(if unable to print in colour…... the key describing each line in the above graph is in sequential order from top to bottom in parallel with the lines in the graph.)

Capital Economics have not revised their forecasts for Bank Rate or gilt yields after this major revision of their forecasts for the speed of recovery of economic growth, as they are also forecasting that inflation is unlikely to be a significant threat and so gilt yields are unlikely to rise significantly from current levels.

There will still be some painful longer term adjustments as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever, even if vaccines are fully successful in overcoming the current virus. There is also likely to be a reversal of globalisation as this crisis has exposed how vulnerable long-distance supply chains are. On the other hand, digital services are one area that has already seen huge growth.

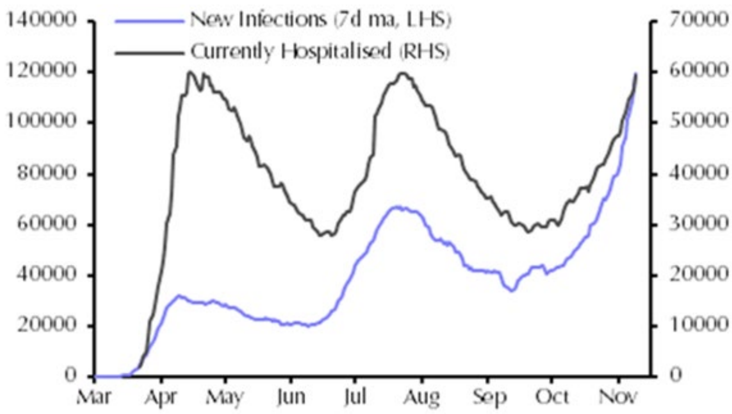
The Financial Policy Committee (FPC) report on 6th August revised down their expected credit losses for the banking sector to "somewhat less than £80bn". It stated that in its assessment "banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC's central projection". The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.

US

The result of the November elections means that while the Democrats have gained the presidency and a majority in the House of Representatives, it looks as if the Republicans will retain their slim majority in the Senate. This means that the Democrats will not be able to do a massive fiscal stimulus, as they had been hoping to do after the elections, as they will have to get agreement from the Republicans. That would have resulted in another surge of debt issuance and could have put particular upward pressure on debt yields – which could then have also put upward pressure on gilt yields. On the other hand, equity prices leapt up on 9th November on the first news of a successful vaccine and have risen further during November as more vaccines announced successful results. This could cause a big shift in investor sentiment i.e. a swing to sell out of government debt to buy into equities which would normally be expected to cause debt prices to fall and yields to rise. However, the rise in yields has been quite muted so far and it is too early to say whether the Fed would feel it necessary to take action to suppress any further rise in debt yields. It is likely that the next two years, and possibly four years in the US, could be a political stalemate where neither party can do anything radical.

The economy had been recovering quite strongly from its contraction in 2020 of 10.2% due to the pandemic with GDP only 3.5% below its pre-pandemic level and the unemployment rate dropping below 7%. However, the rise in new cases during quarter 4, to the highest level since mid-August, suggests that the US could be in the early stages of a third wave. While the first wave in March and April was concentrated in the Northeast, and the second wave in the South and West, the latest wave has been driven by a growing outbreak in the Midwest. The latest upturn poses a threat that the recovery in the economy could stall. This is the single biggest downside risk to the shorter term outlook – a more widespread and severe wave of infections over the winter months, which is compounded by the impact of the regular flu season and, as a consequence, threatens to overwhelm health care facilities. Under those circumstances, states might feel it necessary to return to more draconian lockdowns.

COVID-19 New infections & hospitalisations



However, with the likelihood that highly effective vaccines are going to become progressively widely administered during 2021, this should mean that life will start to return to normal during quarter 2 of 2021. Consequently, there should be a sharp pick-up in growth during that quarter and a rapid return to the pre-pandemic level of growth by the end of the year.

After Chair Jerome Powell unveiled the Fed's adoption of a flexible average inflation target in his Jackson Hole speech in late August, the mid-September meeting of the Fed agreed by a majority to a toned down version of the new inflation target in his speech - that "it would likely be appropriate to maintain the current target range until labour market conditions were judged to be consistent with the Committee's assessments of maximum employment and inflation had risen to 2% and was on track to moderately exceed 2% for some time." This change was aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary “trap” like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade, (and this year), so financial markets took note that higher levels of inflation are likely to be in the pipeline; long-term bond yields duly rose after the meeting. The Fed also called on Congress to end its political disagreement over providing more support for the unemployed as there is a limit to what monetary policy can do compared to more directed central government fiscal policy. The FOMC’s updated economic and rate projections in mid-September showed that officials expect to leave the fed funds rate at near-zero until at least end-2023 and probably for another year or two beyond that. There is now some expectation that where the Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal. The Fed’s meeting on 5 November was unremarkable - but at a politically sensitive time around the elections.

EU

The economy was recovering well towards the end of Q2 and into Q3 after a sharp drop in GDP caused by the virus, (e.g. France 18.9%, Italy 17.6%). However, growth is likely to stagnate during Q4, and Q1 of 2021, as a second wave of the virus has affected many countries, and is likely to hit hardest those countries more dependent on tourism. The €750bn fiscal support package eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support, and quickly enough, to make an appreciable difference in the worst affected countries. With inflation expected to be unlikely to get much above 1% over the next two years, the ECB has been struggling to get inflation up to its 2% target. It is currently unlikely that it will cut its central rate even further into negative territory from -0.5%, although the ECB has stated that it retains this as a possible tool to use. It is therefore expected that it will have to provide more monetary policy support through more quantitative easing purchases of bonds in the absence of sufficient fiscal support from governments. The current PEPP scheme of €1,350bn of QE which started in March 2020 is providing protection to the sovereign bond yields of weaker countries like Italy. There is therefore unlikely to be a euro crisis while the ECB is able to maintain this level of support. However, the PEPP scheme is regarded as being a temporary measure during this crisis so it may need to be increased once the first PEPP runs out during early 2021. It could also decide to focus on using the Asset Purchase Programme to make more monthly purchases, rather than the PEPP scheme, and it does have other monetary policy options.

However, as in the UK and the US, the advent of highly effective vaccines will be a game changer, although growth will struggle during the closing and opening quarters of this year and next year respectively before it finally breaks through into strong growth in quarters 2 and 3. The ECB will now have to review whether more monetary support will be required to help recovery in the shorter term or to help individual countries more badly impacted by the pandemic.

China

After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and then into Q3 and Q4; this has enabled China to recover all of the contraction in Q1. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth. At the same time, China's economy has benefited from the shift towards online spending by consumers in developed markets. These factors help to explain its comparative outperformance compared to western economies.

However, this was achieved by major central government funding of yet more infrastructure spending. After years of growth having been focused on this same area, any further spending in this area is likely to lead to increasingly weaker economic returns in the longer term. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.

Japan

Japan's success in containing the virus without imposing draconian restrictions on activity should enable a faster return to pre-virus levels of output than in many major economies. While the second wave of the virus has been abating, the economy has been continuing to recover at a reasonable pace from its earlier total contraction of 8.5% in GDP. However, there now appears to be the early stages of the start of a third wave. It has also been struggling to get out of a deflation trap for many years and to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. There has also been little progress on fundamental reform of the economy. The change of Prime Minister is not expected to result in any significant change in economic policy.

World growth

While Latin America and India have, until recently, been hotspots for virus infections, infection rates have begun to stabilise. World growth will be in recession this year. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

Until recent years, world growth has been boosted by increasing globalisation i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high tech areas and production of rare earth minerals used in high tech products. It is achieving this by massive financial support, (i.e. subsidies), to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation.

Summary

Central banks are, therefore, likely to support growth by maintaining loose monetary policy through keeping rates very low for longer. Governments could also help a quicker recovery by providing more fiscal support for their economies at a time when total debt is affordable due to the very low rates of interest. They will also need to avoid significant increases in taxation or austerity measures that depress demand in their economies.

If there is a huge surge in investor confidence as a result of successful vaccines which leads to a major switch out of government bonds into equities, which, in turn, causes government debt yields to rise, then there will be pressure on central banks to actively manage debt yields by further QE purchases of government debt; this would help to suppress the rise in debt yields and so keep the total interest bill on greatly expanded government debt portfolios within manageable parameters. It is also the main alternative to a programme of austerity.

The graph below as at 10th November, shows how the 10 and 30 year gilt yields in the UK spiked up after the Pfizer vaccine announcement on the previous day, (though they have levelled off during late November at around the same elevated levels): -

INTEREST RATE FORECASTS

Link Group Interest Rate View 9.11.20														
These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20														
	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.80	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10 yr PWLB	1.10	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50 yr PWLB	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60

Brexit

The interest rate forecasts provided by Link above are predicated on an assumption of a reasonable agreement being reached on trade negotiations between the UK and the EU by 31.12.20. However, as the differences between a Brexit deal and a no deal are not as big as they once were, the economic costs of a no deal have diminished. The bigger risk is that relations between the UK and the EU deteriorate to such an extent that both sides start to unravel the agreements already put in place. So what really matters now is not whether there is a deal or a no deal, but what type of no deal it could be.

The differences between a deal and a no deal were much greater immediately after the EU Referendum in June 2016, and also just before the original Brexit deadline of 29.3.19. That's partly because leaving the EU's Single Market and Customs Union makes this Brexit a relatively "hard" one. But it's mostly because a lot of arrangements have already been put in place. Indeed, since the Withdrawal Agreement laid down the terms of the break-up, both the UK and the EU have made substantial progress in granting financial services equivalence and the UK has replicated the bulk of the trade deals it had with non-EU countries via the EU. In a no deal in these circumstances (a "cooperative no deal"), GDP in

2021 as a whole may be only 1.0% lower than if there were a deal. In this situation, financial services equivalence would probably be granted during 2021 and, if necessary, the UK and the EU would probably rollover any temporary arrangements in the future.

The real risk is if the UK and the EU completely fall out. The UK could override part or all of the Withdrawal Agreement while the EU could respond by starting legal proceedings and few measures could be implemented to mitigate the disruption on 1.1.21. In such an "uncooperative no deal", GDP could be 2.5% lower in 2021 as a whole than if there was a deal. The acrimony would probably continue beyond 2021 too, which may lead to fewer agreements in the future and the expiry of any temporary measures.

Relative to the slump in GDP endured during the COVID crisis, any hit from a no deal would be small. But the pandemic does mean there is less scope for policy to respond. Even so, the Chancellor could loosen fiscal policy by about £10bn (0.5% of GDP) and target it at those sectors hit hardest. The Bank of England could also prop up demand, most likely through more gilt and corporate bond purchases rather than negative interest rates.

Brexit may reduce the economy's potential growth rate in the long run. However, much of that drag is now likely to be offset by an acceleration of productivity growth triggered by the digital revolution brought about by the COVID crisis.

So in summary there is not likely to be any change in Bank Rate in 20/21 – 21/22 due to whatever outcome there is from the trade negotiations and while there will probably be some movement in gilt yields / PWLB rates after the deadline date, there will probably be minimal enduring impact beyond the initial reaction.

The balance of risks to the UK

The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is subject to major uncertainty due to the virus and how quickly successful vaccines may become available and widely administered to the population. It may also be affected by what, if any, deal the UK agrees as part of Brexit.

There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, could impact gilt yields, (and so PWLB rates), in the UK.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

UK - further national lockdowns or severe regional restrictions in major conurbations during 2021.

UK / EU trade negotiations – if they were to cause significant economic disruption and downturn in the rate of growth.

UK government takes too much action too quickly to raise taxation or introduce austerity measures that depress demand in the economy.

UK - Bank of England takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

A resurgence of the Eurozone sovereign debt crisis. The ECB has taken monetary policy action to support the bonds of EU states, with the positive impact most likely for "weaker" countries. In addition, the EU agreed a €750bn fiscal support package. These actions will help shield weaker economic regions for the next year or so. However, in the case of Italy, the cost of the virus crisis has added to its already huge debt mountain and its slow economic growth will leave it vulnerable to markets returning to taking the view that its level of debt is unsupportable. There remains a sharp divide between northern EU countries favouring low debt to GDP and annual balanced budgets and southern countries who want to see jointly issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU in time to come.

Weak capitalisation of some European banks, which could be undermined further depending on extent of credit losses resultant of the pandemic.

German minority government & general election in 2021. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The CDU has done badly in subsequent state elections but the SPD has done particularly badly. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until the general election in 2021. This then leaves a major question mark over who will be the major guiding hand and driver of EU unity when she steps down.

Other minority EU governments. Austria, Sweden, Spain, Portugal, Netherlands, Ireland and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.

Austria, the Czech Republic, Poland and Hungary now form a strongly anti-immigration bloc within the EU. In November, Hungary and Poland threatened to veto the 7 year EU budget due to the inclusion of a rule of law requirement that poses major challenges to both countries. There has also been a rise in anti-immigration sentiment in Germany and France.

Geopolitical risks, for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

UK - a significant rise in inflationary pressures. These could be caused by an uncooperative Brexit deal or by a stronger than currently expected recovery in the UK economy after effective vaccines are administered quickly to the UK population which leads to a resumption of normal life and a return to full economic activity across all sectors of the economy.

The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a rapid series of increases in Bank Rate to stifle inflation.

Post-Brexit – if a positive agreement was reached that removed the majority of threats of economic disruption between the EU and the UK.

Link Asset Services
November 2020

ORIGINATOR:	Chairman

SUBJECT: Audit Committee Annual Report – 1 April 2020 – 31 March 2021

SUMMARY:

The work undertaken by the Committee is presented in the Annual Audit Committee Report. The draft is presented to the committee for comment prior to submission to the PCC and Chief Constable.

Introduction

The purpose of the Audit Committee is to provide independent advice and recommendations to the Police and Crime Commissioner and the Chief Constable for Norfolk on the adequacy of governance and risk management frameworks, the internal control environment and financial reporting.

The Committee has an independent role to review the effectiveness of governance, risk management and control arrangements in the Office of the Police and Crime Commissioner for Norfolk (OPCCN) and in Norfolk Constabulary. It also reviews financial reporting and annual governance processes as well as the work of the internal and external auditors.

This report covers the activities undertaken by the Audit Committee at its meetings during the period from 1 April 2020 to 31 March 2021.

The Committee comprises 5 independently appointed members who have a range of backgrounds and experience. During the period, it met 4 times and these meetings usually are open to the public to attend. However, with national lockdowns and tier restrictions due to the Covid 19 pandemic meetings were held virtually with the public being asked to submit questions before the meetings and all details of the meetings on the website as usual.

Governance and Risk Management frameworks

During the year, the Committee reviewed and approved the Annual Governance Statement for the year ended 31 March 2020 which sets out the arrangements that operated to ensure effective governance in the OPCCN and the Constabulary.

This statement was published as part of the annual financial statements for the year ended 31 March 2020. It is also reviewed by the external auditor who did not raise any issues in relation to its contents as part of the annual audit process.

The Committee also supported the work of the Corporate Governance Working Group in refreshing the Corporate Governance Framework, which has been updated on the website.

At each of its meetings during the year, the Committee reviewed the strategic risks facing the OPCCN and the Constabulary, together with the actions being taken by management to manage those risks effectively. The Committee also discusses any emerging risks with representatives from the OPCCN and the Constabulary.

Internal Controls

Internal auditors have been appointed to assess and test the operation of internal controls in a number of activities based on a programme of work for the year. The Committee reviewed and agreed the internal audit plan for the 2020/2021 year and then received progress reports from the internal auditors on their work at each meeting.

The Committee also discussed individual internal audit reports with the internal audit team and with management at each of its meetings with particular emphasis on those reports where the overall conclusion was one of limited assurance.

The internal audit reports included progress in implementing agreed recommendations arising from earlier assignments. The Committee has been pleased with the recent progress that has been made by management to action recommendations. It will continue to focus on this important area.

The Committee also considered the draft internal audit strategic and annual plan for 2021/22 noting the need to address those areas of greatest risk to the delivery of the OPCCN and Constabulary objectives.

The overall conclusion from the Head of Internal Audit annual report for 19/20 was that TIAA was satisfied that, for the areas reviewed during the year, the Police and Crime Commissioners for Norfolk and Suffolk and Chief Constables of Norfolk and Suffolk Constabularies had reasonable and effective risk management, control and governance processes in place.

Financial Reporting

The OPCCN and the Constabulary are required to produce annual financial statements in accordance with recognised accounting standards and which are then subject to an independent external audit.

Prior to the production of the annual accounts, the Committee reviewed the accounting policies to be used in compiling the accounts. It also reviewed the draft annual accounts before the external audit process commenced and questioned the Chief Finance Officers on a range of accounting matters that they contained.

At the conclusion of the external audit process, the Committee received a report from the external auditor which set out the results of the audit work in relation to annual accounts and the arrangements for securing value for money in the use of resources at the OPCCN and the Constabulary.

The external auditor provided unqualified opinions for the year ended 31 March 2020. The external auditor summarised all of these results in an Annual Audit Letter which was presented to the Committee and published on the OPCCN website in January 2021.

The Committee recorded its appreciation of management in achieving this positive report. It also noted the change in timescales for publishing and auditing the financial statements for 2019/20, due to the pandemic. The revised deadline of 30 November was achieved.

Other Matters

The Committee reviewed the annual Treasury Management strategy for the year ending 31 March 2021, together with an update on treasury activities during 2020/21. The strategy sets out details of the approach to managing debt and investments.

As well as its formal meetings, the Committee meets to discuss topics that are relevant to its business so that members have a greater insight into policing matters.

Topics that have been included in this programme of training and development during the year were Whistleblowing and Ethics, Norfolk 2020, going concern, Treasury management, Early Help and Scams.

The Committee also undertook a review of the skills of its members in order to identify future training and development needs. The results will influence the programme of training and development for 2021/2022

The Committee reviewed its effectiveness using the latest good practice guidance for audit committees issued by the Chartered Institute of Public Finance & Accountancy in April 2019.

The Committee reviewed the terms of reference to reflect the latest best practice and also met Internal Audit and External Audit in private, which is recommended best practice.

Rob Bennett
Chair
On behalf of the Audit Committee

POLICE & CRIME COMMISSIONER NORFOLK

NORFOLK CONSTABULARY Our Priority is You

Audit Committee
Forward Work Plan

19 January 2021

Morning Briefing 18 January 2021	2020 project and training of Police officers including PEQF
Welcome and Apologies	
Declarations of Interest	
Minutes of meeting **20 October 2020**	
Audit Committee Terms of Reference	Report from CFO
Internal Audit 2020/21 Progress update and follow up report 2021/22 Internal Audit Plan (draft)	Reports from Head of Internal Audit
7 Force Procurement Audit findings	Report from RSM
External Audit 2019/20 Accounts Annual Audit Letter	Report from Director, E&Y
Treasury Management 2019/20 Half Year Update 2020/21 Strategy (draft)	Report from CFO
Audit Committee Annual report	Report from Chair
Forward Work Plan	Report from CFO
Strategic Risk Register Update – Part 2 private agenda	Report from Chief Exec and CC
Fraud - Part 2 private agenda	Report from CFO & ACO

13 April 2021

Morning Briefing	Estates Strategy, Modern Workplace and OPCCN Workstyle
Welcome and Apologies	
Declarations of Interest	
Minutes of meeting **19 January 2021**	
Internal Audit 2020/21 Progress Report and Follow Up Review	Reports from Head of Internal Audit

2020/21 Annual Report 2021/22 Internal Audit Plan (Final)	
External Audit Plan 2020/21	Report from Director, E&Y
Forward Work Plan	Report from CFO
Strategic Risk Register update – Part 2 private agenda	Report from Chief Exec and CC
Fraud – Part 2 private agenda	Report from CFO & ACO

8 June 2021 Private (informal meeting)

Draft Statements of Accounts 2020/21	Reports from CFO/ACO

27 July 2021

Morning briefing	Risk appetite
Welcome and Apologies	
Declarations of Interest	
Minutes of meeting **13 April 2021**	
Internal Audit 2020/21 Progress Report (including outstanding reports from 2019/20)	Report from Head of Internal Audit
Forward Work Plan	Report from CFO
Strategic Risk Register Update – Part 2 private agenda	Report from Chief Exec and CC
Fraud - Part 2 private agenda	Report from CFO & ACO

21 September 2020

Morning Briefing	Joint Justice/Criminal Justice
Welcome and Apologies	
Declarations of Interest	
Minutes of meeting **27 July 2021**	
Internal Audit 2020/21 Progress and Follow up Report	Report from Head of Internal Audit
Corporate Governance Framework	Report from CFO
Annual Governance Statement	Report from CFO
Audit Committee Skills	Report from CFO
Forward Work Plan Report from CFO	
Strategic Risk Register update– Part 2 private agenda	Report from Chief Exec and CC
Fraud - Part 2 private agenda	Report from CFO

19 October 2021

Morning Briefing	Going concern and the accounts
Welcome and Apologies	
Declarations of Interest	

Minutes of meeting **21 September 2021**	
Final Accounts 2020/21 Approval including External Auditor's Audit Results Report	Reports from CFO and E&Y
Internal Audit 2020/21 Progress Report and Follow up Report	Report from Head of Internal Audit
Forward Work Plan	Report from CFO

Report Author
Jill Penn
Chief Finance Officer - OPCCN