AUDIT COMMITTEE

Tuesday 25th January 2022 at 10.00 hrs
Microsoft Teams

A G E N D A

<u>Note for Members of the Public</u>: 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.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

5.	Internal Audit 2021/22 Progress Report and Follow up Report- Report from Head of Internal Audit • Assurance Review of Seized Monies	Page 12
6.	2020/21 Auditor's Annual Report- Report from Director, EY	Page 45
7.	Treasury Management • 2021/22 Half Year Update • 2022/23 Strategy (draft) Report from CFO	Page 75
8.	Forward Work Plan – Report from CFO	Page 111

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Part 2 – Private Agenda

9. Fraud update – Report from CFO

   Strategic Risk Register Update –Report from Chief Exec and CC

10. Date of Next Meeting

   Tuesday 12th April 2022 at 14.00hrs - Venue TBC

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Enquiries to:

OPCCN

Building 1, Jubilee House,
Falconers Chase, Wymondham, Norfolk, NR18 0WW
Direct Dial: 01953 424455 Email: opccn@norfolk.police.uk

如果您希望把□□□□□□□□□□□□□ 01953 424455 或□□□□□□□
opccn@norfolk.police.uk □□□□□警察和犯罪事□□□□□□。

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.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.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.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.police.uk

Audit Committee Meeting

Monday 29 November 2021
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 G Orpen-Smellie	Police and Crime Commissioner, OPCC
Mr M Stokes	Chief Executive, OPCC
Ms J Penn	Chief Finance Officer, (PCC CFO), OPCC
Mr P Sanford	Chief Constable, Norfolk Constabulary
Mr P Jasper	Assistant Chief Officer (ACO), Norfolk Constabulary
Mr I Fearn	Head of Financial Accounting and Specialist Functions, Norfolk and Suffolk Constabularies
Ms F Dodimead	Director of Audit, TIAA
Ms C Lavery	Audit Manager, TIAA
Ms V Chong	Manager, Ernst & Young LLP
Mrs J Curson	Transcribing the minutes from the Teams Recording

Part 1 – Public Agenda

1.0 Welcome and Apologies

1.1 Apologies were received from Mark Hodgson E&Y

1.2 There were no questions received from the general public.

2.0 Declarations of Personal and/or Prejudicial Interest

2.1 None were recorded.

2.2 The Chair asked for all committee members to email the CFO direct if there are any changes from the last updated version.

3.0 Minutes of the last meeting

3.1 *There were no issues with the accuracy of the minutes from the last meeting held on 19 October 2021 .*

3.2 The minutes of the last meeting were duly agreed by the Audit Committee members as an accurate account of meeting.

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 Draft Annual Accounts for the year ending 31 March 2021

5.1 The Chair advised that the Committee had received their briefing on the draft financial statements in June 2021 and these statements have now been reviewed and comments fed back.

5.2 The CFO thanked the financial team for their all their hard work to ensure the accounts were prepared in a timely manner and this was reiterated by the ACO. There were some changes made but these were minor.

5.3 I Fearn gave an update on the three areas that were changed as follows:

5.3.1 At the end of each year when the IAS19 pension reports from the actuaries are prepared, there is an element that is projected in the original report. This is then reviewed against the actual data prior to the final version of the accounts and if there is a material difference then the accounts are amended. This year I Fearn advised that this was on the border of materiality around changes in asset valuation and so the accounts were duly amended.

5.3.2 There were minor council tax changes, some of the information supplied from the district and city councils was incorrect.

5.3.3 There was a minor adjustment to the officer remuneration note.

5.4 The Chair asked if there had been any impact on reserves or actual spend. I Fearn confirmed that there had been no impact.

5.5 The amendments to the Annual Governance statement have now been made and the CFO confirmed that E&Y have received the final amended document and they have audited on the basis of this report. The CFO asked for any final changes to be made today to enable finalisation to take place tomorrow Tuesday 30 November. There were no further comments recorded.

5.6 P Hargrave raised a question on page 31 of the report in relation to recording of online crimes and a dramatic increase in the number of cases. The Chief Constable advised that this most likely relates to cases of online stalking as there were changes to legislation last year and a wider band of cases is now recorded in relation to stalking and harassment. The ACO suggested that this could be re-visited in the next annual report.

6.0 External Auditor's Audit Results Report

6.1 V Chong, E&Y advised the meeting of various key points within the report.

6.2 On Page 169 there have been changes to the materiality from the original audit plan.

6.3 In relation to the status of the audit, items listed on page 170 relating to the property, plant and equipment and IAS 19 are all now completed and going through final checks before signing.

6.4 Pages 176 – 182 relate to risks that have been identified within the audit plan. V Chong advised that all areas have been reviewed and there are no issues to report.

6.5 The Chair noted that there were no issues to report in the Value for Money section, no uncorrected audit differences, and no comments on the draft Annual Governance statement from the Committee.

6.6 V Chong advised that M Hodgson will sign the accounts tomorrow morning Tuesday 30 November.

6.7 The Chair thanked I Fearn and his team for all their hard work and high quality of the work presented.

6.8 The Chair also thanked V Chong and all at E&Y for their hard work.

6.9 The Chair asked if the ACO and CFO could confirm to all the committee that the accounts have been signed on Tuesday 30 November.

6.10 The Chief Constable then left the meeting due to another commitment.

6.11 The PCC also had to leave the meeting but thanked everyone for all their hard work with preparing, reviewing, and auditing the accounts.

7.0 Internal Audit

7.1 F Dodimead advised that, as everyone is aware, work ceased in quarter 1 and resumed in quarter 3. From quarter 1 there is one outstanding draft report and when the management responses have been received this will presented at the next meeting.

7.2 F Dodimead advised that all the audits for the rest of the year have now been scheduled in and resources allocated. The plan should be completed by the end of the year. However, the plan may go over into May and F Dodimead has discussed this with the ACO.

7.3 There are eight recommendations in the follow up report which are overdue and the latest briefings have also been included.

7.4 P Hargrave raised issue of the revised review dates for the recommendations as they are all the same date of the 31 January 2022. C Lavery advised that these are the dates that have been supplied from the PMO and extensions have only been allowed up to two months. However, the ACO advised that there are couple of recommendations that will go beyond the date of 31 January and a couple that should be closed as the constabulary is adequately mitigating the risk and this will be discussed with C Lavery.

7.5 J Hills raised issued of vetting and professional standards in light of recent national issues, and there will be a briefing session in relation to this. The ACO advised that a couple of additional posts have been approved for the vetting department and a vetting project is in place. Currently, however, the unknown is recommendations that are likely to be issued in response to national events that will need to be implemented.

7.6 J Hill also asked about some of the recommendations being now two years old and whether they are still relevant or have been superseded by other actions.

7.7 A Bennett raised the issue that some of the management comments being out of date within the follow up report and felt it is important that the management comments are updated regularly. It was also felt by the Committee that more meaningful concise updates and achievable target dates should be within the follow up report.

Action 64: The ACO and C Lavery to discuss further with the PMO to ensure that there are achievable target dates, these dates are met and dates are inserted for the management comments. C Lavery to report back at the next Audit Committee meeting with an update on progress.

7.8 Updated Plan

7.9 F Dodimead highlighted that due to the contract changing within this financial year, there were changes to the budget and a reduction in days, and consequently changes had to be made to the plan. However, F Dodimead confirmed that even with the reduction in days, TIAA will still be able to provide the head of audit opinion.

7.10 There will be a key control review of payroll, accounts payable and treasury management and any extra work that is required will be flagged to the Committee.

7.11 F Dodimead outlined some changes to the plan that have been agreed with the CFO and ACO and the overall costs of the plan have been kept within budget.

7.12 J Hills raised issue that discussion still needs to take place in relation to next year's draft plan as listed on action 59 of the action log. F Dodimead advised that the meeting with the ACO, CFO and TIAA is being rescheduled. F Dodimead and C Lavery have already met to discuss potential audit areas but decision still needs to be made on whether it is a one quarter plan as the TIAA contract ends at the end of June 2022 or a full year plan.

7.13 F Dodimead advised that following the webinar that took place last week, there would be a roll out of further webinars, which will replace the previous onsite training sessions and seminars which took place about twice a year. F Dodimead asked for the Committee to advise her of any subjects that were of interest that could be covered within these seminars.

7.14 **Decision:** The Committee approved the plan as presented at the meeting.

8.0 Forward Work Plan

8.1 The CFO advised that the forward work plan has now been updated with the briefing sessions and discussions will take place with E&Y in relation to the accounts for next year.

Audit Committee
Public – Part 1

Action Log

Action Number	Meeting Date	Actions and update	Owner	Status
New Actions: 21 May 2020				
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. **19.1.21** C Lavery to discuss outside of the meeting with the CFO. **13.4.21** C Lavery has now passed these to the CFO who will circulate once they have been reviewed. **27.7.21** F Dodimead understood that C Lavery had sent a reply between meetings, but the CFO confirmed that she had not received a response. F Dodimead to follow up with C Lavery. **19.10.21** This item is still outstanding the CFO will liaise with C Lavery to resolve this action. **29.11.21** C Lavery has now provided answers to the outstanding items, and J Penn has circulated to the members. Action closed	C Lavery / Jill Penn	Action closed 29.11.21
New Actions: 13 April 2021				

052	13.4.21	**Action:** The CFO to discuss with M Hodgson the timings for delivering the annual report to enable a date for the Audit Committee to be set at an appropriate time. Following this the CFO will discuss further with the Chair. **27.7.21** Discussion has taken place and the CFO confirmed that the morning and afternoon sessions on the 21 September have been cancelled. The confirmed dates for the rest of the year are Tuesday 19 October and meeting on the 29 November in the afternoon has been added to review the final accounts if they are available at this time. **19.10.21** The date of the meeting to review the accounts has now been changed to 29 November. The CFO informed the Committee that the external auditors are currently working on site and they have extended their deadline by one week. The CFO will keep the Committee informed of progress and any changes to arrangements but is hopeful that the 29 November date will be met by the auditors. **29.11.21** To be discussed as agenda item – action closed.	J Penn/R Bennett/M Hodgson	Action closed 29.11.21
New actions: 19 October 2021				
058	19.10.21	**Action:** A Matthews raised question around recording data issues within the Joint Justice Services and asked if this is being resolved as part of the Data Quality work currently being undertaken by the Constabulary. The ACO to check with the chair of the Data Quality group if this is being covered and report back at the next meeting. **29.11.21** P Jasper added an update in the chat function for the meeting. The Joint Justice Services systems / processes are considered as part of the wider DQ project. The head of Joint Justice is on the DQ Board as well. There are 6 priority areas - not directly involving Joint Justice, although they will benefit from the improvements in DQ that feed downstream to them.	P Jasper	Action closed 29.11.21
059	19.10.21	**Action:** As the contract for TIAA runs until June 2022 F Dodimead asked the Committee if they would like the plan to be for the first quarter only for the whole of the year. F Dodimead to discuss this with the ACO and CFO outside of the meeting to agree what is required from TIAA and report back to the Committee at the next meeting. **29.11.21** Further discussion to take place with TIAA and the ACO and CFO in relation to next year's plan and whether this should be for the first quarter only or for the full year. Update the next Audit Committee meeting.	F Dodimead/P Jasper/J Penn	Live
060	19.10.21	**Action:** Following the data quality presentation at the members' briefing session yesterday, the Chair raised the point that it might be beneficial to have an independent review take place of the assessment against the process maturity matrix. The ACO to discuss this further with TIAA.	P Jasper/F Dodimead/C Lavery	Action closed 29.11.21

		29.11.21 The ACO has now discussed with TIAA and they will now be able to look at this within the audit – action closed.		
061	19.10.21	**Action:** A Matthews felt that the section about the internal audit is well written. However, felt that the wording was too passive on section 5.3 and the CFO will arrange for this to be amended. **29.11.21 –** The CFO advised that the wording has been amended as requested. Action closed	J Penn	Action closed 29.11.21
062	19.10.21	**Action:** The CFO advised that consideration now needs to be given to the members' briefing sessions as these are currently set on the plan only until the April 2022 meeting. The CFO will circulate to the Committee a list of topics that have previously been covered and asked the Committee to consider these and offer any suggestions to the CFO of what they would like included in the morning briefing sessions. **29.11.21** The Programme has now been updated and circulated. The ACO advised that he has now received information from the PMO in relation to the status of policies and will circulate this to the Committee. The CFO advised that the PCC's office is also undertaking a review and this should be available within the next week.	~~All~~ P Jasper	Live
063	**19.10.21**	**Action:** F Dodimead advised that TIAA are arranging a webinar for both Norfolk and Suffolk Audit Committees with input from specialists. F Dodimead also asked the Committee to consider any subjects from the internal audit side that would be of interest for the briefing sessions. **29.11.21** The Chair attended the webinar – action closed.	All	Action closed 29.11.21
New actions: 29 November 2021				
064	29.11.21	**Action:** The ACO and C Lavery to discuss further with the PMO to ensure that there are achievable target dates, these dates are met and dates are inserted for the management comments. C Lavery to report back at the next Audit Committee meeting with an update on progress.	P Jasper/C Lavery	Live

Internal Audit

FINAL

The Police and Crime Commissioner for Norfolk and the Chief Constable of Norfolk Constabulary

Summary Internal Controls Assurance (SICA) Report

2021/22

January 2022

Summary Internal Controls Assurance

Introduction

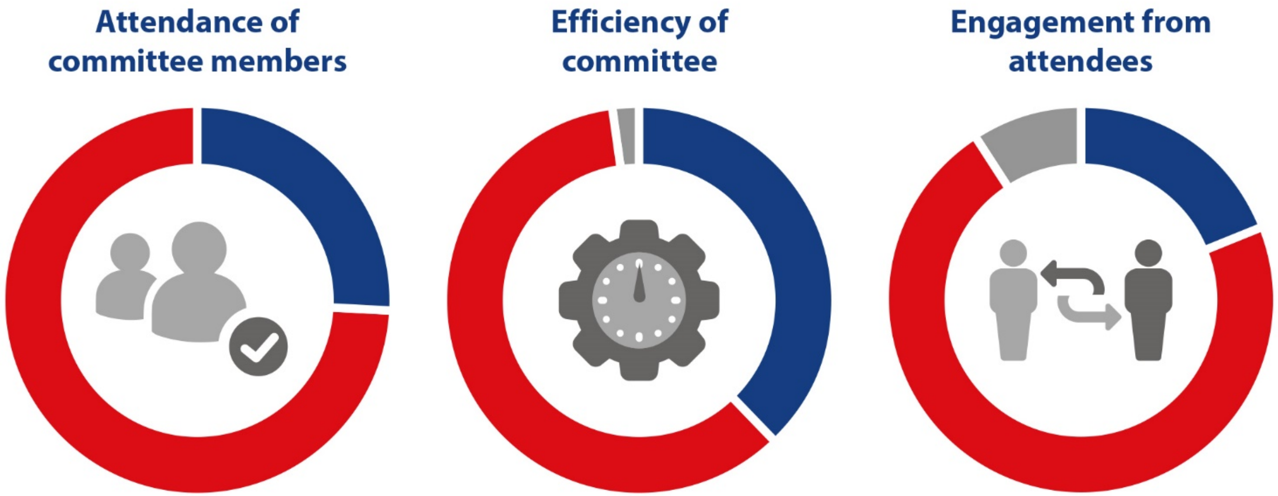
1. This summary controls assurance report provides the Audit Committee with an update on the emerging Governance, Risk and Internal Control related issues and the progress of our work at the Police and Crime Commissioner of Norfolk and Chief Constable of Norfolk Constabulary as at the 11th January 2022.

Emerging Governance, Risk and Internal Control Related Issues

2. In our recent 'Post-Lockdown Working Practices Briefing', we explored the results of our survey of clients to ascertain how organisations are planning to deliver some of their functions going forward. We asked a number of questions regarding Audit Committee meetings and their effectiveness since the pandemic started and gained thoughts on how these will take place once restrictions are eased.

   The experience of remotely held Audit Committees meetings has been positive with the majority of respondents recording no change in or increased attendance, efficiency and engagement at meetings.

Post Lockdown Audit Committee Attendance



Increased	26%
No Change	74%
Decreased	0%

Increased	38%
No Change	60%
Decreased	2%

Increased	19%
No Change	72%
Decreased	9%

Audits completed since the last SICA report to the Audit Committee

3. 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**
Seized Monies	Limited	03/12/20	10/12/21	10/12/21	1	6	0	2

The Executive Summary and the Management Action Plan for this audit is are included in Appendix A, in addition as this is a limited audit opinion a full copy of the report has been provided to Audit Committee members.

Progress against the 2021/22 Annual Plan

4. Our progress against the Annual Plan for 2021/22 is set out in Appendix B.

Changes to the Annual Plan 2021/22

5. No further changes have been made to the plan since the last audit committee.

Progress in actioning priority 1 & 2 recommendations

6. No Priority 1 recommendations (i.e. fundamental control issue on which action should be taken immediately) have been raised when undertaking audit work during 2021/22 since the previous SICA. Within the seized monies audit one priority 1 recommendation was raised. The seized monies audit was a 2020/21 audit, the findings from this audit was considered when producing the head of internal audit opinion for 2020/21, this audit was in draft report stage at the time of production of the 2020/21 head of internal audit opinion. Due to timing restraints, it has not been possible to follow-up on the seized monies recommendations. With this being a limited audit report, a detailed follow-up report will be prepared and this will be presented to Audit Committee members in the next Audit Committee meeting.

An update of outstanding recommendations is included in Appendix C.

Frauds/Irregularities

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

Other Matters

8. We have issued a number of briefing notes and fraud digests, shown in Appendix D, since the previous SICA report.

Responsibility/Disclaimer

9. 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.

Executive Summaries and Management Action Plans

The following Executive Summaries and Management Action Plans are included in this Appendix. A full copy of the report has also been included in the pack for audit committee members.

Review	Evaluation
Seized Monies	Limited Assurance

Executive Summary – Seized Monies

OVERALL ASSESSMENT

ASSURANCE OVER KEY STRATEGIC RISK / OBJECTIVE

There is a risk that seized monies is not held securely and cannot be traced.

SCOPE

The review appraised the effectiveness of controls for managing the recovery of property process for both Norfolk and Suffolk Constabularies in particular the arrangements for securing and storing of cash.

KEY STRATEGIC FINDINGS

The main property store in Norwich [redacted] has significant seized monies that is awaiting banking, this relates in part to historical seized funds that were not banked promptly.

There is a lack of resilience in the seized monies process after the seized monies have been banked. Only one staff member currently undertakes this role.

The officers in charge are not making decisions promptly in relation to seized monies. The rule of banking seized funds after 28 days is not enforced.

The seized monies bank accounts are not being reconciled monthly by an independent officer.

GOOD PRACTICE IDENTIFIED

A major project is being undertaken by the property stores team to reduce the amount of property held. With the support of senior officers, all polices officers were sent a report listing all property they are assigned as officer in charge for, and have been asked to provide an update as to what needs to be done with the property. Response rates have been high and should reduce the amount of property held by approximately 50% as property can either be returned or destroyed.

ACTION POINTS

Urgent	Important	Routine	Operational
1	**6**	**0**	**2**

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)
4	Delivery	Site visits were undertaken at the Norwich property store Europa Way and the Ipswich property store at Landmark House. It was found that Europa Way property store have a lot of money that is awaiting to be banked, this relates in part to historical money that was not banked promptly. The Senior Property Officer (Norfolk) is aware that there is a lot of money that needs to be banked, and has asked for additional resources to assist with this.	Work be continued at Europa Way property store to ensure that legacy seized monies is addressed and banked.	1	*The backlog is as a result of local administration support staff resourcing issues.* *The backlog has already been almost halved from approximately 600 items at the time of the audit to around 330 as of early July 2021.* *Volunteers (with appropriate supervision from the Senior Property Officer) will support CPC admin staff by counting the money waiting to be banked. This is beginning week commencing 19/07/2021.* *In addition, ERSOU officers are scheduled to visit Europa Way on 02/09/2021 to review all cash held for ERSOU/POCA at the instruction of the OIC, to confirm ERSOU engagement or whether the items can be banked.* *Looking ahead, on a quarterly basis, the ERSOU FIU Manager will review the list of cash held at the instruction of the OIC for 'ERSOU/POCA' to ensure these cases are progressing with an FI. If ERSOU are not aware of the case, they will advise the cash is banked.* *The above measures should clear the existing backlog and hopefully avoid any future build-up of cash retained 'for POCA' with no updates from the OIC.*	*31/12/21*	*CPC Admin, CJS Property Manager and ERSOU FI Manager*

1	Directed	There is a 'Seized, Retention and Disposals of Monies' policy. The policy covers the process to be followed when seizing cash which is in excess of £1k. The policy does not cover the process that is to be followed when cash of a lower amount of less than £1k is seized. There is a need for there to be a process in place which covers seized monies that is less than £1k, as there are occasions where bank accounts are having to be set up for minimal amounts such as £2.20.	A policy and supporting procedure be developed to include the process that is to be followed for cash that is seized which is less than £1k.	2	*Where appropriate, references to £1,000 are being reworded in the policy, to reflect the fact that cash at any value can be seized and this policy also covers those (£1,000 figure is only a benchmark for POCA seizures).* *The process for banking does not change for smaller amounts and SSTC cater for these within existing practices.* *ERSOU FIU Manager to provide updated wording (mainly in Section 4 of the Policy) for approval at the next Seized Monies Policy meeting.*	*31/12/21*	*ERSOU FIU Manager*

2	Directed	There are a number of departments involved in the seized monies process. Whilst there is segregation of duties within the process, once money has been banked, the process is reliant on one staff member the Senior Transactional Clerk AP/AR. The Senior Transactional Clerk AP/AR is solely responsible for; • setting up of interest-bearing bank accounts for the individuals seized funds, • reconciling bank accounts to ensure that money has been banked in full in the correct account, • coordinating with ERSORU, • returning of funds or transferring of funds to pay fines etc. It is a concern with only the Senior Transactional Clerk AP/AR undertaking the process. There is a lack of resilience in the seized monies process.	Additional resilience be factored into the seized monies process after the monies have been banked.	2	*This post forms part of the Shared Service Transaction Centre (SSTC). The SSTC Governance Board has commenced Phase 3 of the SSTC business case to review the AP/AR/Supplies Teams (which includes seized monies) and this will be considered as part of this. This will be implemented as recommended by the 30th September 2022.*	*30/09/22*	*Head of Transactional Services*

3	Directed	The Senior Transactional Clerk AP/AR sets up individual accounts for seized monies received. There are occasions when it is not possible for the Senior Transactional Clerk AP/AR to set up accounts, as no owner is assigned for the funds.	A protocol be agreed as to what is to be done for seized monies when an owner has not been assigned to enable individual accounts to be set up.	2	*Where no owner can initially be established, cash is still seized according to legal, policy and forensic considerations. Reference is made to this in the current policy at paragraph 5.6, which it has not been deemed necessary to change.* *In these circumstances, individual bank accounts are not set up. However, money is still banked, with a decision made on how to progress further based on the circumstances. Current SSTC processes cater for this. Force Property policy covers scenarios where no owner for monies can be established and this includes possible transfer Chief Constable's charitable funds.*	*Complete*	*N/A*

5	Directed	It is the expectation that seized monies are banked within 28 days of seizing. The officer in charge is expected to make a decision on what action is to be taken for the seized monies within 28 days. Sample testing of 15 seized fund accounts for Norfolk found that none of the accounts tested had been banked within 28 days. There were instances where it had taken three years for the seized funds to be banked. Sample testing of 15 Suffolk seized funds found that; • for eight of the seized monies accounts tested the officer in charge had not many the decision within the 28 day period. • in addition for five of these cases, where the monies was held in the Bury St Edmunds property store, the money had not been banked promptly once the decision had been received from the officer in charge.	Decisions on seized monies be made promptly by the officer in charge so that seized monies can be banked promptly, and all money to be banked promptly upon receipt of decision from the officer in charge.	2	*Policy being amended to reflect assumption that cash will be removed from property store and banked after 28 days if OIC/ERSOU FI do not provide instructions (with rationale) to the contrary.* *Policy wording also being updated to reflect fact that on occasion it is not practical to bank money from property store on day 28/29. Availability of local admin staff to count and transport money will impact 28-day target, so some tolerance of a few days is required.* *These amendments will be accompanied by communications to officers. Occurrences where money is banked when it should have remained in property store are currently infrequent.* *This links with broader work to improve performance around management and retention of property, overseen by the joint force Evidential Property Board.*	*31/12/21*	*ERSOU FIU Manager*
6	Directed	The 'Seized, Retention and Disposals of Monies' policy states that cash seized will be held for a maximum time period of 28 days prior to banking. The rule of holding cash seized for a maximum of 28 days prior to banking is not currently being enforced.	The rule of banking seized cash after 28 days be enforced.	2	*See response to (5) above.*	*31/12/2021*	*ERSOU FIU Manager*

7	Directed	The seized monies bank accounts is reconciled by the Senior Transactional Clerk AP/AR Officer, and is expected to be independently reviewed by the Transactions Team Leader (AP/AR). The seized monies bank account reconciliations have not been independently reviewed this year.	Seized monies bank account reconciliation be subject to independent review by a staff member independent to the seized monies process.	2	*This has now been brought up to date and verified by the Transactional Team Leader.*	*Complete*	*Head of Transactional Services*

Progress against Annual Plan

System	Planned Quarter	Current Status	Comments
Overtime	1	Final Report	
Transport Management - Maintenance, Repair, Disposal, Transport Stock	1	Final Report	
Dog Handling	1	Final Report	
Business Continuity	1	Final Report	
Joint Justice Services	1	Final Report	
Shared Service Transaction Centre	1	Draft Report Stage	
Pension Administration	3	Draft Report Stage	
Capital Programme	3	Draft Report Stage	
Risk Maturity and Development	4	Audit fieldwork commenced	Audit commenced 11th January
Systems – ERP / Enact / DMS / Chronicle interfaces	3	Audit brief issued	Moved to Q4 at the request of management
Procurement Strategy and Policy	4	Audit brief issued	Moved to Q4 at the request of management
Establishment, Capacity, Recruitment and Retention	4	Audit brief issued	Moved to Q4 at the request of management
Corporate and HR Policies	4	Audit brief issued	Planned start date 3rd February
PEQF	4	Audit brief issued	Planned start date 21st February
Data Quality	4	Audit brief issued	Planned start date 8th March

System	Planned Quarter	Current Status	Comments
Absence Management including limited duties	4	Audit brief issued	Planned start date 21st March
Transformation and Strategic Planning / Change	4	Audit brief issued	Planned start date 23rd March
Key Financial Systems will incorporate AP and Treasury Management as well	4	Audit brief issued	Planned start date 28th February
Automatic Number Plate Recognition (ANPR)	4	Audit brief issued	Replacement for the Norfolk OPCC Audit - Community Safety Partnership Audit. Awaiting confirmation of start date.

KEY:

	To be commenced		Site work commenced		Draft report issued		Final report issued

Priority 1 and 2 Recommendations –Past their due date

Audit	Recommendation	Priority	Management Comments	Original Due Date	Revised Due Date (s)	Responsible Officer	Current status and latest update
Establishment Capacity, Recruitment and Retention	Approval and rationale for why officers and staff are acting up be recorded for all officers/staff.	2	*The new Acting and Temporary Promotions Policy will be published in the Spring of 2019. This will standardise the process and this detail will therefore be captured. Staff are already covered within other HR policies and process.*	*30/06/19*	*31/01/22 & 31/03/22*	*DCC/ Head of Resourcing*	*The policy has been drafted and is currently going through the internal consultation process. Consultation with the police federation has been completed.* *The internal consultation stage process commenced the 10th January, and finishes on the 31st January 2022. All being well, it should make the March JNCC meeting for approval, after which it will be able to be published. The March JNCC meeting is scheduled for the 10th March 2022 (11th January 2022)* ***A further revised due date has been requested for the recommendation.***
External Training Budget	Training requirements be recorded within the constabularies' workforce plans, to ensure effective succession planning and an appropriately trained workforce.	2	*This work is reliant on a number of other workstreams, such as Succession Planning, E-PDR and the skills database which are ongoing and form key elements of the constabularies' People Strategy. A further update will be provided at the end of the calendar year.*	*31/12/20*	*31/01/22*	*Head of People*	*Work is still ongoing to address the recommendation. This will be addressed as part of the wider skills work / WFP / mapping work. Progress is being made on the e-pdr project and aligning to LMS / ERP. Chronicle is now being use for recording Public order, first aid and PST training which enables more accurate information to be recorded and assist with succession planning (11th January).*

Audit	Recommendation	Priority	Management Comments	Original Due Date	Revised Due Date (s)	Responsible Officer	Current status and latest update
							Work is progressing to get the recommendation implemented by the revised due date
PEQF	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*	*31/01/22*	*Head of People*	*The position has not changed. If anything it is worse due to ongoing resource issues and covid implications. The Core-Vet upgrade and Robotics project are now complete. The implementation phase was extended and this proved to be very disruptive to the vetting service, and added to the backlog. As a result backlogs have grown and all renewal vetting and reviews have stopped. Staff are continued to be offered overtime and are continuously looking to find solutions to reduce the problem (11th January 2022).* ***Work is progressing to get the recommendation implemented by the revised due date***
Vetting	MV clearances be reviewed on an annual basis, in accordance with the requirements of the APP.		*The draft APP July 2020 has now been circulated to all forces in anticipation of implementation December 2020/January 2021. The new APP states: "8.48.3 In addition to making disclosures after vetting clearance has been granted, individuals holding MV clearance should be subjected to review at least twice during the validity of the clearance. Any MV conducted in conjunction with SC or DV clearance must be subject of annual review*	*01/04/21*	*31/01/22*	*Head of Vetting*	*Same as above*

Audit	Recommendation	Priority	Management Comments	Original Due Date	Revised Due Date (s)	Responsible Officer	Current status and latest update
			alongside the review of the SC or DV i.e. it is not necessary to complete two reviews per year for MV/SC or MV/DV clearances. Forces should have a programme in place to ensure that all applicable posts are subjected to review during the lifetime of the clearance. NPPV3 should also be reviewed at least twice during the validity of the clearance. "There are currently 950 staff and officers who hold DV or SC clearance and 2147 who hold MV clearance. The vetting unit will begin reviews on those who hold DV and SC clearance. The remaining MV clearances will be reviewed and appropriate review dates set in future.				
Corporate Health and Safety	Designated fire safety persons be assigned for all buildings/areas/departments to ensure that the necessary statutory fire checks are undertaken.	2	*Responsible persons already have this role, to an extent, however the requirements are not routinely being complied with, and the individuals, particularly in Suffolk cover multiple stations increasing risk and ability to fulfil statutory duties placed upon both constabularies. Proposed actions to resolve: Review and improve first safety and responsible person eLearning .Training and or eLearning to be repeated every 3 years as per the latest Fire Safety Management Policy requirements Review of responsible person role for all stations. Each station to assign either a responsible person*	*01/07/21*	*31/01/22*	*Joint: Health and Safety Manager and Head of Estates*	*Work is progressing to address this. LMS system has seen additional eLearning elements added to it and is providing a solution. We are using links to NCALT which works via Microsoft Edge for RoSPA produced Fire Warden and Fire Safely eLearning Packages for which no negative feedback has been received. A member of the Health and Safety Team is reviewing the script from our original package and that from the RoSPA to develop our own version. A number of stations across both forces have failed to ensure weekly fire alarm tests are carried out (See the 'Master' Tab on: PMS Norfolk and PMS Suffolk for a point in time indication of*

Audit	Recommendation	Priority	Management Comments	Original Due Date	Revised Due Date (s)	Responsible Officer	Current status and latest update
			'based' in the station or a nominated person 'based' at the station to aid in fulfilling these statutory duties.				*compliance levels). As an example, currently 31 stations out of 36 are overdue weekly fire alarm tests for Suffolk and 12 out of 31 in Norfolk are overdue. We have drafted an email to all 'Responsible Persons' to improve levels of compliance, however it is clear that the lack of responsible person based in each station for Suffolk is not working and this need urgent review. This email also requests them to identify persons to act as Evacuation Marshalls in all areas where gaps may currently exist (11th November 2021).* ***A revised due date has been requested for the recommendation***
Corporate Health and Safety	A designated resource be assigned for co-ordinating and managing the fire safety management process. The resource needs to ensure that the necessary fire safety checks are undertaken and staff receive appropriate fire safety training.	2	*In order to satisfy this finding, if fire safety compliance does not improve within the next six months then a dedicated role to ensure fire safety compliance, monitoring and auditing will be required to be fulfilled by a suitably qualified, competent and experienced individual.*	*01/09/21*	*31/01/22*	*Joint: Health and Safety Manager and Head of Estates*	*Work is progressing to address. A dedicated role/resource to provide internal advice, monitoring and audits focused on fire safety is therefore the preferred option to ensure that our responsible persons fulfil their duties and both constabularies remain 'broadly compliant' (11th November 2021).* ***A revised due date has been requested for the recommendation***

KEY:

Priority Gradings (1 & 2)

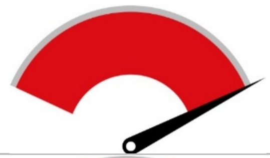
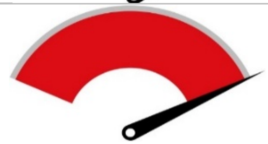
1	**URGENT**	Fundamental control issue on which action should be taken immediately.

2	**IMPORTANT**	Control issue on which action should be taken at the earliest opportunity.

Briefings on developments in Governance, Risk and Control

TIAA produces regular briefing notes to summarise new developments in Governance, Risk and Control which may have an impact on our clients. These are shared with clients and made available through our Online Client Portal. A summary list of those CBNs issued in the last few months which may be of relevance to the Police and Crime Commissioners for Suffolk and Chief Constables of Suffolk is given below. Copies of any CBNs are available on request from your local TIAA .

Summary of recent Client Briefing Notes (CBNs)

CBN Ref	Subject	Status	TIAA Comments
CBN – 21047	Protect Duty; Public places to ensure preparedness for and protection from terrorist attacks.		**Action Required** Organisations are advised to review their security arrangements in line with their legal requirements and take appropriate remedial action.
CBN – 21048	Amazon to Change Payment Methods		**Potential Urgent Action Required** Clients are advised to establish whether they make any online purchases from Amazon and if so, whether these purchases currently use a Visa credit and/or procurement card. If this type of card is in use, then clients are advised to put alternative arrangements in place before 19th January 2022.

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Internal Audit

FINAL

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

Assurance Review of Seized Monies

2020/21

Executive Summary

OVERALL ASSESSMENT

KEY STRATEGIC FINDINGS

The main property store in Norwich Europa Way has significant seized monies that is awaiting banking, this relates in part to historical seized funds that were not banked promptly.

There is a lack of resilience in the seized monies process after the seized monies have been banked. Only one staff member currently undertakes this role.

The officers in charge are not making decisions promptly in relation to seized monies. The rule of banking seized funds after 28 days is not enforced.

The seized monies bank accounts are not being reconciled monthly by an independent officer.

ASSURANCE OVER KEY STRATEGIC RISK / OBJECTIVE

There is a risk that seized monies is not held securely and cannot be traced.

GOOD PRACTICE IDENTIFIED

A major project is being undertaken by the property stores team to reduce the amount of property held. With the support of senior officers, all polices officers were sent a report listing all property they are assigned as officer in charge for, and have been asked to provide an update as to what needs to be done with the property. Response rates have been high and should reduce the amount of property held by approximately 50% as property can either be returned or destroyed.

SCOPE

The review appraised the effectiveness of controls for managing the recovery of property process for both Norfolk and Suffolk Constabularies in particular the arrangements for securing and storing of cash.

ACTION POINTS

Urgent	Important	Routine	Operational
1	6	0	2

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)
4	Delivery	Site visits were undertaken at the Norwich property store Europa Way and the Ipswich property store at Landmark House. It was found that Europa Way property store have a lot of money that is awaiting to be banked, this relates in part to historical money that was not banked promptly. The Senior Property Officer (Norfolk) is aware that there is a lot of money that needs to be banked, and has asked for additional resources to assist with this.	Work be continued at Europa Way property store to ensure that legacy seized monies is addressed and banked.	1	*The backlog is as a result of local administration support staff resourcing issues.* *The backlog has already been almost halved from approximately 600 items at the time of the audit to around 330 as of early July 2021.* *Volunteers (with appropriate supervision from the Senior Property Officer) will support CPC admin staff by counting the money waiting to be banked. This is beginning week commencing 19/07/2021.* *In addition, ERSOU officers are scheduled to visit Europa Way on 02/09/2021 to review all cash held for ERSOU/POCA at the instruction of the OIC, to confirm ERSOU engagement or whether the items can be banked.* *Looking ahead, on a quarterly basis, the ERSOU FIU Manager will review the list of cash held at the instruction of the OIC for 'ERSOU/POCA' to ensure these cases are progressing with an FI. If ERSOU are not aware of the case, they will advise the cash is banked.* *The above measures should clear the existing backlog and hopefully avoid any future build-up of cash retained 'for POCA' with no updates from the OIC.*	*31/12/21*	*CPC Admin, CJS Property Manager and ERSOU FI Manager*

1	Directed	There is a 'Seized, Retention and Disposals of Monies' policy. The policy covers the process to be followed when seizing cash which is in excess of £1k. The policy does not cover the process that is to be followed when cash of a lower amount of less than £1k is seized. There is a need for there to be a process in place which covers seized monies that is less than £1k, as there are occasions where bank accounts are having to be set up for minimal amounts such as £2.20.	A policy and supporting procedure be developed to include the process that is to be followed for cash that is seized which is less than £1k.	2	*Where appropriate, references to £1,000 are being reworded in the policy, to reflect the fact that cash at any value can be seized and this policy also covers those (£1,000 figure is only a benchmark for POCA seizures).* *The process for banking does not change for smaller amounts and SSTC cater for these within existing practices.* *ERSOU FIU Manager to provide updated wording (mainly in Section 4 of the Policy) for approval at the next Seized Monies Policy meeting.*	*31/12/21*	*ERSOU FIU Manager*

2	Directed	There are a number of departments involved in the seized monies process. Whilst there is segregation of duties within the process, once money has been banked, the process is reliant on one staff member the Senior Transactional Clerk AP/AR. The Senior Transactional Clerk AP/AR is solely responsible for; • setting up of interest-bearing bank accounts for the individuals seized funds, • reconciling bank accounts to ensure that money has been banked in full in the correct account, • coordinating with ERSORU, • returning of funds or transferring of funds to pay fines etc. It is a concern with only the Senior Transactional Clerk AP/AR undertaking the process. There is a lack of resilience in the seized monies process.	Additional resilience be factored into the seized monies process after the monies have been banked.	2	*This post forms part of the Shared Service Transaction Centre (SSTC). The SSTC Governance Board has commenced Phase 3 of the SSTC business case to review the AP/AR/Supplies Teams (which includes seized monies) and this will be considered as part of this. This will be implemented as recommended by the 30th September 2022.*	*30/09/22*	*Head of Transactional Services*

3	Directed	The Senior Transactional Clerk AP/AR sets up individual accounts for seized monies received. There are occasions when it is not possible for the Senior Transactional Clerk AP/AR to set up accounts, as no owner is assigned for the funds.	A protocol be agreed as to what is to be done for seized monies when an owner has not been assigned to enable individual accounts to be set up.	2	*Where no owner can initially be established, cash is still seized according to legal, policy and forensic considerations. Reference is made to this in the current policy at paragraph 5.6, which it has not been deemed necessary to change.* *In these circumstances, individual bank accounts are not set up. However, money is still banked, with a decision made on how to progress further based on the circumstances. Current SSTC processes cater for this. Force Property policy covers scenarios where no owner for monies can be established and this includes possible transfer Chief Constable's charitable funds.*	*Complete*	*N/A*

5	Directed	It is the expectation that seized monies are banked within 28 days of seizing. The officer in charge is expected to make a decision on what action is to be taken for the seized monies within 28 days. Sample testing of 15 seized fund accounts for Norfolk found that none of the accounts tested had been banked within 28 days. There were instances where it had taken three years for the seized funds to be banked. Sample testing of 15 Suffolk seized funds found that; • for eight of the seized monies accounts tested the officer in charge had not many the decision within the 28 day period. • in addition for five of these cases, where the monies was held in the Bury St Edmunds property store, the money had not been banked promptly once the decision had been received from the officer in charge.	Decisions on seized monies be made promptly by the officer in charge so that seized monies can be banked promptly, and all money to be banked promptly upon receipt of decision from the officer in charge.	2	*Policy being amended to reflect assumption that cash will be removed from property store and banked after 28 days if OIC/ERSOU FI do not provide instructions (with rationale) to the contrary.* *Policy wording also being updated to reflect fact that on occasion it is not practical to bank money from property store on day 28/29. Availability of local admin staff to count and transport money will impact 28-day target, so some tolerance of a few days is required.* *These amendments will be accompanied by communications to officers. Occurrences where money is banked when it should have remained in property store are currently infrequent.* *This links with broader work to improve performance around management and retention of property, overseen by the joint force Evidential Property Board.*	*31/12/21*	*ERSOU FIU Manager*
6	Directed	The 'Seized, Retention and Disposals of Monies' policy states that cash seized will be held for a maximum time period of 28 days prior to banking. The rule of holding cash seized for a maximum of 28 days prior to banking is not currently being enforced.	The rule of banking seized cash after 28 days be enforced.	2	*See response to (5) above.*	*31/12/2021*	*ERSOU FIU Manager*

7	Directed	The seized monies bank accounts is reconciled by the Senior Transactional Clerk AP/AR Officer, and is expected to be independently reviewed by the Transactions Team Leader (AP/AR). The seized monies bank account reconciliations have not been independently reviewed this year.	Seized monies bank account reconciliation be subject to independent review by a staff member independent to the seized monies process.	2	*This has now been brought up to date and verified by the Transactional Team Leader.*	*Complete*	*Head of Transactional Services*

Operational - Effectiveness Matter (OEM) Action Plan

Ref	Risk Area	Finding	Suggested Action	Management Comments
1	Directed	Standardised processes are not being followed across the Norfolk and Suffolk property store teams for recording and monitoring of seized funds held in the property stores.	The Suffolk model needs to be adopted in Norfolk to ensure consistency in approach.	*Bury St Edmunds and Lowestoft have adopted the Landmark House (LMH) model from 01/01/2021 and a training package is on the W drive for Property staff to use. LMH Admin have a cash counting machine to assist staff addressing any legacy cash so they can get up to date as swiftly as possible.* *The model will have been adopted in all Norfolk property stores by 01/08/2021.*
2	Directed	Counting and banking of seized funds is undertaken by the stations admin officers. The admin officers may have to take large amounts of cash to the bank for banking. There are limits as to how much cash can be deposited into the bank at one time. The limits for cash that can be banked at one time can cause delays for banking. In addition there are risks to staff safety with them having to take the cash physically to the bank for banking.	Review of banking arrangements be undertaken to establish if; • it would be more appropriate for cash counted and processed for banking by the admin team to be transported by transport to headquarters for banking; or • services provided by Securicor who are the cash collection company for the constabularies is appropriate, thus whether the cash collection company should make visits to other sites to collect the money for banking.	*Arrangements have been put in place to send large volumes of cash to PH for banking direct for banking in accordance with contract with G4S or direct to a bank branch if above £25k.*

Findings

Directed Risk:

Failure to properly direct the service to ensure compliance with the requirements of the organisation.

Ref	Expected Key Risk Mitigation		Effectiveness of arrangements	Cross Reference to MAP	Cross Reference to OEM
GF	Governance Framework	There is a documented process instruction which accords with the relevant regulatory guidance, Financial Instructions and Scheme of Delegation.	Partially in place	1, 2 & 3	1 & 2
RM	Risk Mitigation	The documented process aligns with the mitigating arrangements set out in the corporate risk register.	Out of scope	-	-
C	Compliance	Compliance with statutory, regulatory and policy requirements is demonstrated, with action taken in cases of identified non-compliance.	Not in place	5, 6 & 7	-

Other Findings

Police officers place seized monies in the designated property bags. Police officers are aware of the process to be followed. Once placed in designated bags, EPS the constabularies' property recording system is updated by the police officers to reflect that monies have been seized. Visits to the property stores at Landmark House and Europa Way found that police officers were following the appropriate protocol for recording of seized monies properly on EPS. Where monies were received outside of the stores opening hours, the monies were being placed in the temporary safes. It was confirmed that Europa Way and Landmark House had their own designated temporary safes and access is restricted to authorised personnel.

The Covid-19 pandemic has not caused any significant dilution of compliance with the process. There are staff in the property stores, but some stations are serviced by part-time stores officers, or store officers that cover more than one station. For instance there is one property officer that covers Dereham and Thetford. There have covid-19 cluster cases at both of these stations, and thus the property officer has been told not to visit these station for a period of time until the outbreak had been controlled.

There has always been property stores staff available to support the main store in Ipswich - Landmark House and the main store in Norfolk - Europa Way.

Delivery Risk:

Failure to deliver the service in an effective manner which meets the requirements of the organisation.

Ref	Expected Key Risk Mitigation		Effectiveness of arrangements	Cross Reference to MAP	Cross Reference to OEM
PM	**Performance Monitoring**	There are agreed KPIs for the process which align with the business plan requirements and are independently monitored, with corrective action taken in a timely manner.	Out of scope	-	-
FC	**Financial Constraint**	The process operates within the agreed financial budget for the year.	Out of scope	-	-
R	**Resilience**	Good practice to respond to business interruption events and to enhance the economic, effective and efficient delivery is adopted.	Not in place	4	-

Other Findings

There are a number of departments involved in the seized monies process. Whilst there is segregation of duties within the process, once money has been banked, the process is reliant on one staff member the Senior Transactional Clerk AP/AR. The Senior Transactional Clerk AP/AR is solely responsible for setting up of interest-bearing bank accounts, reconciling bank accounts to ensure that money has been banked in full in the correct account, coordinating with ERSORU, returning of funds or transferring of funds to pay fines etc. It is a concern with only the Senior Transactional Clerk AP/AR undertaking the process as there is a lack of resilience.

There have been some disruptions to the process due to Covid-19. There have been instances where the property stores team have not been able to access some property stores when there had been covid-19 outbreaks.

Prior to Covid-19, property officers would travel between sites and help others out, but this is currently not possible as property officers are expected to stay at their own property stores as mixing is not allowed and only essential travel is allowed.

Scope and Limitations of the Review

1. The definition of the type of review, the limitations and the responsibilities of management in regard to this review are set out in the Annual Plan. As set out in the Audit Charter, substantive testing is only carried out where this has been agreed with management and unless explicitly shown in the scope no such work has been performed.

Disclaimer

2. The matters raised in this report are only those that came to the attention of the auditor during the course of the review, and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. 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. 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.

Effectiveness of arrangements

3. The definitions of the effectiveness of arrangements are set out below. These are based solely upon the audit work performed, assume business as usual, and do not necessarily cover management override or exceptional circumstances.

In place	The control arrangements in place mitigate the risk from arising.
Partially in place	The control arrangements in place only partially mitigate the risk from arising.
Not in place	The control arrangements in place do not effectively mitigate the risk from arising.

Assurance Assessment

4. The definitions of the assurance assessments are:

Substantial Assurance	There is a robust system of internal controls operating effectively to ensure that risks are managed and process objectives achieved.
Reasonable Assurance	The system of internal controls is generally adequate and operating effectively but some improvements are required to ensure that risks are managed and process objectives achieved.
Limited Assurance	The system of internal controls is generally inadequate or not operating effectively and significant improvements are required to ensure that risks are managed and process objectives achieved.
No Assurance	There is a fundamental breakdown or absence of core internal controls requiring immediate action.

Acknowledgement

5. We would like to thank staff for their co-operation and assistance during the course of our work.

Release of Report

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

Stage	Issued	Response Received
Audit Planning Memorandum:	11th August 2020	11th August 2020
Draft Report:	3rd December 2020	9th December 2021
Final Report:	10th December 2021	

AUDIT PLANNING MEMORANDUM

Appendix B

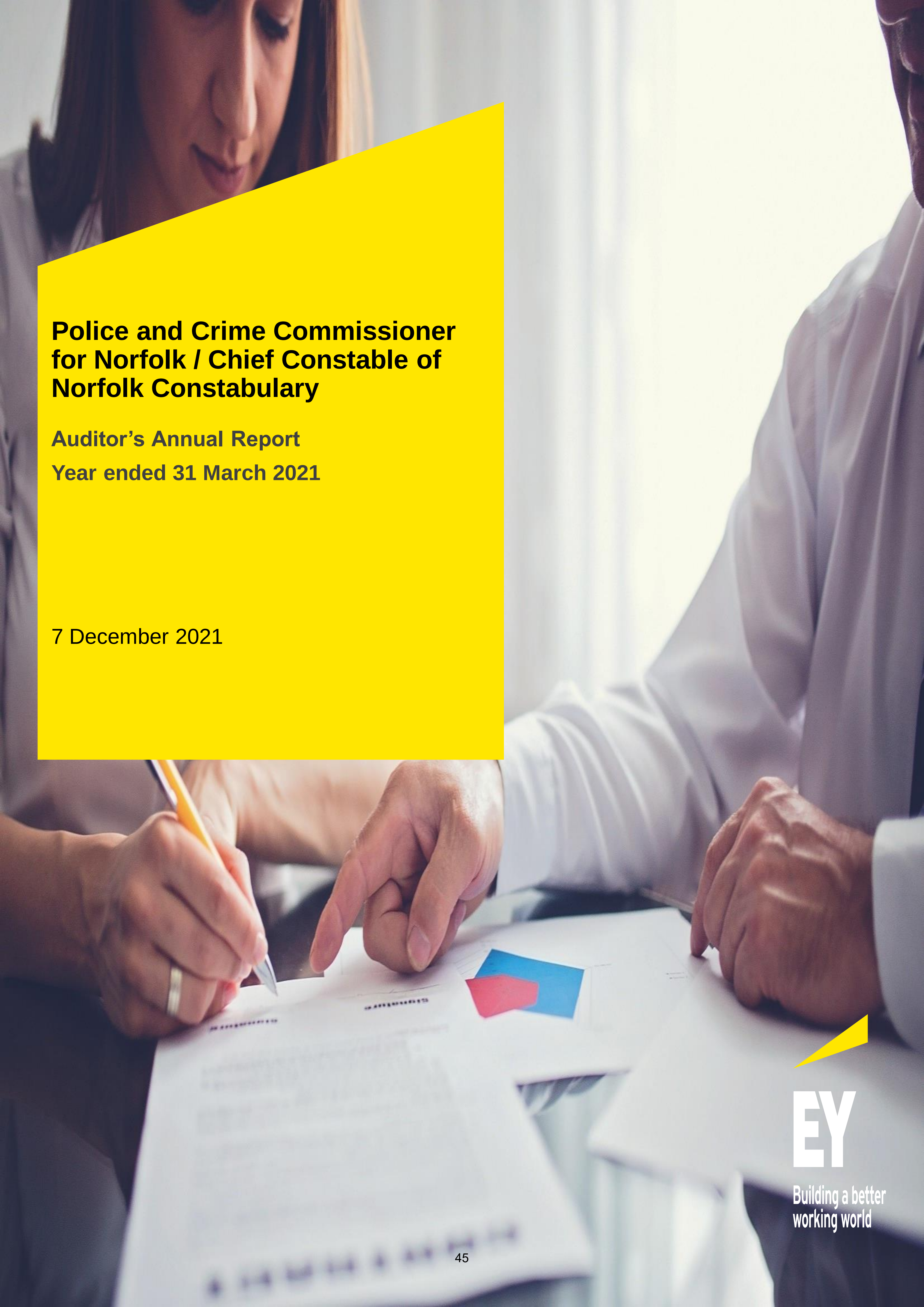
Client:	Police and Crime Commissioners for Norfolk and Suffolk and Chief Constables of Norfolk and Suffolk Constabularies		
Review:	Seized Monies		
Type of Review:	Assurance	**Audit Lead:**	Claire Lavery, Audit Manager

Outline scope (per Annual Plan):	The review will appraise the effectiveness of controls for managing the recovery of property process for both Norfolk and Suffolk Constabularies in particular the arrangements for securing and storing of cash. The audit will review the following key areas: - Policies and procedure - Training and guidance provided to staff - Systems and processes for recording of cash - Accuracy of records maintained.	
Detailed scope will consider:	Directed Governance Framework: There is a documented process instruction which accords with the relevant regulatory guidance, Financial Instructions and Scheme of Delegation. Risk Mitigation: The documented process aligns with the mitigating arrangements set out in the corporate risk register. Compliance: Compliance with statutory, regulatory and policy requirements is demonstrated, with action taken in cases of identified non-compliance.	Delivery Performance monitoring: There are agreed KPIs for the process which align with the business plan requirements and are independently monitored, with corrective action taken in a timely manner. Financial constraint: The process operates with the agreed financial budget for the year. Resilience: Good practice to respond to business interruption events and to enhance the economic, effective and efficient delivery is adopted.
Requested additions to scope:	(if required then please provide brief detail)	
Exclusions from scope:	None	

Planned Start Date:	16/11/20	**Exit Meeting Date:**	Claire Cook	**Exit Meeting to be held with:**	24/11/2020

SELF ASSESSMENT RESPONSE

Matters over the previous 12 months relating to activity to be reviewed	**Y/N (if Y then please provide brief details separately)**
Has there been any reduction in the effectiveness of the internal controls due to staff absences through sickness and/or vacancies etc?	N
Have there been any breakdowns in the internal controls resulting in disciplinary action or similar?	N
Have there been any significant changes to the process?	N
Are there any particular matters/periods of time you would like the review to consider?	N



Police and Crime Commissioner for Norfolk / Chief Constable of Norfolk Constabulary

Auditor’s Annual Report

Year ended 31 March 2021

7 December 2021

EY

Building a better working world

Contents

Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/)).The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.
The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.
This report is made solely to the Joint Audit Committee and management of Police and Crime Commissioner for Norfolk (PCC) and Chief Constable of Norfolk Constabulary (CC) in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Joint Audit Committee and management of PCC and CC those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Joint Audit Committee and management of PCC and CC for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.
Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

Ref:EY-000092651-01

Section 1

Executive Summary

Executive Summary: Key conclusions from our 2020/21 audit

Area of work	Conclusion
Opinion on the PCC and CC:	
Financial statements	**Unqualified** – the financial statements give a true and fair view of the financial position of the PCC/CC as at 31 March 2021 and of its expenditure and income for the year then ended. The financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21. We issued our auditor's report on 30 November 2021.
Going concern	We have concluded that the Chief Financial Officers' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of the other information published with the financial statements	Financial information in the other information and published with the financial statements was consistent with the audited accounts.

Area of work	Conclusion
Reports by exception:	
Value for money (VFM)	We had no matters to report by exception on the PCC/CC's VFM arrangements. We have included our VFM commentary in Section 04.
Consistency of the annual governance statement	We were satisfied that the Annual Governance Sstatement was consistent with our understanding of the PCC/CC.
Public interest report and other auditor powers	We had no reason to use our auditor powers.

Executive Summary: Key conclusions from our 2020/21 audit

As a result of the work we carried out we have also:

Outcomes	Conclusion
Issued a report to those charged with governance of the PCC/CC communicating significant findings resulting from our audit.	We issued our Audit Results Report on the 17 November 2021.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2020 Code of Audit Practice.	We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission, as at the date of this report the NAO have not issued their guidance to auditors. We will complete this work in line with the instructions issued by the NAO when it is appropriate to do so. We will issue our Audit Certificate on completion of this work.

Fees

We carried out our audit of the PCC/CC's financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA. As outlined in the Audit Results Report we were required to carry out additional audit procedures. As a result, we will agree an associated additional fee with the Chief Finance Officers. We include details of the final audit fees in Appendix 1.

We would like to take this opportunity to thank the PCC/CC staff for their assistance during the course of our work.

MARK HODGSON

Mark Hodgson
Associate Partner
For and on behalf of Ernst & Young LLP

Section 2

Purpose and responsibilities

Purpose and responsibilities

This report summarises our audit work on the 2020/21 financial statements.

Purpose

The purpose of the Auditor's Annual Report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on VFM arrangements, which aims to draw to the attention of the PCC/CC or the wider public relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

Responsibilities of the appointed auditor

We have undertaken our 2020/21 audit work in accordance with the Audit Plan that we issued on 22 March 2021 and the Audit Plan Addendum issued on the 13 July 2021. We have complied with the NAO's 2020 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO.

As auditors we are responsible for:

Expressing an opinion on:

- The 2020/21 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the annual report.

Reporting by exception:

- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the PCC/CC;
- If we identify a significant weakness in the PCC/CC's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

Responsibilities of the PCC/CC

The PCC/CC is responsible for preparing and publishing its financial statements and governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section 3

Financial Statement Audit

Financial Statement Audit

We have issued an unqualified audit opinion on the PCC/CC's 2020/21 financial statements.

Key issues

The Statement of Accounts is an important tool for the PCC/CC to show how it has used public money and how it can demonstrate its financial management and financial health.

On 30 November 2021, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the Joint Audit Committee meeting on the 29 November 2021. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan.

Significant risk	Conclusion
Misstatements due to fraud or error - management override of controls An ever present risk that management is in a unique position to commit fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.	We did not identify any: • material weaknesses in controls or evidence of material management override; • instances of inappropriate judgements being applied; or • inappropriate journal entries or other adjustments to the financial statements.
Inappropriate capitalisation of expenditure Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund.	• Our sample testing of additions to the Property, Plant and Equipment found that they had been correctly classified as capital and included at the current value; • Our sample testing did not identify any revenue items that were incorrectly classified; and • Our data analytics procedures did not identify any journal entries that incorrect moved expenditure into capital codes.

Continued over.

Financial Statement Audit (continued)

In addition to the significant risks above, we also concluded on the following areas of audit focus.

Other area of audit focus	Conclusion
Valuation of land and buildings Land and buildings is the most significant balance in the Group/PCC's balance sheet. The valuation of land and buildings is complex and is subject to a number of assumptions and judgements. A small movement in these assumptions can have a material impact on the financial statements.	• We did not identify any issues with the PCC/CC's valuer, their scoping of work, professional capabilities or results of their work. • Our sample testing of key asset information used in the valuations did not identify any issues. • Our testing of assets not subject to valuation in 2020/21 did not identify any material differences. • Our testing confirmed that assets had been valued within the appropriate timeframe and those valued in the year had been performed correctly. • No issues were identified with the useful economic lives of assets or the accounting entries disclosed in the financial statements and supporting notes.
Valuation of pension liabilities (Local Government Pension Scheme and Police Pension Fund) The Group and CC pension liability is a material estimated balance and the Code requires that this liability be disclosed on the balance sheets. The information disclosed is based on the IAS 19 report issued by the actuary to the Norfolk Pension Fund and also the Police Pension Fund. Accounting for these schemes involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	• We were informed by the Norfolk Pension Fund auditor that Investment Valuations within the Norfolk Local Government Pension Fund were understated by £43.187 million. Management obtained a revised IAS19 report from the Pension Fund Actuary, Hymans Robertson, and amended the accounts for the updated information, reducing the net liability by £2.479 million. • The PwC review of IAS19 reporting (sector wide) raised an issue relating to CPI assumptions set by GAD. They highlighted that the assumption was not based on market-observable data which is a requirement of IAS19. PwC stated that the resulting CPI assumption, which was 2.4% pa, was below the expected range by 0.1% pa at 31 March 2021. • We therefore engaged our experts, EY Pension Advisory (EYPA), to review CPI assumptions used by GAD and to ascertain whether the issue would have a material difference on the pension liability. EYPA found that the CPI inflation assumption used by GAD was overly optimistic and that the methodology used to derive the assumption was not robust and was inconsistent with the accounting standards. Nevertheless, there was sufficient flexibility in other assumptions (mainly the discount rate) to offset this optimism and hence the figures for the plan's liabilities for the IAS19 disclosures for the scheme were acceptable relative to the prior year.

Continued over.

Financial Statement Audit (continued)

Other area of audit focus	Conclusion
Private Finance Initiative (PFI) The PCC and CC disclose two PFI contracts within their financial statements for the use of Jubilee House, Operations and Communications Centre (OCC) and the use of six Police Investigation Centres (PIC) shared with the Police and Crime Commissioner for Suffolk. The liability and payments for services are dependent upon assumptions within the accounting models underpinning the PFI scheme. As such Management is required to apply estimation techniques to support the disclosures within the financial statements.	• Our work concluded that the PFI scheme had been accounted for appropriately within the accounts.
Going concern disclosures The PCC/CC is required to carry out an assessment of its ability to continue as a going concern for the foreseeable future, being at least 12 months after the date of the approval of the financial statements. There is a risk that the PCC/CC's financial statements do not adequately disclose the assessment made, the assumptions used and the relevant risks and challenges that have impacted the going concern period.	• We did not identify any events or conditions in the course of our audit that may cast significant doubt on the entity's ability to continue as going concern. Management have used the basis of their assessment to produce the disclosure included within the draft financial statements. We were satisfied that the revised disclosure note appropriately sets out the circumstances surrounding the financial implications prevalent at the Balance Sheet date.
Auditing Accounting Estimates ISA 540 (Revised) - Auditing Accounting Estimates and Related Disclosures applies to audits of all accounting estimates in financial statements for periods beginning on or after December 15, 2019. This revised ISA responds to changes in financial reporting standards and a more complex business environment which together have increased the importance of accounting estimates to the users of financial statements and introduced new challenges for preparers and auditors. The revised ISA requires auditors to consider inherent risks associated with the production of accounting estimates.	• We did not identify any issues in respect of estimates included within the financial statements, other than specifically highlighted in our Audit Results Report

Continued over.

Financial Statement Audit (continued)

Audit differences

There were no uncorrected misstatements identified as part of our audit that was greater than our reporting threshold.

Our audit identified two audit differences which Management corrected:

1. As a result of our audit procedures under IAS19 in respect the pension liability, we were informed by the Norfolk Pension Fund auditor that Investment Valuations within the Local Government Pension Fund were understated by £43.187 million. Management obtained a revised IAS19 report from the Pension Fund actuary and amended the accounts for the updated information. This reduced the Net Pension Liability on the Balance Sheet by £2.479 million.
2. The PCC/CC is a precepting body and is reliant upon the billing authorities to provide it with the relevant information in relation to the PCC/CC's share in Council Tax Debtors and Creditors for the inclusions within its financial statements. Updated information became available during our audit, which led to an increase of the PCC/CC's share of Council Tax Debtors and Council Tax Creditors by £0.129 million.

We identified a limited number of disclosure misstatements which Management corrected.

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Materiality	Planning Materiality	Operating Expenditure or Assets	Reporting Threshold
Group	£5.522 million	£276.1 million (Operating Expenditure)	£0.276 million
Chief Constable	£5.025 million	£251.2 million (Operating Expenditure)	£0.251 million
Police and Crime Commissioner	£2.509 million	£125.5 million (Assets)	£0.125 million

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures: we agreed all disclosures back to source data; and
- Related party transactions. we audited all disclosures and undertook procedures to confirm material completeness and accuracy of the disclosures by checking back to supporting evidence.

Section 4

Value for Money

Value for Money (VFM)

We did not identify any risks of significant weaknesses in the PCC/CC's VFM arrangements for 2020/21.

Scope and risks

We have complied with the NAO's 2020 Code and the NAO's Auditor Guidance Note in respect of VFM. We issued our VFM risk assessment on the 13 July 2021, which was based on a combination of our cumulative audit knowledge and experience, our review of the PCC/CC and committee reports, meetings with the senior officers and evaluation of associated documentation through our regular engagement with management and the finance team. We reported that we had not identified any risks of significant weaknesses in the PCC/CC's VFM arrangements for 2020/21.

We had no matters to report by exception in the audit report.

Reporting

We completed our planned VFM arrangements work in October and did not identify any significant weaknesses in the PCC/CC's VFM arrangements. As a result, we had no matters to report by exception in the audit report on the financial statements.

Our VFM commentary highlights relevant issues for the PCC/CC and the wider public.

VFM Commentary

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

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

The PCC/CC has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Introduction and context

The 2020 Code confirms that the focus of our work should be on the arrangements that the audited body is expected to have in place, based on the relevant governance framework for the type of public sector body being audited, together with any other relevant guidance or requirements. Audited bodies are required to maintain a system of internal control that secures value for money from the funds available to them whilst supporting the achievement of their policies, aims and objectives. They are required to comment on the operation of their governance framework during the reporting period, including arrangements for securing value for money from their use of resources, in a governance statement.

We have previously reported the VFM work we have undertaken during the year including our risk assessment. The commentary below aims to provide a clear narrative that explains our judgements in relation to our findings and any associated local context.

For 2020/21, the significant impact that the Covid-19 pandemic has had on the PCC/CC has shaped decisions made, how services have been delivered and financial plans have necessarily had to be reconsidered and revised.

We have reflected these national and local contexts in our VFM commentary.

Financial sustainability

1. How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them

The PCC/CC uses the Outcome Based Budgeting (OBB) approach which is a method to align budgets to demand, performance, outcomes and priorities, and it analyses the spending of the entire Force. This information is then lined up against priorities and demands of the Force Management Statement (FMS) and the PCC's Police and Crime Plan. Heads of Department present savings and investment proposals, and these are modelled against the impact on budgets and outcomes, which are reviewed by a Joint Chief Officer Panel against the OBB principles. The process concluded with agreement on Norfolk only budgets (including OPCCN budgets), the joint budgets with Suffolk Constabulary, costs and savings arising from the process to be included in the spending plan.
The Change Programme, run by the Constabulary through collaboration with Suffolk Constabulary, is sustained over the medium-term to ensure that savings are achieved in a timely manner and that annual budgets are balanced. The annual budget proposals are made in the context of a rolling four-year strategic and financial planning cycle.

The PCC/CC has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Financial sustainability (continued)

2. How the body plans to bridge its funding gaps and identifies achievable savings

The PCC/CC has generally managed its demand led pressures within its budget year-on-year, and where appropriate has used Earmarked Reserves to meet additional demands and unbudgeted costs. The PCC/CC has a proven track record of delivering efficiency savings. The PCC approved the 2020/21 Revenue budget in February 2020, which included a planned use of reserves of £3.249 million and included a planned savings requirement of £1.332 million. The revenue outturn for the year was an underspend of £0.689 million as shown in the 'Revenue and Capital Outturn Report 2020/21', primarily due to an underspend in the Chief Constable operating spending as a result of lower than budgeted officer and staff costs and a corporate underspend as a result of the in-year savings exercises. The savings target of £1.332 million was also achieved as a result of the in-year decisions made.

3. How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The PCC has a Police and Crime Plan setting out the strategic objectives and priorities, providing strategic direction for policing and how it will deliver its statutory responsibilities. The impact of the annual budget and funding of future years are considered using the Outcome Based Budgeting (OBB) approach to align budget against the demands and priorities, ensuring that the medium term financial strategy is lined up with the Police and Crime Plan. The annual budget decision takes into consideration the anticipated funding from government and other sources, and balances the expenditure needs of the policing service against the level of local taxation raised through the council tax precept. This decision forms part of a strategy which recognises the changing demands on policing over the medium and long-term, which is set out within the Medium Term Financial Plan.

4. How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system

The CIPFA Financial Management Code of Practice (FMCP) requires the PCC and CC to identify and agree a Medium Term Financial Plan (MFTP) which includes funding and spending plans for both revenue and capital, and that it should aligned with the Police and Crime Plan. The MTFP includes the Capital Programme, the Treasury Management Strategy and the Capital Strategy which is also supported by Estates Strategy, the ICT Strategy and the Transport Strategy. All of these strategies are underpinned by the Scheme of Governance and Consent which includes the Financial Regulations and Contract Standing Orders.

The PCC/CC has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Financial sustainability (continued)

Norfolk and Suffolk Constabularies have been collaborating for a decade and the Scheme of Governance and Consent adopted in both forces are aligned, and in some instances identical where joint working arrangements are in place. The two forces have been running a change programme to deliver savings through collaboration, which involves a joint financial planning process between the two Constabularies. In addition, the Regional collaboration across Seven Forces also sees a consistent approach to Contract Standing Orders which apply to all procurements being carried out within the Seven Force arena.

5. How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

The PCC approves the Constabulary's budget and Medium Term Financial Plan (MTFP) on an annual basis and hold the Chief Constable to account for the management and delivery of the budget, including through in-year financial performance monitoring, and the delivery of the overall strategy via the PCC Accountability Meeting (PAM) (these meetings are now known as PCC Accountability Meeting from May 2021). The meeting is attended by the PCC, CC and members of the Chief Officer Team and Senior Staff as appropriate to the business. The PCC has oversight of the Constabulary's financial risks and delivery of the planned savings requirement. At each meeting an overview of performance against the Police and Crime Plan themes are provided, alongside the budget monitoring report where delivery against the budget would be considered and challenged as appropriate.

The PCC/CC has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

Governance

1. How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

Each Operational Command team and Department maintains a risk register of all the identified risks to the achievement of the operational objectives. There is a joint risk management process for Norfolk and Suffolk Constabularies where risk is dealt with by mitigation and/or escalation to the appropriate level. The identified risks are regularly monitored through the governance arrangements to the Joint Organisational Board, Joint Chief Officer Team (JCOT) and, where appropriate, to the Offices of the respective Police and Crime Commissioners (OPCC).

Where the risks have an organisation wide impact or where they cannot satisfactorily be managed at Departmental level, they will become strategic risks which will be taken into the Strategic Risk Register which is owned by CC and PCC, with measures taken to manage them.

The risk assessed are wider than just financial but also includes operational and organisational risks. The Constabulary assesses risks on a matrix of likelihood and impact scoring by using a ‘traffic light’ system and defines tolerance level of risks for its activities.

The Strategic Risk Register is reviewed by the Joint Audit Committee on a quarterly basis, who challenge the risks included and gain assurance that the right risks and mitigations are included. It also reviews arrangements for assessment of fraud risks and monitors the effectiveness of the counter-fraud strategy and actions.

Additionally, the OPCC has its own Risk Management Strategy in place and produce their own Strategic Risk Register which is reviewed through the OPCC meeting structure, including Strategic Governance Board and Estates Governance Board.

The PCC/CC has an Internal Audit service, outsourced to a third party - TIAA, to help gain assurance over the effectiveness of internal controls and to provide assurance against other identified risk areas.

The Constabulary management is predominantly responsible for responding to the Internal Audit findings in a timely manner and with appropriate challenge from the Joint Audit Committee.

Governance (continued)

2. How the body approaches and carries out its annual budget setting process

The PCC is required to set a balanced budget in line with statutory requirements. The PCC consults with the CC in planning the overall annual budget, taking into consideration the funding streams, the demands and pressures on the policing service and the priorities set out in the Police and Crime Plan, and will make a decision on the level of the proposed precept/council tax as part of the budget setting process.

The PCC also has a statutory duty to obtain the views of the local community, key stakeholders and public sector bodies on the proposed expenditure (including capital expenditure) in the financial year ahead of the financial year to which the proposed expenditure relates. The 2020/21 budget consultation took form of a survey, both online and in hard copy form, so that the public can submit their views. All comments received from the consultation process were considered by the PCC to help inform the 2020/21 policing budget decisions. The 2020/21 budget proposals included net revenue budget of £174.682 million with an increase of 3.95% Council Tax increase, which was approved by the Police and Crime Panel on the 4 February 2020.

The PCC/CC has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

3. How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed

The PCC’s Chief Finance Officer and the CC’s Chief Finance Officer (CFO) oversee the adoption and implementation of the Financial Regulations including the regulations relating to budgetary control, financial management, treasury management and banking arrangements. Budget Managers are responsible for managing income and expenditure within their areas and for monitoring performance. Detailed budget monitoring is undertaken by the Budget Managers on a monthly basis and are reported to both the PCC CFO and CC CFO. This reporting includes details of budget variances and proposed necessary actions to avoid exceeding the budget allocation and alerts the CC CFO as appropriate. The Head of Finance also has monthly meeting with the respective CFOs to discuss the reports. The CC’s CFO submits a budget monitoring report monthly to the PCC containing the most recently available financial information. The monitoring reports compare projected income and expenditure with the latest approved budget allocations to ensure sound financial management. The CC CFO also reports to the PCC in relation to the Capital Programme, providing details and projections of spending on individual capital projects and planned slippage between financial years. These budget monitoring reports are presented to the PCC Accountability Meeting on a bi-monthly basis.

The PCC/CC has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

Governance (continued)

4. How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee.

The PCC/CC has a decision-making and accountability framework in place which is defined by the Police Reform and Social Responsibility Act 2011, to enable the PCC to make robust, well-informed and transparent decisions and hold the CC to account. The framework also includes arrangements for providing information to assist the Police and Crime Panel in its role to scrutinise the decisions and actions of the PCC.

The PCC is accountable to the public, via the Police and Crime Panel, for the management of the police fund. The Panel contains representatives of the County Council, City and District Councils and it holds the PCC to account by scrutinising their actions and decisions.

The primary oversight for decision making is the responsibility of the PCC via the PCC Accountability Meeting (PAM), with some delegated responsibilities to the Joint Audit Committee, as set out in the Scheme of Governance and Consent. The PAM meet six times a year with meeting held in public. Due to the Covid-19 pandemic, which caused significant disruption between March 2020 and May 2021, the PAM only met five time in 2020/21.

The Joint Audit Committee meets quarterly, and is comprised of appropriately skilled and experienced members. It has clear terms of reference which emphasises the Committee's role in providing effective challenge and has an annual work plan to help ensure that it focuses on the relevant aspects of governance, internal control and financial reporting.

In addition, there are also regular briefings and discussions held between PCC and CC via Strategic Governance Board on a monthly basis to discuss any issues relating to strategic decisions, policy issues and medium / long-term planning. There is also a quarterly Estates Governance Board meeting where PCC and CC discuss the development of the Police Estate to deliver future policing services across the County.

The PCC/CC has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

Governance (continued)

5. How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).

The PCC/CC has policies and procedures in place to ensure that staff operate in accordance with relevant legislative and regulatory requirements, including the acceptance of gifts and hospitality, business interests and additional occupations. The Joint Audit Committee is also responsible for reviewing the overarching corporate governance arrangements to ensure the effectiveness of the governance, risk management and control frameworks.

The PCC, CC and all members of the Joint Audit Committee have completed declarations for the ‘Register of Interest’, in line with the Code of Conduct and Business Interest Policy. The declarations can be found on the Constabulary’s website.

The Constabulary also include review of the effectiveness and compliance with key corporate and HR policies in the Internal Audit programme on a rolling basis, which is due in 2021/22.

The PCC/CC has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

Improving economy, efficiency and effectiveness

1. How financial and performance information has been used to assess performance to identify areas for improvement.

At the PCC Accountability Meeting (PAM) meetings, the PCC receives reports on performance in the key priorities as set out in the Police and Crime Plan. The reports outline the Constabulary's progress on the strategic objectives against planned targets and outcomes. The reports are reviewed and discussed at the meetings. Depending on the performance area, the PCC will have oversight of the actions being identified and taken to address areas for improvements. In addition, any emerging operational / organisational risks will also be flagged up in the meetings. Due to the Covid-19 pandemic, there has been a stand-alone agenda item where the Chief Constable provides regular updates on managing the pandemic and the challenges faced by the Constabulary to respond to it.

Internal Audit also provide operational recommendations and controls reviews. The outcome of these and any recommendations are tracked at Joint Audit Committee.

2. How the body evaluates the services it provides to assess performance and identify areas for improvement

The CC has an array of performance metrics, including organisational goals for the next 12 month period, across all aspects of its operations against the seven key priorities that are set out in the Police and Crime Plan. Performance reports are provided to the PCC in the bi-monthly PCC Accountability Meeting (PAM) meetings and where performance is below planned, they are being followed up to seek the required improvements through agreed actions.

The Constabulary is also regularly inspected by the HMICFRS under the PEEL (police effectiveness, efficiency and legitimacy) programme which draws together evidence from its annual all-force inspections. HMICFRS also undertakes inspections of specific subjects or services, known as thematic inspections which complement and contribute to the PEEL annual assessment. The Constabulary publishes its annual PEEL report outlining its performance against a wide range of quality measures. The latest report published was 2018/19 in which the Constabulary received an excellent performance in keeping people safe and reducing crime.

> The PCC/CC has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

Improving economy, efficiency and effectiveness (continued)

3. How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

Norfolk and Suffolk Constabularies have been collaborating since 2010. The collaboration work has delivered in a number of joint units and departments in areas, such as major investigations, protective services, custody, transport and IT. The PCCs and the CCs of both counties meet regularly through the attendance at the Norfolk and Suffolk Collaboration Panel to consider issues of mutual interest and to monitor the collaborative work between the two forces and keeping the collaboration arrangements under review.

Norfolk Constabulary also entered into a Seven Force strategic collaboration programme with their counterparts for the police areas of Bedfordshire, Cambridgeshire, Essex, Hertfordshire, Kent and Suffolk. The programme was set up to establish areas for potential collaboration to help address the efficiency of service delivery and improving the effectiveness of delivery to the communities. The programme is governed by the Eastern Region Summit.

The programme also established a Seven Force Strategic Collaboration Oversight Group. The Oversight Group provides advice, support and oversight to the Senior Responsible Officer for the Programme and makes recommendations to the Eastern Region Summit.

The PCC/CC has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

Improving economy, efficiency and effectiveness (continued)

4. How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits

The Seven Force Commercial Services Function has been created to support police procurement activity in all the seven police areas. All procurement contracts over £50,000 will be managed by the Seven Force Procurement Function through procedures covered by the Seven Force Commercial Services Contract Standing Orders. A Seven Force Strategic Procurement Policy has also been published.

A governance body, the Seven Force Strategic Procurement Governance Board, has been put in place to ensure the function operates effectively. The Board is chaired by a nominated PCC lead, and as a body, is responsible for setting the strategic direction of the Seven Force Procurement Function on behalf of all PCC's and Chief Constables. Membership of this board consists of representation for PCC's and Chief Constables of each force and will ensure that focus of effort and priority of the Seven Force procurement function is shared across all Seven Forces and is acting in the best interests of each force. The Governance board meets monthly, and will report into the Seven Force Alliance Summit which govern the Seven Force Strategic Collaboration programme.

Below the Seven Force Strategic Procurement Governance Board is the Seven Force Strategic Procurement Delivery Board, which oversees the delivery of the Seven Force procurement function on behalf of the Strategic Procurement Board. Membership consists of a representative from each of the seven counties including PCCs and/or Force CFO's. This board also meets monthly.

A Senior Leadership Team meeting (Seven Force Commercial Services Function SLT meeting) is then also held monthly which is chaired by the Director of Commercial Services.

The governance arrangements are then adapted into the local working arrangements at Norfolk through the Norfolk Organisational Board updates provided through the Assistance Chief Officers' (ACO) portfolio updates.

An Internal Audit of the Seven Force Commercial Services function was recently undertaken by RSM In December 2020, assessing the processes and controls within the services. While there were some weaknesses identified in the design and application controls in 4 areas (namely SLAs, sub under £50,000 procurement, competitive tender process and contract documentation), the Internal Audit opinion concluded the Forces and PCCs could take reasonable assurance that the controls upon which the organisations rely on to manage this area are suitably designed and consistently applied.

The PCC/CC faces further challenge and change beyond 2021 which will form part of our 2021/22 VFM arrangements work.

Forward look

Looking forward to 2021 and beyond

Although we did not identify any significant weaknesses in the PCC/CC's value for money arrangements there is one area in relation to financial sustainability that we wish to bring to your attention.

The 2021/22 Medium Term Financial Strategy identified a cumulative budget gap of £16.743 million up to 2024/25. The Chief Financial Officers have been open and transparent about the pressures faced by the PCC/CC and are working to reduce the forecast budget gaps through the identification of planned savings

The PCC/CC has been prudent in their budget setting, especially in relation to future funding and taxation income. The PCC/CC has managed to deliver an underspend in their 2020/21 outturn and have prepared a balanced budget for 2021/22.

The PCC/CC is currently forecasting a revenue underspend of £0.185 million at the 31 March 2022 year-end. The PCC/CC hold a significant level of unallocated reserves, £9.884 million as at 31 March 2021, which will assist in dealing with spending pressures over the short term, but will not be sufficient to cover the identified budget gap if the planned savings are not identified and delivered.

We will continue to monitor this key issue in future financial years.

Section 5

Other Reporting Issues

Other Reporting Issues

Annual Governance Statement

We are required to consider the completeness of disclosures in the PCC/CC's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with relevant guidance.

We completed this work and did not identify any areas of concern.

Whole of Government Accounts

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts consolidation pack submission. The guidance for 20/21 is yet to be issued. We will liaise with the PCC/CC to complete this work as required.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the PCC/CC or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Other powers and duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

Appendix A

Audit Fees

Audit Fees

Our fee for 2020/21 is in line with the audit fee agreed and reported in our Audit Results Report presented to the Joint Audit Committee on the 26 November 2021.

Description	Planned Fee 2020/21 £'s	Scale Fee 2020/21 £'s	Final Fee 2019/20 £'s
Total Audit Fee – Code work	37,595	37,595	37,595
Changes in work required to address professional and regulatory requirements and scope associated with risk (Note 1)	28,325	-	28,325
Revised proposed scale fee	**65,920**	**37,595**	**65,920**
Additional work:			
2019/20 additional procedures requires and as reported within the Annual Audit Letter (Note 2)	-	-	13,893
2020/21 additional procedures required in response to the additional risks identified in this Audit Plan in respect of new NAO Code for VFM and new requirements for Estimates under ISA540	TBC (Note 3)	-	-
Total Fees	**TBC**	**37,595**	**79,813**

Note 1 - For 2019/20 we have proposed an increase to the scale fee to reflect the increased level of audit work required which has been impacted by a range of factors, as detailed in our 2019/20 Audit Results Report. Our proposed increase has been discussed with management and is with PSAA for determination. For 2020/21 the scale fee has again been re-assessed to take into account the same recurring risk factors as in 2019/20 and is subject to approval by PSAA Ltd.

Note 2 – The 2019/20 additional procedures fee was reported in our Annual Audit Letter. The fee has been discussed with management and is subject to formal approval by PSAA Ltd.

Note 3 – For 2020/21, we have had to perform additional audit procedures to respond to the financial reporting an associated audit risks pertaining to the new NAO Code for Value For Money and the enhanced considerations and procedures required in respect of estimates under ISA540. The additional fee for 2020/21 is yet to be fully discussed with management and thus remains subject to determination by PSAA Ltd.

We will report the respective final fees formally, once they have been determined by PSAA Ltd.
We confirm we have/have not undertaken any non-audit work.

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Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

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Appendix G

The Office of the Police and Crime Commissioner for Norfolk
Annual Investment and Treasury Management Strategy Statement 2022/23

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 The CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) underpins the system of capital finance. The new edition (published in December 2021 makes important changes that reflect developments since the Prudential Code was last updated in 2017.

The 2021 publication of the Prudential Code applies with immediate effect, except that authorities may defer introducing the revised reporting requirements until the 2023/24 financial year if they wish. The revised reporting requirements include changes to the capital strategy, prudential indicators and investment reporting. The general ongoing principles of the revised Prudential Code, including the requirement in paragraph 51 that an authority must not borrow to invest primarily for financial return, apply with immediate effect.

In preparing the 2022/23 strategy we have included, where possible, revised/new Prudential Indicators in accordance with the new Code.

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

1.7 The IFRS16 Leasing Standard is to be implemented in the Accounting Code of Practice from 1 April 2022, therefore the Prudential and Treasury Management Indicators reported include an estimation of Lease liabilities falling under IFRS16, which impact on external debt and the Capital Financing Requirement.

2. Reporting requirements

Capital Strategy

2.1 The CIPFA 2021 Prudential and Treasury Management Codes require, for 2022/23, 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, investments and treasury management activity contribute to the delivery of plans and 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 2022/23

3.1 The strategy for 2022/23 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, DLUHC (The Department for Levelling Up, Housing and Communities) MRP Guidance, the CIPFA Treasury Management Code and DLUHC 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 2022/23

4.1 The Bank Rate at the time of drafting this Strategy stands at 0.25%. It is currently predicted that the Bank Rate will increase over the planning period as follows:

- Q1 2022 - 0.25%
- Q1 2023 - 0.75%
- Q1 2024 - 1.00%

However, these forecasts are likely to be revised within a relatively short timeframe due to a number of social, economic and political reasons.

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**
2022/23	0.50%
2023/24	0.75%
2024/25	1.00%
2025/26	1.25%
Later Years	2.00%

The overall balance of risks to economic growth in the UK is now to the downside, including residual risks from Covid and its variants - both domestically and their potential effects worldwide.
It is not expected that Bank Rate will go up fast after the initial rate rise as the supply potential of the economy is not likely to have taken a major hit during the pandemic: it should, therefore, be able to cope well with meeting demand after supply shortages subside over the next year, without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC's 2% target after the spike up to around 5%.

4.3 There are 3 key considerations to the treasury management investment process. DLUHC'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 DLUHC'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 2022/23 - 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 2022/23 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 rely 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 2022/23 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 2022/23 – Specified and Non-Specified Investments

6.1 As determined by DLUHC'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 2022/23 therefore includes both Specified and Non-Specified Investment institutions.

7. Borrowing Strategy 2022/23

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. 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. The 2021 revision to the Prudential Code now includes the requirement in paragraph 51 that an authority must not borrow to invest primarily for financial return. Paragraph 51 states:

"The Prudential Code determines that certain acts or practices are not prudent activity for a local authority and incur risk to the affordability of local authority investment:

• *In order to comply with the Prudential Code, an authority must not borrow to invest primarily for financial return.*

• *It is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority and where any financial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose."*

7.4 External borrowing currently stands at £33.4m (excluding PFI and ROU Leases). At 31 March 2021 and excluding PFI and ROU Leases, there was a £36.3m Capital Financing Requirement (CFR), £12.5m relating to unfunded capital expenditure which had been financed from internal resources. The CFR is estimated to be £42.4m at 31 March 2022, £48.1m at 31 March 2023 and £50.7m at 31 March 2024. Additional long term borrowing is estimated at £3.8m for 2023/24 and £5.8m for 2024/25. The borrowing requirement does not include the funding requirement in respect of assets financed through PFI and Leasing.

7.5 The challenging and uncertain economic outlook, 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 and any risks identified.

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 Indicators

8.1 In addition to the key Indicators included in the Prudential Code and reported separately, there are three 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 31.3.22:

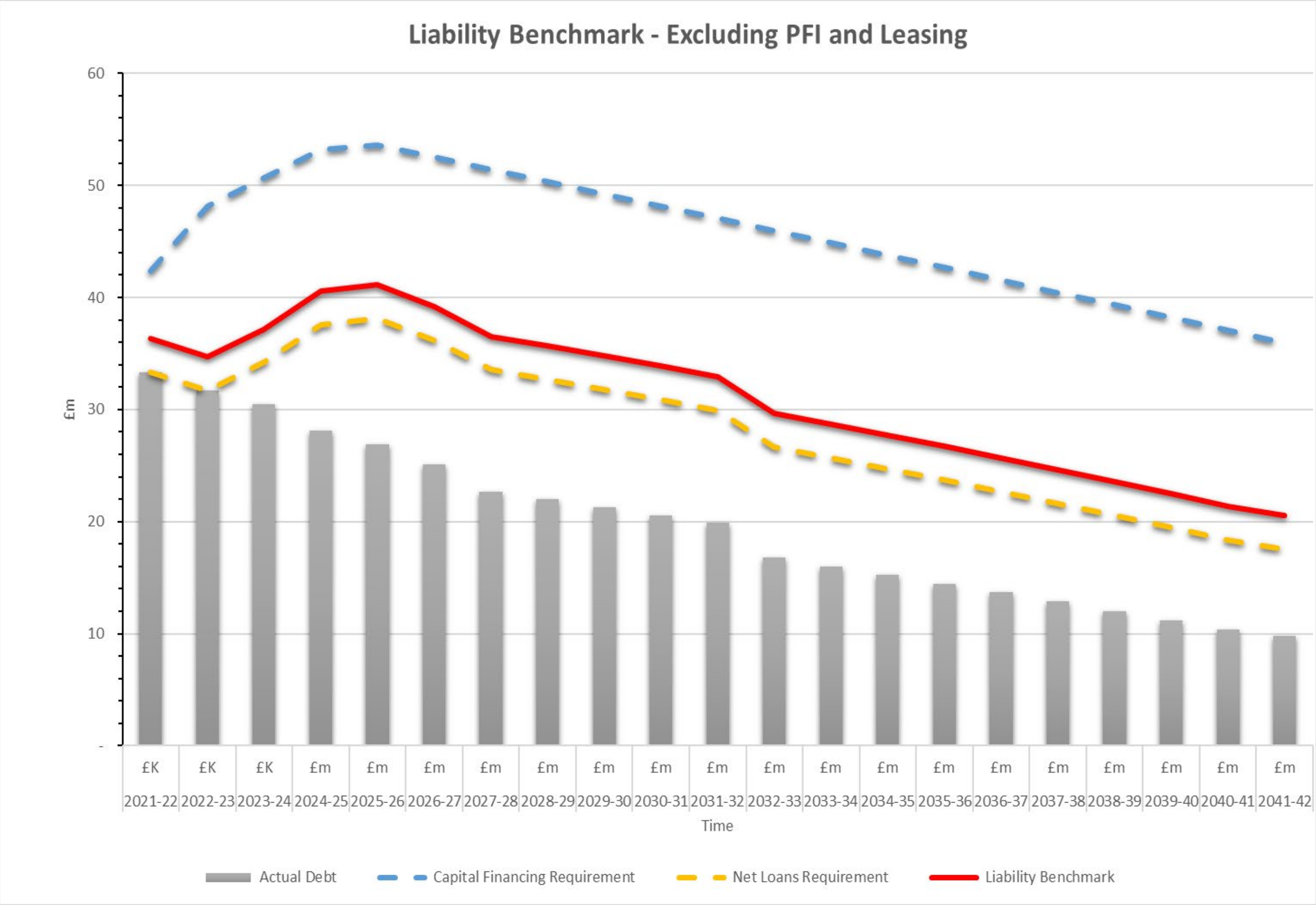
	Actual*	**Lower Limit**	**Upper Limit**
Under 12 months	4.9%	0%	15%
12 months and within 24 months	3.8%	0%	15%
24 months and within 5 years	16.0%	0%	45%
5 years and within 10 years	15.8%	0%	75%
10 years and above	59.5%	0%	100%

* Actual is based on existing balances at 31 March 2022

- **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 2022/23, the maximum level of PCC funds invested for periods greater than 365 days will be no more than £4.475m.

- **Liability Benchmark**

  This is a new indicator arising from the 2021 Revised Treasury Management Code of Practice. The liability benchmark is an essential risk management tool. The optimum position is for total borrowing to be on the liability benchmark line. Borrowing above that level will be reflected in increased investment balances and introduce the cost of carry and additional credit risk implications, although this may be needed to anticipate interest rate movements and secure affordable borrowing.



Annex 1

Prudential Code Indicators 2022/23, 2023/24, 2024/25

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 2021 and applies from with immediate effect, albeit with a soft landing for 2022/23.

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 Prudential and Treasury Management indicators are:

- Capital Expenditure Forecast
- Capital Financing Requirement
- Actual External Debt
- Authorised Limit for External Debt
- Operational Boundary Limit for External Debt
- Net income from commercial and service investments to net revenue stream ratio.

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 E (of the PCC's Budget and MTFP report 2022/26). The total estimated payments are:

	2022/23	2023/24	2024/25
	£m	£m	£m
Capital Expenditure Forecast	12.056	11.595	10.193
Transition of ROU Leases	0.788		

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		
2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
4.81%	4.65%	4.46%

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			
31/03/22 Estimate	31/03/23 Estimate	31/03/24 Estimate	31/03/25 Estimate
£97.601m	£102.061m	£102.521m	£102.969m

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 2022/23 and future years limits. For 2022/23 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			
	2022/23	2023/24	2024/25
	£m	£m	£m
PWLB borrowing	31.732	34.185	37.574
Other long term liabilities (OCC PFI)	22.679	21.906	21.043
Other long term liabilities (PIC PFI)	30.771	29.634	28.539
ROU Lease Liabilities	0.472	0.309	0.240
Headroom	21.510	21.612	20.722
Total	107.164	107.647	108.118

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			
	2022/23	2023/24	2024/25
	£m	£m	£m
PWLB borrowing	31.732	34.185	37.574
Other long term liabilities (OCC PFI)	22.679	21.906	21.043
Other long term liabilities (PIC PFI)	30.771	29.634	28.539
ROU Lease Liabilities	0.472	0.309	0.240
Total	85.654	86.034	87.396

2.7 The Code now requires a new indicator identifying the ratio between net income from commercial and service investments to net revenue stream. This indicator provides a contextual assessment of the proportionality of income from commercial and service investments. However, as the PCC does not currently engage in any commercial arrangements, there is no need to provide further information on this indicator.

Annex 2

Minimum Revenue Provision (MRP)
MRP Policy and Statement for 2022/23.

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 2022/23:

- 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 ISSUED ON 10 NOVEMBER 2021

MPC meeting 4th November 2021

- The Monetary Policy Committee (MPC) voted 7-2 to leave Bank Rate unchanged at 0.10% with two members voting for an increase to 0.25% and made no changes to its programme of quantitative easing purchases due to finish by the end of this year at a total of £895bn by a vote of 6-3.
- After the Governor and other MPC members had made speeches prior to the MPC meeting in which they stressed concerns over inflation, (the Bank is now forecasting inflation to reach 5% in April when the next round of capped gas prices will go up), thus reinforcing the strong message from the September MPC meeting, financial markets had confidently built in an expectation that Bank Rate would go up from 0.10% to 0.25% at this meeting. However, these were not messages that the MPC would definitely increase Bank Rate at the first upcoming MPC meeting as no MPC member can commit the MPC to make that decision ahead of their discussions at the time. The MPC did comment, however, that Bank Rate would have to go up in the short term. It is, therefore, relatively evenly balanced as to whether Bank rate will be increased in December, February or May. Much will depend on how the statistical releases for the labour market after the end of furlough on 30th September 2021 turn out.
- Information available at the December MPC meeting will be helpful in forming a picture but not conclusive, so this could cause a delay until the February meeting. At the MPC's meeting in February it will only have available the employment figures for November: to get a clearer picture of employment trends, it would, therefore, need to wait until the May meeting (although it also meets in March) when it would have data up until February. At its May meeting, it will also have a clearer understanding of the likely peak of inflation expected around that time. If the statistics show the labour market coping well during the next six months, then it is likely there will be two increases in these three meetings.
- Over the next year the MPC will be doing a delicate balancing act of weighing combating inflation being higher for longer against growth being held back by significant headwinds. Those headwinds are due to supply shortages (pushing prices up and holding back production directly), labour shortages, surging fuel prices and tax increases. However, those headwinds could potentially be offset – at least partially - by consumers spending at least part of the £160bn+ of "excess savings" accumulated during the pandemic. However, it is also possible that more affluent people may be content to hold onto elevated savings and investments and, therefore, not support the economic recovery to the extent that the MPC may forecast.
- The latest forecasts by the Bank showed inflation under-shooting the 3 years ahead 2% target (1.95%), based on market expectations of Bank Rate hitting 1% in 2022. This implies that rates don't need to rise to market expectations of 1.0% by the end of next year.
- It is worth recalling that the MPC pointedly chose to reaffirm its commitment to the 2% inflation target in its statement after the MPC meeting in September yet at its August meeting it had emphasised a willingness to look through inflation overshooting the target for limited periods to ensure that inflation was 'sustainably over 2%'. On balance, once this winter is over and world demand for gas reduces - so that gas

prices and electricity prices fall back - and once supply shortages of other goods are addressed, the MPC is forecasting that inflation would return to just under the 2% target.

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

- **COVID-19 vaccines.** These have been the game changer which have enormously boosted confidence that **life in the UK could largely return to normal during the summer** after a third wave of the virus threatened to overwhelm hospitals in the spring. With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of pent-up demand and purchasing power stored up for services in hard hit sectors like restaurants, travel and hotels. The big question is whether mutations of the virus could develop which render current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread. There is also a potential for the winter flu season combined with Covid to overwhelm NHS hospitals so the UK is not entirely in the clear yet.
- **Since the September MPC meeting**, the economy has been impacted by rising gas and electricity prices which are now threatening to close down some energy intensive sectors of industry – which would then further impact the supply chain to the rest of the economy. Ports are also becoming increasingly clogged up with containers due to a shortage of lorry drivers to take them away. The labour market statistics for August released in mid-October showed a sharp rise in employment but also a continuing steep rise in vacancies. The combination of all these factors is a considerable headwind to a recovery of economic growth in the months ahead.

US. Shortages of goods and intermediate goods like semi-conductors, are fuelling increases in prices and reducing economic growth potential. It now also appears that there has been a sustained drop in the labour force which suggests the pandemic has had a longer-term scarring effect in reducing potential GDP. Economic growth may therefore be reduced to between 2 and 3% in 2022 and 2023 while core inflation is likely to remain elevated at around 3% in both years instead of declining back to the Fed's 2% central target. This could well cause the Fed to focus on supporting economic growth by delaying interest rate rises, rather than combating elevated inflation i.e., there may be no rate rises until 2023.
See also comments in paragraph 3.3 under PWLB rates and gilt yields.

EU. The slow role out of vaccines initially delayed economic recovery in early 2021 but the vaccination rate then picked up sharply. After a contraction of -0.3% in Q1, Q2 came in with strong growth of 2%. With Q3 at 2.2%, the EU recovery is nearly complete although countries dependent on tourism are lagging. Recent sharp increases in gas and electricity prices have increased overall inflationary pressures but the ECB is likely to see these as being only transitory after an initial burst through to around 4%, so is unlikely to be raising rates for a considerable time.
German general election. With the CDU/CSU and SDP both having won around 24-26% of the vote in the September general election, the composition of Germany's next

coalition government may not be agreed by the end of 2021. An SDP-led coalition would probably pursue a slightly less restrictive fiscal policy, but any change of direction from a CDU/CSU led coalition government is likely to be small. However, with Angela Merkel standing down as Chancellor as soon as a coalition is formed, there will be a hole in overall EU leadership which will be difficult to fill.

China. After a concerted effort to get on top of the virus outbreak in Q1 2020, economic recovery was strong in the rest of the year; this enabled China to recover all the initial contraction. During 2020, policy makers both quashed the virus and implemented a programme of monetary and fiscal support that was particularly effective at stimulating short-term growth. At the same time, China's economy benefited from the shift towards online spending by consumers in developed markets. These factors helped to explain its comparative outperformance compared to western economies during 2020 and earlier in 2021. However, the pace of economic growth has now fallen back after this initial surge of recovery from the pandemic and China is now struggling to contain the spread of the Delta variant through sharp local lockdowns - which will also depress economic growth. There are also questions as to how effective Chinese vaccines are proving. Supply shortages, especially of coal for power generation, which is causing widespread power cuts to industry, are also having a sharp disruptive impact on the economy. In addition, recent regulatory actions motivated by a political agenda to channel activities into officially approved directions, are also likely to reduce the dynamism and long-term growth of the Chinese economy.

Japan. 2021 has been a patchy year in combating Covid. However, recent business surveys indicate that the economy is rebounding rapidly now that the bulk of the population is fully vaccinated and new virus cases have plunged. The Bank of Japan is continuing its very loose monetary policy but with little prospect of getting inflation back above 1% towards its target of 2%, any time soon: indeed, inflation was actually negative in July. New Prime Minister Kishida had promised a large fiscal stimulus package after the November general election which his party has now won.

World growth. World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum more recently. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. It is likely that we are heading into a period where there will be a reversal of **world globalisation** and a decoupling of western countries from dependence on China to supply products, and vice versa. This is likely to reduce world growth rates from those in prior decades.

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

ORIGINATOR:	Chief Finance Officer

REASON FOR SUBMISSION:	To review and note.

SUBJECT: Mid-Year Treasury Management Monitoring Report 2021/22

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 2021 to 30th September 2021.

The first half of 2021/22 has again been overshadowed by the Coronavirus Pandemic, However, UK GDP (quarter on quarter) increased by 5.4% in Q2 and 1.1% in Q2 of 2021. It was therefore no surprise that the Monetary Policy Committee (MPC) left Bank Rate unchanged at 0.1% when it met on 24 September 2021. At that meeting The MPC flagged up a potential danger that labour shortages could push up wage growth by more than it expects and that, as a result, CPI inflation would stay above the 2% target for longer. It also expected sharp increases in monthly inflation figures in the pipeline in late 2021.

At the 30th September 2021, the PCC's external debt excluding PFI and ROU lease liabilities was £33.653m, its investments totalled £35.5m and bank balances £1.754m.

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 (2021/22) was reviewed by the Audit Committee on 19 January 2021 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 2021 to 30 September 2021 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 Economics update

MPC meeting 24.9.21

- The Monetary Policy Committee (MPC) voted unanimously to leave Bank Rate unchanged at 0.10% and made no changes to its programme of quantitative easing purchases due to finish by the end of this year at a total of £895bn; two MPC members voted to stop the last £35bn of purchases as they were concerned that this would add to inflationary pressures.

- There was a major shift in the tone of the MPC's minutes at this meeting from the previous meeting in August which had majored on indicating that some tightening in monetary policy was now on the horizon, but also not wanting to stifle economic recovery by too early an increase in Bank Rate. In his press conference after the August MPC meeting, Governor Andrew Bailey said, "the challenge of avoiding a steep rise in unemployment has been replaced by that of ensuring a flow of labour into jobs" and that "the Committee will be monitoring closely the incoming evidence regarding developments in the labour market, and particularly unemployment, wider measures of slack, and underlying wage pressures." In other words, it was flagging up a potential danger that labour shortages could push up wage growth by more than it expects and that, as a result, CPI inflation would stay above the 2% target for longer. It also discounted sharp increases in monthly inflation figures in the pipeline in late 2021 which were largely propelled by events a year ago e.g., the cut in VAT in August 2020 for the hospitality industry, and by temporary shortages which would eventually work their way out of the system: in other words, the MPC had been prepared to look through a temporary spike in inflation.

- So, in August the country was just put on alert. However, this time the MPC's words indicated there had been a marked increase in concern that more recent increases in prices, particularly the increases in gas and electricity prices in October and due again next April, are, indeed, likely to lead to faster and higher inflation expectations and underlying wage growth, which would in turn increase the risk that price pressures would prove more persistent next year than previously expected. Indeed, to emphasise its concern about inflationary pressures, the MPC pointedly chose to reaffirm its commitment to the 2% inflation target in its statement; this suggested that it was now willing to look through the flagging economic recovery during the summer to prioritise bringing inflation down next year. This is a reversal of its priorities in August and a long way from words at earlier MPC meetings which indicated a willingness to look through inflation overshooting the target for limited periods to ensure that inflation was 'sustainably over 2%'. Indeed, whereas in August the MPC's focus was on getting through a winter of temporarily high energy prices and supply shortages, believing that inflation would return to just under the 2% target after reaching a high around 4% in late 2021, now its primary concern is that underlying price pressures in the economy are likely to get embedded over the next year and elevate future inflation to stay significantly above its 2% target and for longer.

- Financial markets are now pricing in a first increase in Bank Rate from 0.10% to 0.25% in February 2022, but this looks ambitious as the MPC has stated that it wants to see what happens to the economy, and particularly to employment once furlough ends at the end of September. At the MPC's meeting in February it will only have available the employment figures for November: to get a clearer picture of employment trends, it would need to wait until the May meeting when it would have data up until February. At its May meeting, it will also have a clearer understanding of the likely peak of inflation.

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

- COVID-19 vaccines. These have been the game changer which have enormously boosted confidence that life in the UK could largely return to normal during the summer after a third wave of the virus threatened to overwhelm hospitals in the spring. With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of pent-up demand and purchasing power stored up for services in hard hit sectors like restaurants, travel and hotels. The big question is whether mutations of the virus could develop which render current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread.

US. See comments below on US treasury yields.

EU. The slow role out of vaccines initially delayed economic recovery in early 2021 but the vaccination rate has picked up sharply since then. After a contraction in GDP of -0.3% in Q1, Q2 came in with strong growth of 2%, which is likely to continue into Q3, though some countries more dependent on tourism may struggle. Recent sharp increases in gas and electricity prices have increased overall inflationary pressures but the ECB is likely to see these as being only transitory after an initial burst through to around 4%, so is unlikely to be raising rates for a considerable time.
German general election. With the CDU/CSU and SDP both having won around 24-26% of the vote in the September general election, the composition of Germany's next coalition government may not be agreed by the end of 2021. An SDP-led coalition would probably pursue a slightly less restrictive fiscal policy, but any change of direction from a CDU/CSU led coalition government is likely to be small. However, with Angela Merkel standing down as Chancellor as soon as a coalition is formed, there will be a hole in overall EU leadership which will be difficult to fill.

China. After a concerted effort to get on top of the virus outbreak in Q1 2020, economic recovery was strong in the rest of the year; this enabled China to recover all the initial contraction. During 2020, policy makers both quashed the virus and implemented a programme of monetary and fiscal support that was particularly effective at stimulating short-term growth. At the same time, China's economy benefited from the shift towards online spending by consumers in developed markets. These factors helped to explain its comparative outperformance compared to western economies during 2020 and earlier in 2021. However, the pace of economic growth has now fallen back after this initial surge of recovery from the pandemic and China is now struggling to contain the spread of the Delta variant through sharp local lockdowns - which will also depress economic growth. There are also questions as to how effective Chinese vaccines are proving. In addition, recent regulatory actions motivated by a political agenda to channel activities into officially approved directions, are also likely to reduce the dynamism and long-term growth of the Chinese economy.

Japan. 2021 has been a patchy year in combating Covid. However, after a slow start, nearly 50% of the population are now vaccinated and Covid case numbers are falling. After a weak Q3 there is likely to be a strong recovery in Q4. The Bank of Japan is continuing its very loose monetary policy but with little prospect of getting inflation back above 1% towards its target of 2%, any time soon: indeed, inflation was negative in July. New Prime Minister Kishida has promised a large fiscal stimulus package after the November general election – which his party is likely to win.

World growth. World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum more recently. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. It is likely that we are heading into a period where there will be a reversal of **world globalisation** and a decoupling of western countries from dependence on China to supply products, and vice versa. This is likely to reduce world growth rates from those in prior decades.

Supply shortages. The pandemic and extreme weather events have been highly disruptive of extended worldwide supply chains. At the current time there are major queues of ships unable to unload their goods at ports in New York, California and China. Such issues have led to mis-distribution of shipping containers around the world and have contributed to a huge increase in the cost of shipping. Combined with a shortage of semi-conductors, these issues have had a disruptive impact on production in many countries. Many western countries are also hitting up against a difficulty in filling job vacancies. It is expected that these issues will be gradually sorted out, but they are currently contributing to a spike upwards in inflation and shortages of materials and goods on shelves.

2.2 Interest rate forecasts

The PCC's treasury advisor, Link Group, provided the following forecasts on 29th September 2021 (PWLB rates are certainty rates, gilt yields plus 80bps):

Link Group Interest Rate View 29.9.21	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	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75
3 month ave earnings	0.10	0.10	0.20	0.20	0.30	0.40	0.50	0.50	0.60	0.70
6 month ave earnings	0.20	0.20	0.30	0.30	0.40	0.50	0.60	0.60	0.70	0.80
12 month ave earnings	0.30	0.40	0.50	0.50	0.50	0.60	0.70	0.80	0.90	1.00
5 yr PWLB	1.40	1.40	1.50	1.50	1.60	1.60	1.60	1.70	1.70	1.70
10 yr PWLB	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10
25 yr PWLB	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.60
50 yr PWLB	2.00	2.00	2.10	2.20	2.20	2.20	2.20	2.30	2.30	2.40

Additional notes by Link on this forecast table: -

- *LIBOR and LIBID rates will cease from the end of 2021. Work is currently progressing to replace LIBOR with a rate based on SONIA (Sterling Overnight Index Average). In the meantime, our forecasts are based on expected average earnings by local authorities for 3 to 12 months.*
- *Our forecasts for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short term cash at any one point in time.*

The coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings.

As shown in the forecast table above, one increase in Bank Rate from 0.10% to 0.25% has now been included in quarter 2 of 2022/23, a second increase to 0.50% in quarter 2 of 23/24 and a third one to 0.75% in quarter 4 of 23/24.

Significant risks to the forecasts

- COVID vaccines do not work to combat new mutations and/or new vaccines take longer than anticipated to be developed for successful implementation.
- The pandemic causes major long-term scarring of the economy.
- The Government implements an austerity programme that supresses GDP growth.
- The MPC tightens monetary policy too early – by raising Bank Rate or unwinding QE.
- The MPC tightens monetary policy too late to ward off building inflationary pressures.
- Major stock markets e.g. in the US, become increasingly judged as being over-valued and susceptible to major price corrections. Central banks become increasingly exposed to the “moral hazard” risks of having to buy shares and corporate bonds to reduce the impact of major financial market sell-offs on the general economy.
- Geo-political risks are widespread e.g. German general election in September 2021 produces an unstable coalition or minority government and a void in high-profile leadership in the EU when Angela Merkel steps down as Chancellor of Germany; on-going global power influence struggles between Russia / China / US.

The balance of risks to the UK economy: -

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

Forecasts for Bank Rate

Bank Rate is not expected to go up fast after the initial rate rise as the supply potential of the economy has not generally taken a major hit during the pandemic, so should be able to cope well with meeting demand without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC’s 2% target after the surge to around 4% towards the end of 2021. Three increases in Bank rate are forecast in the period to March 2024, ending at 0.75%. However, these forecasts may well need changing within a relatively short time frame for the following reasons:-

- There are increasing grounds for viewing the economic recovery as running out of steam during the summer and now into the autumn. This could lead into stagflation which would create a dilemma for the MPC as to which way to face.
- Will some current key supply shortages e.g., petrol and diesel, spill over into causing economic activity in some sectors to take a significant hit?
- Rising gas and electricity prices in October and next April and increases in other prices caused by supply shortages and increases in taxation next April, are already going to deflate consumer spending power without the MPC having to take any action on Bank Rate to cool inflation. Then we have the Government's upcoming budget in October, which could also end up in reducing consumer spending power.
- On the other hand, consumers are sitting on around £200bn of excess savings left over from the pandemic so when will they spend this sum, in part or in total?
- There are 1.6 million people coming off furlough at the end of September; how many of those will not have jobs on 1st October and will, therefore, be available to fill labour shortages in many sectors of the economy? So, supply shortages which have been driving up both wages and costs, could reduce significantly within the next six months or so and alleviate the MPC's current concerns.
- There is a risk that there could be further nasty surprises on the Covid front, on top of the flu season this winter, which could depress economic activity.

In summary, with the high level of uncertainty prevailing on several different fronts, it is likely that these forecasts will need to be revised again soon - in line with what the new news is.

It also needs to be borne in mind that Bank Rate being cut to 0.10% was an emergency measure to deal with the Covid crisis hitting the UK in March 2020. At any time, the MPC could decide to simply take away that final emergency cut from 0.25% to 0.10% on the grounds of it no longer being warranted and as a step forward in the return to normalisation. In addition, any Bank Rate under 1% is both highly unusual and highly supportive of economic growth.

Forecasts for PWLB rates and gilt and treasury yields

As the interest forecast table for PWLB certainty rates above shows, there is likely to be a steady rise over the forecast period, with some degree of uplift due to rising treasury yields in the US.

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

- How strongly will changes in gilt yields be correlated to changes in US treasury yields?
- Will the Fed take action to counter increasing treasury yields if they rise beyond a yet unspecified level?
- Would the MPC act to counter increasing gilt yields if they rise beyond a yet unspecified level?
- How strong will inflationary pressures turn out to be in both the US and the UK and so impact treasury and gilt yields?

- How will central banks implement their new average or sustainable level inflation monetary policies?
- How well will central banks manage the withdrawal of QE purchases of their national bonds i.e., without causing a panic reaction in financial markets as happened in the “taper tantrums” in the US in 2013?
- Will exceptional volatility be focused on the short or long-end of the yield curve, or both?

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

Gilt and treasury yields

Since the start of 2021, there has been a lot of volatility in gilt yields, and hence PWLB rates. During the first part of the year, US President Biden’s, and the Democratic party’s determination to push through a $1.9trn (equivalent to 8.8% of GDP) fiscal boost for the US economy as a recovery package from the Covid pandemic was what unsettled financial markets. However, this was in addition to the $900bn support package already passed in December 2020 under President Trump. This was then followed by additional Democratic ambition to spend further huge sums on infrastructure and an American families plan over the next decade which are caught up in Democrat / Republican haggling. Financial markets were alarmed that all this stimulus, which is much bigger than in other western economies, was happening at a time in the US when: -

1. A fast vaccination programme has enabled a rapid opening up of the economy.
2. The economy had already been growing strongly during 2021.
3. It started from a position of little spare capacity due to less severe lockdown measures than in many other countries. A combination of shortage of labour and supply bottle necks is likely to stoke inflationary pressures more in the US than in other countries.
4. And the Fed was still providing monetary stimulus through monthly QE purchases.

These factors could cause an excess of demand in the economy which could then unleash stronger and more sustained inflationary pressures in the US than in other western countries. This could then force the Fed to take much earlier action to start tapering monthly QE purchases and/or increasing the Fed rate from near zero, despite their stated policy being to target average inflation. It is notable that some Fed members have moved forward their expectation of when the first increases in the Fed rate will occur in recent Fed meetings. In addition, more recently, shortages of workers appear to be stoking underlying wage inflationary pressures which are likely to feed through into CPI inflation. A run of strong monthly jobs growth figures could be enough to meet the threshold set by the Fed of “substantial further progress towards the goal of reaching full employment”. However, the weak growth in August, (announced 3.9.21), has spiked anticipation that tapering of monthly QE purchases could start by the end of 2021. These purchases are currently acting as downward pressure on treasury yields. As the US financial markets are, by far, the biggest financial markets in the world, any trend upwards in the US will invariably impact and influence financial markets in other countries. However, during June and July, longer term yields fell sharply; even the large non-farm payroll increase in the first week of August seemed to cause the markets little concern, which is somewhat puzzling, particularly in the context of the concerns of many commentators that inflation may not be as transitory as the Fed is expecting it to be. Indeed, inflation pressures and erosion of surplus economic capacity look much stronger in the US than in the UK. As an average since 2011, there has been a 75% correlation between movements in 10 year treasury yields and 10 year gilt yields. This is a significant UPWARD RISK exposure to our forecasts for longer term PWLB rates. However, gilt yields and treasury yields do not always move in unison.

There are also possible **DOWNSIDE RISKS** from the huge sums of cash that the UK populace have saved during the pandemic; when savings accounts earn little interest, it is likely that some of this cash mountain could end up being invested in bonds and so push up demand for bonds and support their prices i.e., this would help to keep their yields down. How this will interplay with the Bank of England eventually getting round to not reinvesting maturing gilts and then later selling gilts, will be interesting to keep an eye on.

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

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

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

One of the key results of the pandemic has been a fundamental rethinking and shift in monetary policy by major central banks like the Fed, the Bank of England and the ECB, to tolerate a higher level of inflation than in the previous two decades when inflation was the prime target to bear down on so as to stop it going above a target rate. There is now also a greater emphasis on other targets for monetary policy than just inflation, especially on 'achieving broad and inclusive "maximum" employment in its entirety' in the US before consideration would be given to increasing rates.

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

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 £27.4m.

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 From 1 April 2021 to 30 September 2021 (excluding investments and repayments), monies received amounts to £150.4m (includes a new loan advance of £10m), while payments total £126.0m, resulting in an overall increase in cash balances of £24.4m.

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. Given this risk environment, investment returns are likely to remain low.

4.2 At the 30th September 2021, the PCC held £35.5m 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	3.5	-	-	-	-
Non-UK Banks	-	10.0	7.0	5.0	-
Building Societies	-	-	-	-	-
Other*	10.0	-	-	-	-
Total	**13.5**	**10.0**	**7.0**	**5.0**	**-**

*Includes: Money Market Funds

4.3 A more detailed investment profile at 30th September 2021 is shown at Appendix 1.

4.4 The average interest rate earned for the year to date is 0.0838%.

4.5 Gross interest earned for the period 1st April 2021 to 30th September 2021 was £0.008m.

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 2021 to 30th September 2021 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 2021/22 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 2021, the PCC's external borrowing (debt outstanding, excluding PFI) totaled £33.653m (PWLB)

6.4 The PCC's overall capital financing requirement (excluding PFI & ROU Leases) at 31.3.21 was £36.3m. The projected capital financing requirement at 31.3.22 is approximately £42.4m. 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 2022/26 which will be presented to the Police and Crime Panel on 1 February 2022.

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 2021/22 provides information on the Treasury Management activities of the PCC for the period 1st April 2021 to 30th September 2021.

9 Recommendation

9.1 It is recommended that Audit Committee notes the Mid-Year Treasury Management Monitoring Report 2021/22.

Appendix 1

Outstanding Deposit Profile @ 30 September 2021				
Start	Repay	Counterparty	Rate	Amount
06/07/2021	05/01/2022	Goldman Sachs Intl	0.125%	£5,000,000
02/07/2021	26/11/2021	Close Brothers	0.20%	£2,000,000
13/07/2021	14/03/2022	Goldman Sachs Intl	0.125%	£5,000,000
	Instant Access	Barclays Bank	0.00%	£2,000,000
06/08/2021	Instant Access	Lloyds Bank	0.01%	£1,500,000
09/04/2021	Instant Access	CCLA	0.02%	£2,000,000
07/07/2021	Instant Access	CCLA	0.02%	£3,000,000
0907/2021	Instant Access	CCLA	0.02%	£5,000,000
19/11/2020	31 Day Notice	Santander	0.27%	£1,000,000
06/07/2021	31 Day Notice	Santander	0.27%	£7,000,000
13/08/2021	31 Day Notice	Santander	0.27%	£2,000,000
				£35,500,000

Audit Committee
Forward Work Plan

25 January 2022

Morning briefing 24 January	Commissioning/VAWG & PSAA appointments
Welcome and Apologies	
Declarations of Interest	
Minutes of meeting **29 November 2021**	
Actions from previous meeting	Action Log
Internal Audit 2021/22 Progress update and follow up report	Report from Head of Internal Audit
External Audit 2020/21 Accounts Annual Audit Report	Reports from Director, E&Y
Treasury Management 2021/22 Half Year Update 2022/23 Strategy (draft)	Report from CFO
Forward Work Plan	Report from CFO
Fraud update – Part 2 private agenda	
Strategic Risk Register Update – Part 2 private agenda	Report from Chief Exec and CC

12 April 2022

Morning Briefing 11 April	Complaints and Standards/ Sustainability
Welcome and Apologies	
Declarations of Interest	
Minutes of meeting **25 January 2022**	
Actions from previous meeting	Action Log
Internal Audit 2021/22Progress Report and Follow Up Review 2021/22 Annual Report 2022/23 Internal Audit Plan (Final)	Reports from Head of Internal Audit
External Audit 2021/22 Audit Plan	Report from Director, E&Y
Forward Work Plan	Report from CFO

Audit Committee Annual report	Report from Chair and CFO
Part 2 Private Agenda	
Fraud Update – Part 2 private agenda	
Strategic Risk Register update – Part 2 private agenda	Report from Chief Exec and CC

5 July 2022

Morning briefing **4 July 2022**	Single tender register & 7 Force Procurement/ Draft Statements of Accounts 2021/22
Welcome and Apologies	
Declarations of Interest	
Minutes of meeting **12 April 2022**	
Actions from previous meeting	Action Log
Internal Audit 2021/22 Final Progress Report (including any outstanding reports from 2021/22) Annual Report	Reports from Head of Internal Audit (TIAA)
Annual Governance Statement	Verbal update from CFO
Forward Work Plan	Report from CFO
Fraud - Part 2 private agenda	Report from CFO & ACO
Strategic Risk Register Update – Part 2 private agenda	Report from Chief Exec and CC

11 October 2022

Morning Briefing 10 October	Risk appetite /VFM/Benchmarking/ Force Management Statement
Welcome and Apologies	
Declarations of Interest	
Minutes of meeting **27 July 2021**	
Actions from previous meeting	Action Log
Internal Audit 2022/23 Summary of Internal Control	Reports from Head of Internal Audit
Corporate Governance Framework	Report from CFO
Annual Governance Statement	Report from CFO
Audit Committee Effectiveness (Skills)	Report from CFO
Forward Work Plan	Report from CFO
Fraud - Part 2 private agenda	Report from CFO
Strategic Risk Register update– Part 2 private agenda	Report from Chief Exec and CC

29 November 2022

Welcome and Apologies	
Declarations of Interest	
Minutes of meeting **11 October 2022**	

Actions from previous meeting	Action Log
Final Accounts 2020/21 Approval including External Auditor's Audit Results Report	Reports from CFO and E&Y
Internal Audit 2021/22 Progress Report and Follow up Report	Report from Head of Internal Audit
Forward Work Plan	Report from CFO
Fraud - Part 2 private agenda	Report from CFO

Note:-
1. A private meeting with Audit Committee members and Internal and External Audit leads will take place 9-10am 25th January 2022 on MS Teams

2. An Audit Skills questionnaire will be sent out in September 2022

Report Author
Jill Penn
Chief Finance Officer - OPCCN