

Agenda for a meeting of the Governance and Audit Committee to be held on Thursday, 24 November 2022 at 10.30 am in Committee Room 1 - City Hall, Bradford

Members of the Committee – Councillors

LABOUR	CONSERVATIVE	LIBERAL DEMOCRAT
Tait Thornton Godwin	Felstead	Griffiths

Alternates:

LABOUR	CONSERVATIVE	LIBERAL DEMOCRAT
M Slater Azam Cunningham	Pollard	J Sunderland

Notes:

- This agenda can be made available in Braille, large print or tape format on request by contacting the Agenda contact shown below.
- The taking of photographs, filming and sound recording of the meeting is allowed except if Councillors vote to exclude the public to discuss confidential matters covered by Schedule 12A of the Local Government Act 1972. Recording activity should be respectful to the conduct of the meeting and behaviour that disrupts the meeting (such as oral commentary) will not be permitted. Anyone attending the meeting who wishes to record or film the meeting's proceedings is advised to liaise with the Agenda Contact who will provide guidance and ensure that any necessary arrangements are in place. Those present who are invited to make spoken contributions to the meeting should be aware that they may be filmed or sound recorded.
- If any further information is required about any item on this agenda, please contact the officer named at the foot of that agenda item.

From:

Asif Ibrahim
Director of Legal and Governance
Agenda Contact: Kav Amrez
Phone: 07929 070 288
E-Mail: kanwal.amrez2@bradford.gov.uk

A. PROCEDURAL ITEMS

1. ALTERNATE MEMBERS (Standing Order 34)

The Director of Legal and Governance will report the names of alternate Members who are attending the meeting in place of appointed Members.

2. DISCLOSURES OF INTEREST

Members Code of Conduct – Part 4A of the Constitution)

To receive disclosures of interests from members and co-opted members on matters to be considered at the meeting. The disclosure must include the nature of the interest.

An interest must also be disclosed in the meeting when it becomes apparent to the member during the meeting.

Notes:

- (1) *Members must consider their interests, and act according to the following:*

Type of Interest	You must:
<i>Disclosable Pecuniary Interests</i>	<i>Disclose the interest; not participate in the discussion or vote; and leave the meeting <u>unless</u> you have a dispensation</i>
<i>Other Registrable Interests (Directly Related)</i> OR <i>Non-Registrable Interests (Directly Related)</i>	<i>Disclose the interest; speak on the item <u>only if</u> the public are also allowed to speak but otherwise not participate in the discussion or vote; and leave the meeting <u>unless</u> you have a dispensation</i>
<i>Other Registrable Interests (Affects)</i> OR <i>Non-Registrable Interests (Affects)</i>	<i>Disclose the interest; remain in the meeting, participate and vote <u>unless</u> the matter affects the financial interest or well-being (a) to a greater extent than it affects the financial interests of a majority of inhabitants of the affected ward, and (b) a reasonable member of the public knowing all the facts would believe that it would affect your view of the wider</i>

*public interest;
in which case speak on the item only if
the public are also allowed to speak but
otherwise not do not participate in the
discussion or vote; and leave the
meeting unless you have a dispensation*

- (2) *Disclosable pecuniary interests relate to the Member concerned or their spouse/partner.*
- (3) *Members in arrears of Council Tax by more than two months must not vote in decisions on, or which might affect, budget calculations, and must disclose at the meeting that this restriction applies to them. A failure to comply with these requirements is a criminal offence under section 106 of the Local Government Finance Act 1992.*
- (4) *Officers must disclose interests in accordance with Council Standing Order 44.*

3. MINUTES

Recommended –

That the minutes of the meeting held on 22 September 2022 be signed as a correct record.

(Kav Amrez – 07929 070 288)

4. INSPECTION OF REPORTS AND BACKGROUND PAPERS

(Access to Information Procedure Rules – Part 3B of the Constitution)

Reports and background papers for agenda items may be inspected by contacting the person shown after each agenda item. Certain reports and background papers may be restricted.

Any request to remove the restriction on a report or background paper should be made to the relevant Strategic Director or Assistant Director whose name is shown on the front page of the report.

If that request is refused, there is a right of appeal to this meeting.

Please contact the officer shown below in advance of the meeting if you wish to appeal.

(Kav Amrez – 07929 070 288)

B. BUSINESS ITEMS

5. INTERNAL AUDIT PLAN 2021/22 - MONITORING REPORT

1 - 18

The Director of Finance and IT will submit **Document “R”** which monitors the progress made by Internal Audit against the Internal Audit Plan for 2021/22.

Recommended -

- (1) That the anticipated coverage and changes of Internal Audit work during the year be endorsed.**
- (2) That Internal Audit be requested to monitor the control environment, risk management and governance arrangements and continues to assess areas of control weakness and the ability of management to deliver improvements to the control environment when required.**

(Mark St Romaine – 01274 432888)

6. TREASURY MANAGEMENT MID YEAR REVIEW REPORT

19 - 38

The Director of Finance and IT will submit **Document “S”** which reports on the Councils Treasury Mid-Year Review.

The mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first six months of the 2022/23 financial year.
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy.
- The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators.
- A review of the Council's investment portfolio for 2022/23.
- A review of the Council's borrowing strategy for 2022/23.
- A review of compliance with Treasury and Prudential Limits for 2022/23.

Recommended -

That the details in Section 2 of Document “S” be noted and the report be referred to the 13 December 2022 Council meeting for adoption.

(David Willis – 01274 432361)

7. STATEMENT OF ACCOUNTS 2021/22 - PROGRESS UPDATE 39 - 46

The Director of Finance and IT will submit **Document “T”** which presents an update on progress on the Council’s 2021-22 draft Statement of Accounts.

Recommended-

That the financial position of the Council’s 2021-22 Statement of Accounts be noted.

(Chris Chapman – 01274 433656)

8. AUDIT COMPLETION REPORT 2021/22 - AUDIT OF CBMDC - PROGRESS UPDATE 47 - 60

The External Auditor will present **Document “U”** which summarises the findings from the audit of the City of Bradford Metropolitan District Council.

The report provides the Governance and Audit Committee with an update on progress in delivering the responsibilities of the external auditors. It also includes a summary of recent national reports and publications for information.

Recommended-

That the update detailed in Document “U” be noted.

(Nicola Hallas – 07824 086 593)

9. MINUTES OF WEST YORKSHIRE PENSION FUND (WYPF) BOARD 61 - 76

The role of the Pension Board, as defined by sections 5(1) and (2) of the Public Service Pensions Act 2013 is to assist the Council as Scheme Manager in ensuring the effective and efficient governance and administration of the Local Government Pension Scheme.

The Director of West Yorkshire Pension Fund will submit **Document “V”** which reports on the minutes of the WYPF Pension Board meeting held on 28 June 2022.

Recommended -

That the minutes of the West Yorkshire Pension Fund Pension Board meeting held on 28 June 2022 be considered and noted.

(Matthew Mott – 01274 434523)

10. **MINUTES OF WEST YORKSHIRE PENSION FUND (WYPF) JOINT ADVISORY GROUP** 77 - 90

The Council's Financial Regulations requires the minutes of meetings of the WYPF be submitted to this Committee.

In accordance with this requirement, the Director of West Yorkshire Pension Fund will submit "**Document "W"**" which reports on the minutes of the meeting of the WYPF Joint Advisory Group held on 28 July 2022.

Recommended –

That the minutes of the West Yorkshire Pension Fund Joint Advisory Group held on 28 July 2022 be considered noted.

(Rodney Barton – 01274 432317)

11. **EXCLUSION OF THE PUBLIC**

Recommended –

That the public be excluded from the meeting during the consideration of the items relating to minutes of the West Yorkshire Pension Fund Investment Advisory Panel meeting held on 28 July 2022 because the information to be considered is exempt information within paragraph 3 (Financial or Business Affairs) of Schedule 12A of the Local Government Act 1972. It is also considered that it is in the public interest to exclude public access to this item.

12. **MINUTES OF WEST YORKSHIRE PENSION FUND (WYPF) INVESTMENT ADVISORY PANEL**

The Council's Financial Regulations requires the minutes of meetings of the WYPF be submitted to this Committee.

In accordance with this requirement, the Director of West Yorkshire Pension Fund will submit **Not for Publication Document "X"** which reports on the minutes of the meeting of the WYPF Investment Advisory Panel held on 28 July 2022.

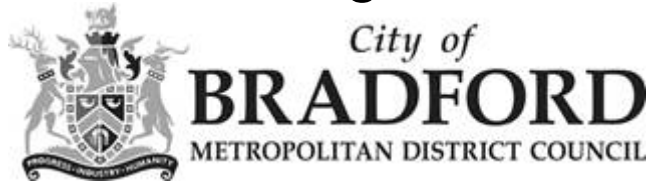
Recommended –

That the minutes of the West Yorkshire Pension Fund Investment Advisory Panel held on 28 July 2022 be considered and noted.

(Rodney Barton – 01274 432317)

THIS AGENDA AND ACCOMPANYING DOCUMENTS HAVE BEEN PRODUCED,
WHEREVER POSSIBLE, ON RECYCLED PAPER

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Report of the Director of Finance to the meeting of the Governance and Audit Committee to be held on 24 November 2022.

R

Subject:

INTERNAL AUDIT PLAN 2022/23 – MONITORING REPORT AS AT 30 SEPTEMBER 2022

Summary statement:

This report monitors the progress made by Internal Audit against the Internal Audit Plan for 2022/23 as at 30 September 2022.

EQUALITY & DIVERSITY:

An effective Internal Audit Service provides assurance that the appropriate governance and accountability arrangements are in place which allows Service Objectives to be delivered in accordance with the Council's equality policies

Chris Chapman
Director of Finance

Portfolio

Leader of Council and Corporate Portfolio

Report Contact: Mark St Romaine
Phone: (01274) 432888
E-mail:
mark.stromaine@bradford.gov.uk

Improvement Area:

Corporate

1. SUMMARY

- 1.1 The purpose of this report is to bring to the attention of members of the Governance and Audit Committee (G&AC) any significant issues arising from the audit work undertaken to date and to inform them about the progress made up to 30 September 2022, against the Internal Audit Plan, which was approved by the Committee on 21 April 2022.

2. BACKGROUND

- 2.1 Internal Audit is part of Financial Services within the Department of Corporate Resources. This is the monitoring report on the Internal Audit Plan for 2022/23. This is detailed in Appendix 1.
- 2.2 The report enables the Council to demonstrate compliance with the Public Sector Internal Audit Standards (PSIAS). These require the Head of Internal Audit to report periodically to the Governance and Audit Committee on Internal Audit's activity, purpose, authority, responsibility and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested either by senior management or the Governance and Audit Committee.

The PSIAS also require the Head of Internal Audit to communicate the Internal Audit activity's plans and resource requirements, including significant interim changes, to the Governance and Audit Committee, including any impact of resource limitations.

3. OVERVIEW AND SCRUTINY COMMITTEE CONSIDERATION

- 3.1 Not Applicable.

4. OTHER CONSIDERATIONS

- 4.1 There are no other considerations.

5. OPTIONS

- 5.1 Not applicable

6. FINANCIAL AND RESOURCE APPRAISAL

- 6.1 The work of Internal Audit adds value to the Council by providing management with an assessment on the effectiveness of internal control systems, making, where appropriate, recommendations that if implemented will reduce risk and deal with financial uncertainty.

7. RISK MANAGEMENT

- 7.1 The work undertaken by Internal Audit is primarily concerned with examining risks within various systems of the Council and making recommendations to mitigate those risks. Consideration was given to the corporate risk register when the Audit Plan for

2022/23 was drawn up and any issues on the risk register that relate to an individual audit are included within the scope.

- 7.2 The key risks examined in our audits are discussed with management at the start of the audit and the implementation of recommendations is followed up with Strategic Directors.

8. LEGAL APPRAISAL

- 8.1 The Accounts and Audit Regulations for 2015 require the Council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance. These standards are detailed in the Public Sector Internal Audit Standards supported by CIPFA's Local Government Application Note.

9. OTHER IMPLICATIONS

9.1 Equality and Diversity

Internal Audit seeks assurance that the Council fulfils its responsibilities in accordance with its statutory responsibilities and its own internal guidelines. When carrying out its work, Internal Audit reviews the delivery of services to ensure that they are provided in accordance with the formal decision making process of the Council.

9.2 Sustainability Implications

When reviewing Council Business, Internal Audit examines the sustainability of the activity and ensures that mechanisms are in place so that services are provided within the resources available.

9.3 Greenhouse Gas Emissions Impacts

There are no impacts on Gas Emissions.

9.4 Community Safety Implications

There are no direct community safety implications.

9.5 Human Rights Act

There are no direct Human Rights Act implications.

9.6 Trade Union

There are no implications for the Trade Unions arising from the report.

9.7 Ward Implications

Internal Audit will undertake specific audits through the year which will ensure that the decisions of council are properly carried out.

9.8 Implications for Corporate Parenting

None

9.9 **Issues Arising from Privacy Impact Assessment**

None

10. **NOT FOR PUBLICATION DOCUMENTS**

10.1 None.

11. **RECOMMENDATIONS**

That the anticipated coverage and changes of Internal Audit work during the year be endorsed.

That Internal Audit be required to monitor the control environment, risk management and governance arrangements and continues to assess areas of control weakness and the ability of management to deliver improvements to the control environment when required.

12. **APPENDICES**

Appendix 1 – Internal Audit Plan for 2022/23 – Monitoring Report as at 30th September 2022.

13. **BACKGROUND DOCUMENTS**

13.1 G&AC report dated 21 April 2022 – Internal Audit Plan 2022/23.

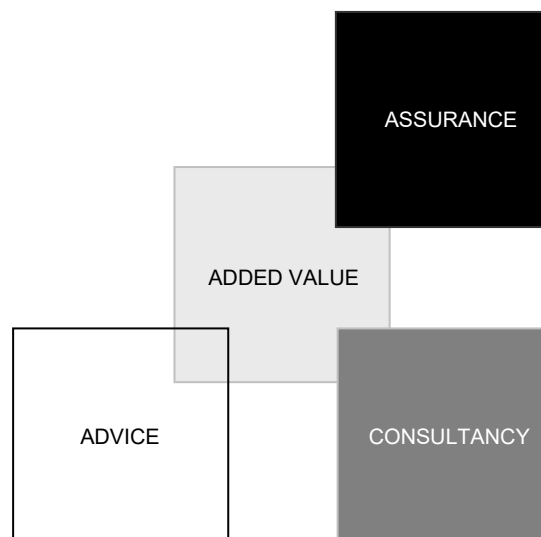
Internal Audit



INTERNAL AUDIT PLAN 2022/23

MONITORING REPORT

AS AT 30.9.22.



DEPARTMENT OF CORPORATE RESOURCES

1 INTRODUCTION

- 1.1 The Internal Audit Annual Plan for 2022/23 was approved by the Governance and Audit Committee (G&AC) at its meeting on 21 April 2022. This report is the monitoring report for this financial year. It identifies the progress made against the Internal Audit Plan up until 30 September 2022 and identifies any significant audit issues arising.
- 1.2 The report enables the Council to demonstrate compliance with the Public Sector Internal Audit Standards (PSIAS). These require the Head of Internal Audit to report periodically to the Governance and Audit Committee on Internal Audit's activity, purpose, authority, responsibility and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested either by senior management or the Governance and Audit Committee.
- 1.3 The PSIAS also require the Head of Internal Audit to communicate the Internal Audit activity's plans and resource requirements, including significant interim changes, to the Governance and Audit Committee, including any impact of resource limitations.

2 RESOURCES

2.1 Audit Resources

The Internal Audit Plan for 2022/23 has slightly more capacity, 45 days, than in 2021/22 (2415 days v 2370 days). The net increase is due to staff being released back into the team from their secondments on business grants and Covid support. Two Senior Auditors, 1.6 FTEs equivalent, left the team at the end of March 2022, these vacancies were envisaged to be filled with the recruitment of a Senior Auditor (1 FTE) and an Audit Trainee (1 FTE), who were assumed to join the team by the 1st August 2022.

The Audit Plan includes 255 days in the Audit Plan for auditing the West Yorkshire Pension Fund and a further 44 days for the management of insurance and risk management. The net planned audit days for Bradford Council in the 2022/23 Audit Plan approved by the G&AC was 2116 days.

In August, one Audit Manager, 0.57 FTE equivalent, left the team and as at the 30 September has not been replaced. There are currently three vacancies. The net impact of the Audit Manager leaving and the delay in filling vacancies is that audit resources in 2022/23 will be less than planned for by approximately 300 days (12%). This assumes that the team does get 1 FTE additional resource in post by the 1 January 2023. A resource positioning exercise is currently underway.

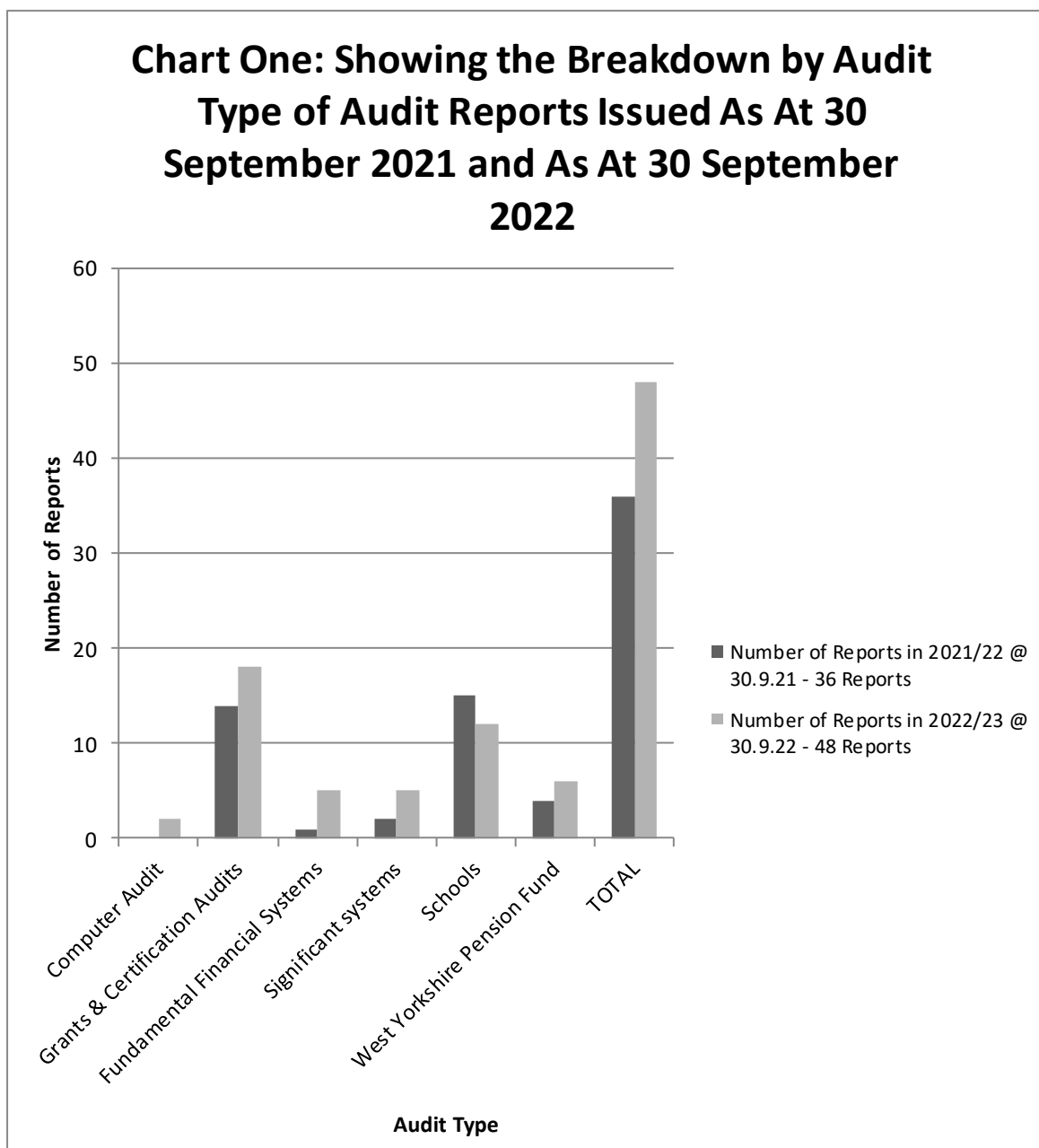
3 SERVICE DELIVERY

3.1 Audit Coverage

As at 30 September 2022, 45% of the 2022/23 audit plan has been completed, which is comparable to the 2021/22 position, where 46% of the 2021/22 audit plan had been completed as at 30 September 2021.

It is forecast that Internal Audit will not achieve its target level of 90% completion of the audit plan by the end of the financial year as audit resources will be approximately 300 days less than those stated in the Internal Audit Plan 2022/23.

All Internal Audit assignments result in an Audit Report that identifies the audit coverage, findings from the audit, risks arising from identified control weaknesses and prioritised audit recommendations. Chart One below shows that as at 30 September 2022 a total of 48 reports have been issued, which is significantly more than the 36 reports issued as at 30 September 2021. The chart shows a breakdown of the reports by audit type.



4.2 Control Environment

The following table details the opinions from those audits over the last two years where an appraisal of the overall system could be obtained. As can be seen the proportion of reports assessed as either good or excellent opinions is generally consistent over time and account for approximately 80% of the opinions reached.

Whilst reassuring, this is as expected as Internal Audit's core focus is on fundamental and significant systems, and schools. Further, Internal Audit's work includes an increasing proportion of grant certification and West Yorkshire Pension Fund audits, both of which have a track record of being well controlled.

Table One: Six Monthly Analysis of Audit Opinions raised in Internal Audit Reports issued in the Period 1 December 2020 to 30 September 2022

	1 Dec 2020* to 31 March 2021		1 April 2021 to 30 Sept 2021		1 Oct 2021 to 31 March 2022		1 April 2022 to 30 Sept 2022	
Opinions	Total	Proportion	Total	Proportion	Total	Proportion	Total	Proportion
Excellent	5	15%	9	28%	10	37%	18	41%
Good	23	70%	20	63%	12	44%	17	39%
Partially Effective	5	15%	2	6%	4	15%	9	20%
Ineffective	0		1	3%	1	4%	0	
Total Relevant Reports	33		32		27		44	
Not applicable**	0		4		7		4	
Total Reports	33		36		34		48	

* Due to the Council's Response to the Covid 19 crisis the Internal Audit Plan 2020/21 was suspended from the 1st April to the 30th June, to enable Internal Audit to support critical activities. The 2020/21 Audit Plan therefore applied from the 1st July to the 31st March, with 30 November in effect being the half year position for the 2020/21 Audit Plan.

** Internal Audit gives an opinion on the control environment whenever it is appropriate to do so. However, audit reports that provide advice, review specific control concerns or investigate irregularities generally do not have an opinion as they are too limited in scope.

The analysis above relates to those reports with opinions. Opinions are derived from a standard analysis of the level of control satisfaction and number of high priority recommendations within a report. Where reports are produced that do not relate to the planned evaluation of risks and controls, for example in response to requests for advice on specific matters, or in response to known control failures there is often no opinion applied to the report.

Internal Audit looks to minimise those reports without an opinion. Reports without an opinion were 8% (4) of all reports issued over the period 1.4.22 to 30.9.22.

The audit work has identified that 77% of controls examined were operating satisfactorily, which is the similar percentage (78%) found to be operating satisfactorily in 2021/22. All concerns arising from the audit assignments result in an audit recommendation. To date, 100% of our audit recommendations have been accepted by management.

4.3 Follow Up of Audit Recommendations

During the first half year a follow up exercise was undertaken. In total 125 recommendations from 39 reports were included in the follow up process representing all agreed high priority recommendations included in reports issued up to 31 March 2022. 53 of these (42%) were recommendations that had already been confirmed as partially implemented and the remainder were recommendations which management had agreed to implement.

The follow up process aimed to ascertain the current progress in implementing each recommendation through discussion with management, backed up wherever possible by evidence to support the stated position.

The follow up process found that 71 (57%) of the recommendations had been fully implemented as agreed, with a further 46 (37%) were partially implemented. Six recommendations (5%) had not yet been acted upon, however, their agreed implementation dates had not past at the time of the follow up. Two recommendations (1%) were considered no longer relevant.

In terms of Departmental performance, the percentage of recommendations which were closed following the process (due to being implemented or no longer relevant) were: Chief Executive - 40%; Children's Services - 84%, Corporate Resources - 42%; Health & Wellbeing - 58%; Place - 55%. The table below shows the full breakdown.

Department	Total	Opening Position		Closing Position			
		Agreed	Partially Implemented	No Action	Partially Implemented	Implemented	No Longer Relevant
Chief Executive	15	13	2	5	4	6	0
Children's Services	31	25	6	0	5	26	0
Corporate Resources	26	17	9	1	14	10	1
Health and Wellbeing	31	5	26	0	13	17	1
Place	22	12	10	0	10	12	0
	125	72	53	6	46	71	2

Progress against the implementation of all outstanding unimplemented recommendations, together with new agreed high priority or critical recommendations will continue to be monitored.

4.4 Summary of Audit Reports and Findings

A summary of the routine audits undertaken and the recommendations identified is reported in Appendix A.

5. Annual Assurance Process –

For 2022/23 the Council undertook a self assurance process for managers on their compliance with key governance issues. The process covered the following areas

- Safeguarding
- Equality
- Service Governance
- Performance
- Response to Internal & External Reviews
- Employee Code of Conduct
- Conflicts of Interest
- Whistleblowing
- Health and Safety
- Risk Management

- Business Impact Analysis
- Information Governance
- Compliance with Council Financial Regulations
- Procurement

The questionnaire was required to be completed by each of the Council 4th tier officer and the responses reviewed centrally and within the department. There were over one hundred responses in total. The assurance process was key evidence supporting the Annual Governance Statement along with Assistant Directors and Directors letters of representation.

6. Overall Audit Opinion

At the current time, Internal Audit has no evidence to indicate that the Council's internal control framework, risk management and governance processes is not effective. The Head of Internal Audit expects to be in the position to give an Internal Audit Opinion by the end of the financial year dependent on future events and planned activity. However, this requires the current level of resources identified and service departments to facilitate the audit process.

7 Prioritisation of Internal Audit Coverage in 2022/23

The first half of the year has seen the team focus on routine audits, such as grants, Schools and the West Yorkshire Pension Fund. They are more straight forward to complete and have enabled productivity to be maintained.

In the second half of the year the Service will shift its focus to Fundamental and Significant systems which provide broader assurance on the Councils governance processes and materially contribute to audit's opinion on the Council's control environment. This requires more input from services and the audit process takes longer. As audit resources are less than planned the team will not get through all of this year's audit plan but the following audits will be prioritised

Fundamental Systems Audit	Significant Systems Audit
Miscellaneous Payments	Post 16 Placements - Follow Up
Accounts Payable Assurance	Travel Assistance
Accounts Receivable Assurance	Transitional Planning
Council Tax - Enforcement & Write Offs	Energy Management
Council Tax - Valuation & Billing incl reliefs & discounts	Building Maintenance
NDR - Valuation & Billing incl reliefs & discounts	Miscellaneous Rents
Business Improvement Districts (BIDs)	Deferred Payment for Care - Follow Up
Final Accounts Review	BACES
Capital schemes	Direct Payments - Follow Up
Cash and Bank	Finance Protection Team - Migration of Client Bank Accounts
Payroll Processing	Planning Applications and Building Regulations Fees
IR35	Waste Management
	Swimming Pool and Sports Centres

During the year the audit plan is subject to revision in light of requests for, or the need to do additional unplanned audit work and also to reflect any in year changes in

available resources. The 2022/23 audit plan has been revised which is predominantly caused by changes in the range of central government grants. Appendix B indicates those audits added to the plan and those that have been replaced.

8 Internal Audit's Performance Indicators

Client Feedback

After each audit a client feedback questionnaire is issued to the appropriate officer to obtain feedback from them about the audit. 100% of the officers that responded said that the audit recommendations made were useful, realistic and overall the audit was of benefit to management.

Timeliness of Audits

As at the end of September 2022, 88% of draft reports were issued within 3 weeks of finishing the site work, which is above the target of 80%. 88% of final reports were issued within a week of the post audit meeting. The timeliness of issuing draft and final reports is crucial to providing a good service to officers, enabling them to deal with the issues raised and consider the recommendations made.

9 Internal Audit Quality Assurance Improvement Plan

In accordance with Public Sector Internal Audit Standards Internal Audit has developed and maintains a Quality Assurance Improvement Plan (QAIP). The QAIP establishes and maintains best practice and drives continual improvement. Improvement developments that Internal Audit are progressing in 2022/23 are detailed in the table below

Issue	Description	Improvement
PSIAS understanding	Staff need to confirm that they have read and understood PSIAS and if there are any queries or concern regarding compliance then these need to be raised with management?	Training Session in January 2023
Code of Ethics / Objectivity	Evidence base of compliance with this code of ethics E.g. All staff be required to comply with the PSIAS code of ethics as part of their appraisal objectives All internal Audit staff have confirmed that they have read the Code of Ethics/Internal Audit Charter, understand it and have regard to the Committee on Standards of Public Life's 'Seven Principles of Public Life'?	Evidencing benefits and impacts of training in January 2023.
Staff Proficiency/CPD	Skills assessment/review performance reviews for any stated needs to identify skills gap and develop staff's internal audit skills?	Skills Assessment to be completed as part of next year's Evolve Programme
Governance	The internal audit activity must evaluate the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities.	Incorporate into the 23/34 Annual Internal Audit Plan
Risk Management	Scale of internal audit work on risk management processes need to increase in future so that there is sufficient independent and objective assurance provided on risk management processes.	Incorporate into the 23/34 Annual Internal Audit Plan

Audit coverage of fundamental and significant systems	Need to maximise coverage of Fundamental and Significant Systems in 22/23 in advance of peer review.	Incorporate into the 23/34 Annual Internal Audit Plan and focus resources in this area for the second half of 2022/23
Efficiency and effectiveness of Internal Audit	Need to assess hybrid working arrangements to identify what works well and what doesn't for the service. Establish and implement an action plan to address those areas where improvements are required.	Formally Adopt Council Hybrid working arrangements in line with Council Policy

Appendix A Summary of Audit Reports and Findings

Appendix B Unplanned Audit Work Included in and Planned Audit Work Deleted from the 2022/23 Internal Audit Plan as at 30.9.22

Summary of Audit Reports and Findings**1. Fundamental Systems**

- 1.1 During the first half of the year, five audit reports were issued relating to fundamental systems, which had an audit opinion of Excellent or Good.
- 1.2 The reviews of Benefits Key Controls and Certification of Pension Contributions 2021/22 each resulted in an excellent opinion. The audits of the Accounts Collection Team (Accounts Receivable), Business Rates Control Assurance and Supplier Maintenance resulted in good opinions.

2. Significant Systems

- 2.1 During the first half of the year, five reports relating to significant systems were issued, four of these had audit opinions, which ranged from Effective to Partially Effective and these are summarised below.
- 2.2 The review of School Funding Allocation resulted in an Effective audit opinion. The audit of Health & Safety resulted in a Good opinion. The two audits that gave Partially Effective opinions were Sky View House Children's Home and The Willows Children's Home. The key concerns that gave rise to the Partially Effective opinions are described in the paragraphs below.
- 2.3 The key concerns identified in the Sky View House Children's Home audit include purchasing cards being given to other staff members to use, in breach of the compliance usage policy; non-compliant purchasing card spend, specifically on items for which a corporate contract exists; approval of purchasing card transactions not being made in a timely manner; lack of procedures or guidance governing what is acceptable spend by residential home staff; staff, due to a lack of understanding, can use incorrect cost centres to account for expenditure and unsecured safe keys.
- 2.4 The key concerns identified in The Willows Children's Home audit include purchasing card cost centres for some staff are incorrect as they have not been updated when staff have moved between residential homes, impacting on the integrity of the spend data between homes; lack of procedures or guidance governing what is acceptable spend by residential home staff; approval of purchasing card transactions not being made in a timely manner and staff, due to a lack of understanding, can use incorrect cost centres to account for expenditure.

3. Schools**3.1 School Audits**

Between April 2022 and the end of September 2022, 12 reports relating to schools were issued. A remote approach to delivering school audits, introduced during the financial year 2019/20 in response to Covid 19, continued to be undertaken, although it has now been possible to actually visit some schools.

- 10 reports related to individual school audits. All included recommendations to improve the control environment at each school that had been audited, six with audit opinions of Good, four were Partially Effective

- The eleventh report related to the assurance audit of Sixth Form funding for the financial year 2020/21, which is referred to in more detail below
- The twelfth report was an analysis of school's self-assessment returns relating to the Schools Financial Value Standard (SFVS) process for 2021/22, which is referred to in more detail below

3.2 Sixth Form Funding Assurance

Internal Audit provided a high level assurance piece of work in relation to sixth form funding totalling £6.9m for the financial year 2020/21, to enable the funding assurance statement to be signed off by the Council's Section 151 officer and be returned to the Department for Education (DfE). This work was expected to be required of Internal Audit in October 2021, but the release of relevant central government assurance documentation was delayed.

3.3 Schools Financial Value Standard

The Council's Director of Finance, as s151 officer, was required to submit an Annual Position Statement (APS) to the DfE before the 31st May 2022 and this occurred with Internal Audit's assistance before the deadline date. As mentioned above, an analysis report of school's SFVS self-assessment returns for 2021/22 was provided to the Director of Finance to support his sign off of the APS.

At the 2021/22 financial year end, all maintained schools were required to complete a self-assessment against the DfE's SFVS Standard. As at 31st March 2022, SFVS self-assessments were completed by 72 of the Council's 79 maintained schools, leaving seven that were late. These were promptly chased up and all were received by 5th April 2022. Five returns were received from exempt schools, demonstrating that they value the SFVS process although it was no longer required.

16 returns were sample tested to analyse and arrive at a grading of Good, Average or Poor. 14 (88%) were graded as Good or Average, comparing favourably with a result of 84% in the previous year. Two schools produced returns graded as Poor and they were individually contacted by Internal Audit to provide advice and support in order that improved SFVS returns are produced in the future.

4. Grants

Grant certification work is carried out in response to conditions placed on central government targeting of funding to local authorities, for example funding for pot hole repairs on the District's highway network.

The grants requiring certification can vary and change each year. The audit plan for 2022/23 has seen the number of grants requiring review increase by 8 to a total of 24, this increase is as a result of 4 Clean Air Zone grants and 4 Covid related grants. To date 18 reports have been issued relating to capital and revenue grants that required Internal Audit certification.

The values of the grants varied considerably, conditions also varied and included confirming that targets had been met, that funds had been appropriately spent and that other requirements, such as publication of how the grant had been used, had been complied with.

Overall Internal Audit has been able to give a positive opinion for all grants and consequently no funding has been lost.

5. Computer Audit

Computer audit services are provided by Salford Council under a contract arrangement. They are working to an audit plan covering the period 01/10/19 to 31/03/23 (three and half years) which was informed by an initial needs assessment. During the first half of 2022/23 two audit reports were issued, Mobile Device Management and Vulnerability Management. Another audit, Business Continuity, had issued a draft report to management and on receipt their response will be issued as a final. In the second half of 2022/23 four computer audits are planned, Network Management (& Telephony), Third Party Access Management, Service Desk Management and Software Asset & Licence Management.

6. West Yorkshire Pension Fund (WYPF)

During 2022/23 Internal Audit will carry out a variety of audits within the West Yorkshire Pension Fund (WYPF), in accordance with the annual plan agreed with WYPF Management. Reports issued to the 30 September 2022 were in respect of the following:-

- **Shared Service Partner Admission.** West Yorkshire Pension Fund provide administration services, on a shared service basis, to other LGPS Funds and Fire and Rescue Authority Pension Funds. This audit looked, for the first time, at the process in place surrounding the admission of a new fund into the shared service. The control environment was deemed to be of a good standard, however, a number of recommendations were made to further improve this process.
- **Fire Service New Pensions and Lump Sums Normal and Early Retirements.** At the time this audit was carried out, West Yorkshire Pension Fund provided an administration service for the payment of 21 Fire and Rescue Authority pensions. This audit examined the calculation of the annual pension and the lump sum following a Fire Pension member's decision to retire. The control environment was largely as required resulting in one recommendation for improvement.
- **Northern LGPS Northern Private Equity Pool.** This audit looked at the arrangements which surround the use of the Northern Private Equity Pool (NPEP), which was developed following the formation of the Northern LGPS investment pool (West Yorkshire, Greater Manchester and Merseyside Pension Funds). NPEP is an investment joint venture through which the three Northern LGPS Funds can invest collaboratively and collectively in private equity assets. The work was performed collaboratively with Internal Audit colleagues at Tameside and Wirral Councils. The control environment was found to be of a good standard with three Low Priority recommendations for improvement being made.
- **New Pensions and Lump Sums Deferred Members.** This audit examined the calculation of the deferred pension benefits for those members who have left the employment of a scheme employer. The control environment for this process was found to be largely as expected with one recommendation for improvement being made.
- **UK Fixed and Index Linked Public and Corporate Bonds.** Investment in this asset class at the time of the audit was approximately 13% of the of the total investment portfolio. The control environment for this asset class was deemed to

be excellent with no issues identified and therefore no recommendations for improvement were required.

- **Annual Benefit Statements.** All active and deferred members of West Yorkshire Pension Fund receive an Annual Benefit Statement, this provides a number of pension details which demonstrate the value of their current benefits calculated from information provided by the member's employer on their monthly returns. No issues were identified during the course of this audit.

7. Full List of Internal Audit Completed in 2022/23 As At 30 September 2022

7.1 A full list of the reports issued this financial year to date is detailed below.

Audit Category	Client	Opinion	Title
Fundamental Systems	Corporate Resources	Good	Accounts Collection Team (Accounts Receivable)
West Yorkshire Pension Fund	Chief Executive	Good	WYPF Shared Service Partner Admission
Grants	Place	N/A	Cultural Recovery Fund 24.12.21 CRFG-00301931-R3
Fundamental Systems	Corporate Resources	Good	Business Rates Control Assurance
Schools	Children's Services	Satisfactory	6th Form Funding Assurance Statement 2020-21
Significant Systems	Children's Services	Partially Effective	The Willows Children's Home
Significant Systems	Corporate Resources	Effective	School Funding Allocation
Significant Systems	Children's Services	Partially Effective	Sky View House Children's Home
Schools	Children's Services	N/A	Analysis of SFVS Returns 2022
Fundamental Systems	Corporate Resources	Excellent	Fundamental Systems - Key Controls - Benefits
Significant Systems	Human Resources	Good	Health & Safety
Fundamental Systems	Corporate Resources	Good	Supplier Maintenance
West Yorkshire Pension Fund	Chief Executive	Good	WYPF New Pension & Lump Sum Payments Fire Services
Grants	Children's Services	Good	Supporting Families (Families First) Funding 2022/23 Q1
West Yorkshire Pension Fund	Chief Executive	Good	WYPF New Pension & Lump Sum Payments Deferred Members
West Yorkshire Pension Fund	Chief Executive	Good	Northern LGPS - Northern Private Equity Pool.
Grants	Place	Excellent	Clean Air Implementation Fund Revenue Grant 2021/22
Grants	Place	Excellent	Clean Air Fund Revenue Grant 2021/22
Grants	Place	Excellent	Clean Air Fund Capital Grant 2021/22
Grants	Place	Excellent	Clean Air Implementation Fund Capital Grant 2021/22
Schools	Children's Services	Good	Bowling Park Primary School

Schools	Children's Services	Good	Strong Close Nursery School
Grants	Children's Services	Partially Effective	PE & Sport Premium Grant 2020/21
Significant Systems	Health and Well Being	N/A	OPG Assurance Action plan
Fundamental Systems	Corporate Resources	Excellent	Certification of Pension Contributions 2021/22
West Yorkshire Pension Fund	Chief Executive	Excellent	WYPF UK Fixed & Index Linked Public & Corporate Sector Bonds
Grants	Place	Excellent	Getting Building Fund - Bradford City Village - Grant Certification
Computer Audit	Corporate Resources	Partially Effective	Vulnerability Management
Computer Audit	Corporate Resources	Good	Mobile Device Management
Grants	Place	Excellent	Pot Hole Funding 21/22
Grants	Place	Excellent	WYCA Local Transport Block Capital Funding 2021/22
Grants	Place	Excellent	Highways Maintenance Challenge Fund 2021/22
Grants	Place	Excellent	West Yorkshire Plus Transport Fund
Grants	Place	Excellent	Highways grant - Transforming Cities
Grants	Place	Excellent	Highways grant - City Connect
Grants	Place	Excellent	Getting Building Fund - One City Park
Schools	Children's Services	Good	Keelham Primary School
Schools	Children's Services	Partially Effective	Addingham Primary School
Schools	Children's Services	Good	Beechcliffe School
Schools	Children's Services	Partially Effective	Swain House Primary School
Schools	Children's Services	Partially Effective	Sandy Lane Primary School
Schools	Children's Services	Good	Ben Rhydding Primary School
Schools	Children's Services	Good	St. Mary's and St. Peter's Catholic Primary School
Schools	Children's Services	Partially Effective	Long Lee Primary School
Grants	Children's Services	Good	Supporting Families (Families First) Funding 2022/23 Q2
Grants	Children's Services	Excellent	Local Authority Bus Subsidy (Revenue) Grant 2021/22
West Yorkshire Pension Fund	Chief Executive	Excellent	WYPF Annual Benefits Statements
Grants	Place	N/A	Innovate UK Business Growth Expansion – Advisory Services

Unplanned Audit Work Included in and Planned Audit Work Deleted from the 2022/23 Internal Audit Plan as at 30.9.22

Additional unplanned audit work done/propose doing in 22/23	Reason	Planned audit work proposed not doing in 2022/23	Reason
Clean Air Zone Grants	New grants for 22/23 requiring certification that were unknown when the audit plan was created	Discretionary Housing Benefits	Not priority
NNDR - Business Improvement Districts	New audit requested by the Head of Business Rates and Accounts Collection	Section 117 Mental Health Act - Follow Up	Majority of the report's recommendations have been confirmed as implemented by Audit Yorkshire, who jointly performed the original audit with BMDC
UK Edge Grant	Grant requiring certification that was unknown when the audit plan was created	Continuing Healthcare - Follow Up	Majority of the report's recommendations were the former CCG's responsibility which Audit Yorkshire, who jointly performed the original audit, have confirmed their implementation
Related Party Transactions (Schools)	Audit follow up of responses to related party transactions School Financial Value Standard question		
Highways Maintenance Challenge Fund Grant	Grant requiring certification that was unknown when the audit plan was created		
Test and Trace Support Payment scheme (TTSP) grant	Covid grant requiring sign off that was unknown when the audit plan was created		
Getting Building Fund Grant - One City Park	Grant requiring certification that was unknown when the audit plan was created		
WYPF Independent Dispute Resolution Process	Audit requested by WYPF Financial Controller		

Report of the Director of Finance & IT to the meeting of Governance and Audit Committee to be held on 24 November 2022

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Subject:

Treasury Management Mid-Year Review up to 30 September 2022

Summary statement:

This report shows the Council's Treasury Mid-Year Review up to 30 September 2022.

Chris Chapman
Director of Finance & IT

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Portfolio:
Leader of the Council and Corporate

Overview & Scrutiny Area:
Corporate

Treasury Management Review up to 30th September 2022

Background

1.1 Treasury management

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. 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 optimising investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council 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 meet Council risk or cost objectives.

Accordingly, treasury management is defined 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.”

1.2 Introduction

This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2021).

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-Year Review Report and an Annual Report, (stewardship report), covering activities during the previous year.
4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is Governance and Audit Committee.

This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first six months of the 2022/23 financial year.
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy.
- The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators.
- A review of the Council's investment portfolio for 2022/23.
- A review of the Council's borrowing strategy for 2022/23.
- A review of compliance with Treasury and Prudential Limits for 2022/23.

2. Economics and interest rates

2.1 Economics update

- The second quarter of 2022/23 saw signs of economic activity losing momentum as production fell, inflation increased with domestic price pressures showing little sign of abating in the near-term, and bank base rate was raised to 2.25%. The unemployment rate has fallen to a 48-year low of 3.6% due to a large shortfall in labour supply.
- The UK economy grew by 0.2% q/q in Q1 2022/23, though revisions to historic data left it below pre-pandemic levels.
- There are signs of higher energy prices creating more persistent downward effects in economic activity. Both industrial production (-0.3% m/m) and construction output (-0.8% m/m) fell in July 2022 for a second month in a row. Although some of this was probably due to the heat wave at the time, manufacturing output fell in some of the most energy intensive sectors (e.g., chemicals), pointing to signs of higher energy prices weighing on production. With the drag on real activity from high inflation having grown in recent months, GDP is at risk of contracting through the autumn and winter months.
- The fall in the composite PMI from 49.6 in August to a 20-month low preliminary reading of 48.4 in September points to a fall in GDP of around 0.2% q/q in Q3 and consumer confidence is at a record low. Retail sales volumes fell by 1.6% m/m in August, which was the ninth fall in 10 months. That left sales volumes in August just 0.5% above their pre-Covid level and 3.3% below their level at the start of the year. There are also signs that households are spending their excess savings in response to high prices. Indeed, cash in households' bank accounts rose by £3.2bn in August, which was below the £3.9bn rise in July and much smaller than the 2019 average monthly rate of £4.6bn.
- The labour market remained exceptionally tight. Data for July and August provided further evidence that the weaker economy is leading to a cooling in labour demand. Labour Force Survey (LFS) employment rose by 40,000 in the three months to July (the smallest rise since February). But a renewed rise in inactivity of 154,000 over the same period meant that the unemployment rate fell from 3.8% in June to a new 48-year low of 3.6%. The single-month data showed that inactivity rose by 354,000 in July itself and there are now 904,000 more inactive people aged 16+ compared to before the pandemic in February 2020. The number of vacancies has started to level off from recent record highs but there have been few signs of a slowing in the upward momentum on wage growth. Indeed, in July, the 3my/y rate of average earnings growth rose from 5.2% in June to 5.5%.
- CPI inflation eased from 10.1% in July to 9.9% in August, though inflation has not peaked yet. The easing in August was mainly due to a decline in fuel prices reducing fuel inflation from 43.7% to 32.1%. And with the oil price now just below \$90pb, we would expect to see fuel prices fall further in the coming months.
- However, utility price inflation is expected to add 0.7% to CPI inflation in October when the Ofgem unit price cap increases to, typically, £2,500 per household (prior to any benefit payments). But, as the government has frozen utility prices at that level for two

years, energy price inflation will fall sharply after October and have a big downward influence on CPI inflation.

- Nonetheless, the rise in services CPI inflation from 5.7% y/y in July to a 30-year high of 5.9% y/y in August suggests that domestic price pressures are showing little sign of abating. A lot of that is being driven by the tight labour market and strong wage growth. CPI inflation is expected to peak close to 10.4% in November and, with the supply of workers set to remain unusually low, the tight labour market will keep underlying inflationary pressures strong until early next year.
- During 2022, there has been a change of both Prime Minister and Chancellor. The new team (Liz Truss and Kwasi Kwarteng) did a step change in government policy and the fiscal loosening from its proposed tax cuts were likely to add to existing domestic inflationary pressures and could have potentially left a legacy of higher interest rates and public debt. Gilt yields had increased, and sterling had fallen following the “fiscal event” of the new Prime Minister and Chancellor on 23rd September 2022. Adding further upward pressure to interest rates.
- However, following the reversal of Truss/Kwarteng’s fiscal policies and Rishi Sunak’s appointment as the UK’s new Prime Minister has ushered in a period of calm in UK financial markets after the recent storm. Indeed, much of the extra political risk premia on gilts that emerged in the wake of the mini-budget on 23rd September appears to have unravelled.
- The new Chancellor, Jeremy Hunt, will unveil in his Autumn Statement on 17th November a fiscal tightening of up to £50bn by 2026/27 (1.7% of GDP) suggest that after a period in which fiscal policy has provided the economy with support, it is about to become a major drag.
- Market interest rate expectations have been pared back in recent weeks as announced fiscal policy has become less loose. And although tighter fiscal policy may go some way to reducing the upward pressure on interest rates, stickier inflation means that Bank Rate is still expected to peak at 5.00%.
- Throughout 2022/23, gilt yields have been on an upward trend. They were initially caught up in the global surge in bond yields triggered by the surprisingly strong rise in CPI inflation in the US in May. The rises in two-year gilt yields (to a peak of 2.37% on 21st June) and 10-year yields (to a peak of 2.62%) took them to their highest level since 2008 and 2014 respectively. However, the upward trend was exceptionally sharply at the end of September as investors demanded a higher risk premium and expected faster and higher interest rate rises to offset the government’s extraordinary fiscal stimulus plans. The 30-year gilt yield rose from 3.60% to 5.10% following the “fiscal event”, which threatened financial stability by forcing pension funds to sell assets into a falling market to meet cash collateral requirements. In response, the Bank did two things. First, it postponed its plans to start selling some of its quantitative easing (QE) gilt holdings until 31st October. Second, it committed to buy up to £65bn of long-term gilts to “restore orderly market conditions” until 14th October. In other words, the Bank is restarting QE, although for financial stability reasons rather than monetary policy reasons.

- Since the Bank's announcement on 28th September, the 30-year gilt yield has fallen back from 5.10% to 3.83%. The 2-year gilt yield dropped from 4.70% to 4.30% and the 10-year yield fell back from 4.55% to 4.09%.
- There is a possibility that the Bank continues with QE at the long-end beyond 14th October or it decides to delay quantitative tightening beyond 31st October, even as it raises interest rates. So far at least, investors seem to have taken the Bank at its word that this is not a change in the direction of monetary policy nor a step towards monetary financing of the government's deficit. But instead, that it is a temporary intervention with financial stability in mind.
- After a shaky start to the year, the S&P 500 and FTSE 100 climbed in the first half of Q2 2022/23 before falling to their lowest levels since November 2020 and July 2021 respectively. The S&P 500 is 7.2% below its level at the start of the quarter, whilst the FTSE 100 is 5.2% below it as the fall in the pound has boosted the value of overseas earnings in the index. The decline has, in part, been driven by the rise in global real yields and the resulting downward pressure on equity valuations as well as concerns over economic growth leading to a deterioration in investor risk appetite.

2.2 Interest rate forecasts

The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

The latest forecast on 27th September sets out a view that both short and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy, whilst the government is providing a package of fiscal loosening to try and protect households and businesses from the ravages of ultra-high wholesale gas and electricity prices.

The increase in PWLB rates reflects a broad sell-off in sovereign bonds internationally but more so the disaffection investors have with the position of the UK public finances after September's "fiscal event". To that end, the MPC has tightened short-term interest rates with a view to trying to slow the economy sufficiently to keep the secondary effects of inflation – as measured by wage rises – under control, but its job is that much harder now.

Our PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps, calculated as gilts plus 80bps) which has been accessible to most authorities since 1st November 2012.

Link Group Interest Rate View 27.09.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
BANK RATE	4.00	5.00	5.00	5.00	4.50	4.00	3.75	3.25	3.00	2.75	2.75	2.50
3 month ave earnings	4.50	5.00	5.00	5.00	4.50	4.00	3.80	3.30	3.00	2.80	2.80	2.50
6 month ave earnings	4.70	5.20	5.10	5.00	4.60	4.10	3.90	3.40	3.10	3.00	2.90	2.60
12 month ave earnings	5.30	5.30	5.20	5.00	4.70	4.20	4.00	3.50	3.20	3.10	3.00	2.70
5 yr PWLB	5.00	4.90	4.70	4.50	4.20	3.90	3.70	3.50	3.40	3.30	3.20	3.20
10 yr PWLB	4.90	4.70	4.60	4.30	4.10	3.80	3.60	3.50	3.40	3.30	3.20	3.20
25 yr PWLB	5.10	4.90	4.80	4.50	4.30	4.10	3.90	3.70	3.60	3.60	3.50	3.40
50 yr PWLB	4.80	4.60	4.50	4.20	4.00	3.80	3.60	3.40	3.30	3.30	3.20	3.10

2.3 Treasury Management Strategy Statement and Annual Investment Strategy Update

The Treasury Management Strategy Statement, (TMSS), for 2022/23 was approved by this Council on 24 March 2022 (Governance & Audit Committee). The underlying TMSS approved previously requires revision in the light of economic and operational movements during the year. The proposed changes and supporting detail for the changes are set out below:

	2022/23 Original	2022/23 Revised Prudential Indicator
	£m	£m
Authorised Limit	860	790
Operational Boundary	840	770
Capital Financing Requirement	831	768

2.4 The Council's Capital Position (Prudential Indicators)

This part of the report is structured to update:

- The Council's capital expenditure plans.
- How these plans are being financed.
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow.
- Compliance with the limits in place for borrowing activity.

2.4.1 Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget. The revised estimate is based on increased scrutiny of the schemes and budget profiles within the capital programme that took place at Quarter 1.

Capital Expenditure by Service	2022/23 Original Estimate £m	Current Position 30 Sept 2022 £m	2022/23 Revised Q2 Estimate £m
Total capital expenditure	203.0	70.7	170.4

2.4.2 Changes to the Financing of the Capital Programme

The table over draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure	2022/23 Original Estimate £m	2022/23 Revised Q2 Estimate £m
Total capital expenditure	203.0	170.4
Financed by:		
Capital receipts	3.2	3.2
Capital grants	95.6	82.0
Capital reserves	0.2	0.2
Revenue	1.0	2.0
Total financing	100.0	87.4
Borrowing requirement	103.0	83.0

Projected changes to the Capital Programme have resulted in a reduced new borrowing requirement of £83m.

2.4.3 Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. The CFR is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so the underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR. The reduced borrowing requirement for actual capital spend funding in 2021/22 and estimated in 2022/23 has reduced the CFR estimate.

The table below also shows the expected debt position over the period, which is termed the Operational Boundary. This is the limit beyond which external debt is not normally expected to exceed.

	2022/23 Original Estimate £m	2022/23 Revised Estimate £m
Prudential Indicator – Capital Financing Requirement		
Total CFR	831	768
Net movement in CFR		-63
Prudential Indicator – the Operational Boundary for external debt		
Borrowing	701.5	631.9
Other long term liabilities*	138.5	138.1
Total debt (year-end position)	840	770

**Includes on balance sheet PFI schemes and finance leases*

2.4.4 Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose.

Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2022/23 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

	2022/23 Original Estimate £m	Current Position 30 Sept 2022 £m	2022/23 Revised Estimate £m
Long term Borrowing	436.3	348.9	374.2
Other long term liabilities	138.5	138.1	138.1
Short term borrowing	0.0	38.0	20.0
Total debt	574.8	525.0	532.3
Total debt excluding short term borrowing	574.8	487.0	512.3
CFR (year-end position)	831.0		768.0

The CFR calculation is shown in the table above and the Director of Finance & IT reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised limit for external debt	2022/23 Original Indicator £m	2022/23 Revised Indicator £m
Borrowing	721.9	651.9
Other long term liabilities	138.1	138.1
Total	860	790

The table above shows a reduction in the Authorised Limit of £70m due to the reduction in the capital programme and the associated financing.

2.4.5 Borrowing

The Council's capital financing requirement (CFR) for 2022/23 is expected to be below the original forecast of £831m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing), or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. The Council has current long term borrowings of £487m and has utilised cash flow funds in lieu of borrowing. This is a prudent and cost-effective approach in the current

economic climate but will require ongoing monitoring in the event that any upside risk to gilt yields prevails.

The capital programme is being kept under regular review due to the effects of inflation and shortages of materials and labour. Our borrowing strategy will, therefore, also be regularly reviewed and then revised, if necessary, in order to achieve optimum value and risk exposure in the long-term.

£15.5m of PWLB (Public Works Loan Board) loans are due to mature in January and February 2023 with an average rate of interest of 6.125%. New PWLB borrowing undertaken to date includes £20m in April and £10m in October with an average interest rate of 3.19%.

Short term borrowing of £38m has also been undertaken at interest rates ranging between 1.85% and 3.20%. All these loans mature before March 2023 with the exception of £10m which matures in September 2023. Based on current capital spend forecasts it is anticipated that more borrowing will be undertaken during this financial year.

The Council has two Lender Option Borrower Option (LOBO) loans, totalling £14.3m that have a call date within the next few months. Due to the current volatility and increasing borrowing rates within the market, these loans could possibly have the interest rate increased at the call date. The Council would then have the option to accept the increased interest rate or repay the loans. The treasury team will monitor this situation and report back to the Governance & Audit Committee at a future date on any loans that have been repaid.

PWLB maturity certainty rates (gilts plus 80bps) year to date to 30th September 2022

Gilt yields and PWLB rates were on a generally rising trend throughout H1 2022, the exception being a short rally in gilts in July/August. However, they rose exceptionally sharply towards the end of September.

The 50-year PWLB target certainty rate for new long-term borrowing started 2022/23 at 2.20% and finished the half year at 4.80%, albeit Link forecast rates to fall back to 3.10% by the end of September 2025.

- The current PWLB rates are set as margins over gilt yields as follows: -.
 - **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
 - **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
 - **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
 - **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
 - **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

2.4.6 Debt Rescheduling

Debt rescheduling opportunities have been very limited in the current economic climate and following the various increases in the margins added to gilt yields which have impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

However, now that the whole of the yield curve has shifted higher there may be better opportunities in the future, although only prudent and affordable debt rescheduling will be considered.

2.4.7 Compliance with Treasury and Prudential Limits

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the half year ended 30th September 2022, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2022/23. The Director of Finance & IT reports that no difficulties are envisaged for the current or future years in complying with these indicators.

All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices.

2.5 Annual investment strategy

The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions.

Creditworthiness

Significant levels of downgrades to Short and Long Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks.

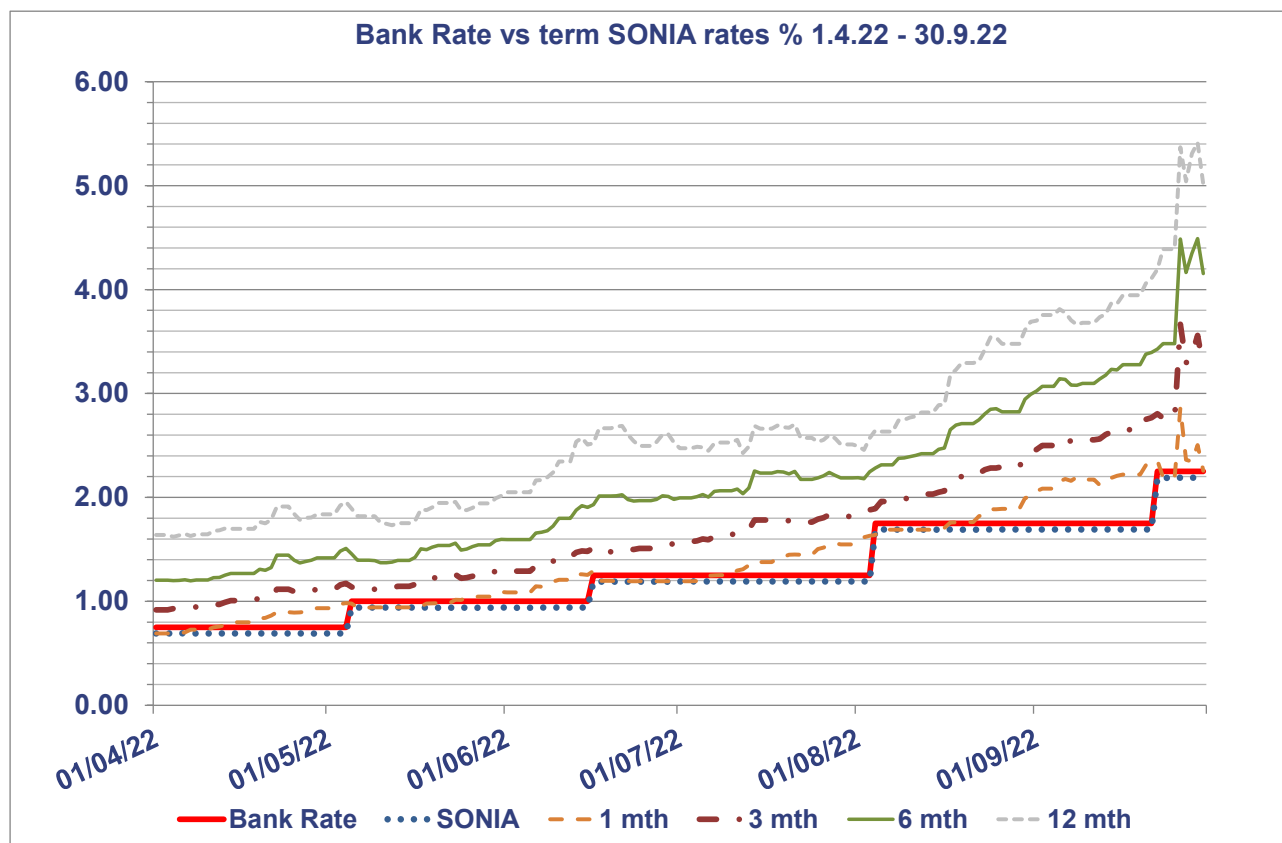
Investment Counterparty criteria

The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

Investment balances

The Council held net £55.3m of investments as at 30th September 2022 (£149.1m at 31st March 2022) and the investment portfolio yield for the first 6 months of the year is 0.94% against a benchmark of 1.21%.

Investment rates during period ended 30th September 2022



QUARTER ENDED 30/9/2022						
	Bank Rate	SONIA	1 mth	3 mth	6 mth	12 mth
High	2.25	2.19	2.86	3.67	4.49	5.41
High Date	22/09/2022	30/09/2022	26/09/2022	26/09/2022	29/09/2022	29/09/2022
Low	0.75	0.69	0.69	0.92	1.20	1.62
Low Date	01/04/2022	28/04/2022	01/04/2022	01/04/2022	07/04/2022	04/04/2022
Average	1.28	1.22	1.39	1.70	2.12	2.62
Spread	1.50	1.50	2.17	2.75	3.29	3.79

As illustrated, the Council underperformed the benchmark by 0.27 bps. The Council's budgeted investment return for the year to date is expected to be below budget.

Approved limits

Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the period ended 30th September 2022.

2.6 Other areas for consideration

2.6.1 None

3. Other Issues

3.1 No new issues

4. Financial and Resources Appraisal

4.1 The financial implications are set out in section 2 of this report.

5. Risk Management and Governance Issues

5.1 The principal risks associated with treasury management are:

Risk: Loss of investments as a result of failure of counterparties.

Mitigation: Limiting the types of investment instruments used, setting lending criteria for counterparties, and limiting the extent of exposure to individual counterparties.

Risk: That the Council will commit too much of its investments in fixed term investments and might have to recall investments prematurely resulting in possible additional costs or new borrowing (Liquidity risk).

Mitigation: Ensuring that a minimum proportion of investments are held in short term investments for cash flow purposes.

Risk: The level of investments and surplus cash is higher than needed to fund short term timing differences.

Mitigation: Cash flow forecasting and capital expenditure monitoring.

Risk: Increase in the net financing costs of the Council due to borrowing at high rates of interest.

Mitigation: Planning and undertaking borrowing and lending in light of assessments of future interest rate movements, and by undertaking mostly long term borrowing at fixed rates of interest (to reduce the volatility of capital financing costs).

Risk: Higher interest rates increase borrowing making it more difficult to self-finance capital schemes. Debt servicing becomes less affordable and less sustainable and crowds out revenue spend.

Mitigation: To pause, delay or defer capital schemes. Also review opportunities to borrow in the future at current interest rates.

Risk: Return on non-treasury investments lower than expected.

Mitigation: Review and analysis of risk prior to undertaking non-treasury investments.

Risk: The Council's Minimum Revenue Policy charges an insufficient amount to the Revenue Estimates to repay debt.

Mitigation: Align the Minimum Revenue Policy to the service benefit derived from the Council's assets.

Risk: Associated with cash management, legal requirements and fraud.

Mitigation: These risks are managed through:

- Treasury Management Practices covering all aspects of Treasury management procedures including cash flow forecasting, documentation, monitoring, reporting and division of duties.
- All Treasury management procedures and transactions are subject to inspection by internal and external auditors. The Council also employs external financial advisors to provide information on market trends, credit rating alerts, lending criteria advice and investment opportunities.

Risk: Anticipated borrowing is lower than expected because the 2022/23 capital programme is underspent. This is explained in more detail below, together with the actions being taken to reduce these risks:

Mitigation: The Council is required to set a balanced budget for its revenue estimates; so in broad terms, income received will match expenditure over the 2022/23 financial year. The 2022/23 revenue estimates cause only temporary cash flow differences, for example when income is received in a different month to when the expenditure is incurred.

However, the 2022/23 capital budget will cause a cash flow shortfall in the long term, which generates a borrowing requirement. While some of the capital budget is funded immediately, mainly with Government grants, other elements are not funded initially, leading to the cash flow deficit that requires borrowing.

Managing borrowing is part of the Treasury Management role. To help in its management, the Treasury Strategy identifies the element within the capital budget that is not funded straightaway, to anticipate the Council's borrowing requirement.

However, when the capital budget is underspent, the Council has a lower borrowing requirement than anticipated. This risk is managed in practice because the Council only borrows when there is an actual cash flow shortage. The uncertainty around spend against the capital budget makes cash flow management more difficult. For example, it is less likely that the Council would take advantage of a short-term fall in interest rates, without more certainty around the timing of any borrowing need. Actions that have taken place to manage the risks relating to this uncertainty in the timing of capital spend are: Councillor and Officer challenge sessions on the capital budget; increased scrutiny of the capital forecasts in the quarterly monitoring, and the collection of additional documentation around the critical paths of individual schemes.

6. Legal Appraisal

6.1 Any relevant legal considerations are set out in the report

7. Other Implications

7.1 Equality & Diversity – no direct implications

7.2 Sustainability implications – no direct implications

7.3 Green house Gas Emissions Impact – no direct implications

7.4 Community safety implications – no direct implications

7.5 Human Rights Act – no direct implications

7.6 Trade Unions – no direct implications

7.7 Ward Implications – no direct implications

7.8 Implication for Children & Families – no direct implications

7.9 Issues arising from Privacy Impact Assessment– no direct implications

8. Not for publications documents

8.1 None

9. Recommendations

That the details in Section 2 be noted by the Governance and Audit Committee and passed to Full Council on the 13th December for adoption.

10. Appendices

Appendix 1 Prudential and Treasury Indicators as at 30 September 2022

Appendix 2 Borrowing Rates

Appendix 3 Approved Countries for Investment as at 30 September 2022

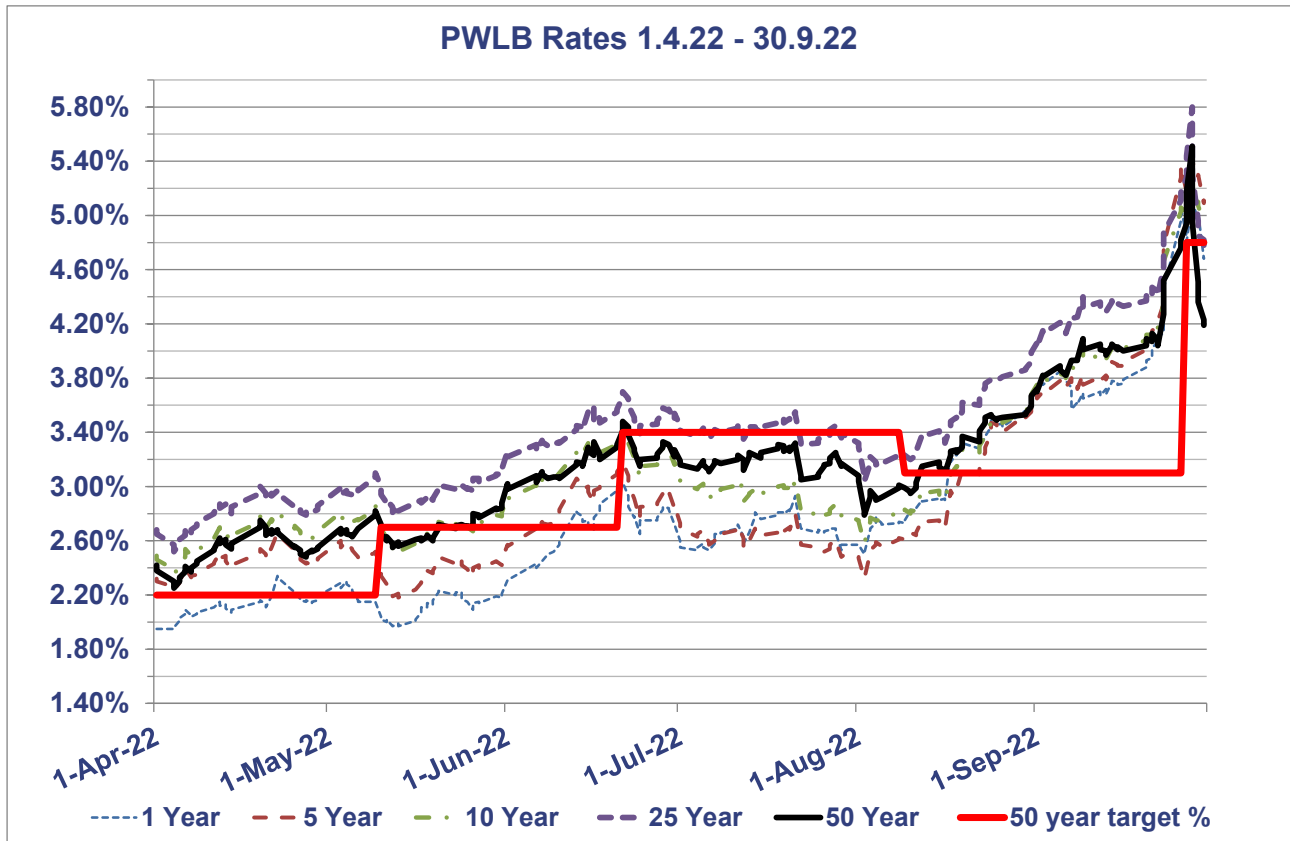
APPENDIX 1: Prudential and Treasury Indicators as at 30th September 2022

Treasury Indicators	2022/23 Budget £m	(Apr - Sept) Actual £m
Authorised limit for external debt	£860	£790
Operational boundary for external debt	£840	£770
Gross external long term debt	574.8	487
Upper limit for principal sums invested over 365 days	£20	£0

Maturity structure of fixed rate borrowing -	Upper Limit	(Apr-Sept) Actual
Under 12 months	20%	4%
12 months to 2 years	20%	2%
2 years to 5 years	50%	9%
5 years to 10 years	75%	16%
10 years and above	90%	69%

Prudential Indicators	2022/23 Q2 Budget £m	2022/23 Revised Estimate £m
Capital expenditure (Revised Q2 Budget)	170.4	166.5
Capital Financing Requirement (CFR)	831.0	768.0
Ratio of financing costs to net revenue stream	15.3%	14.7%

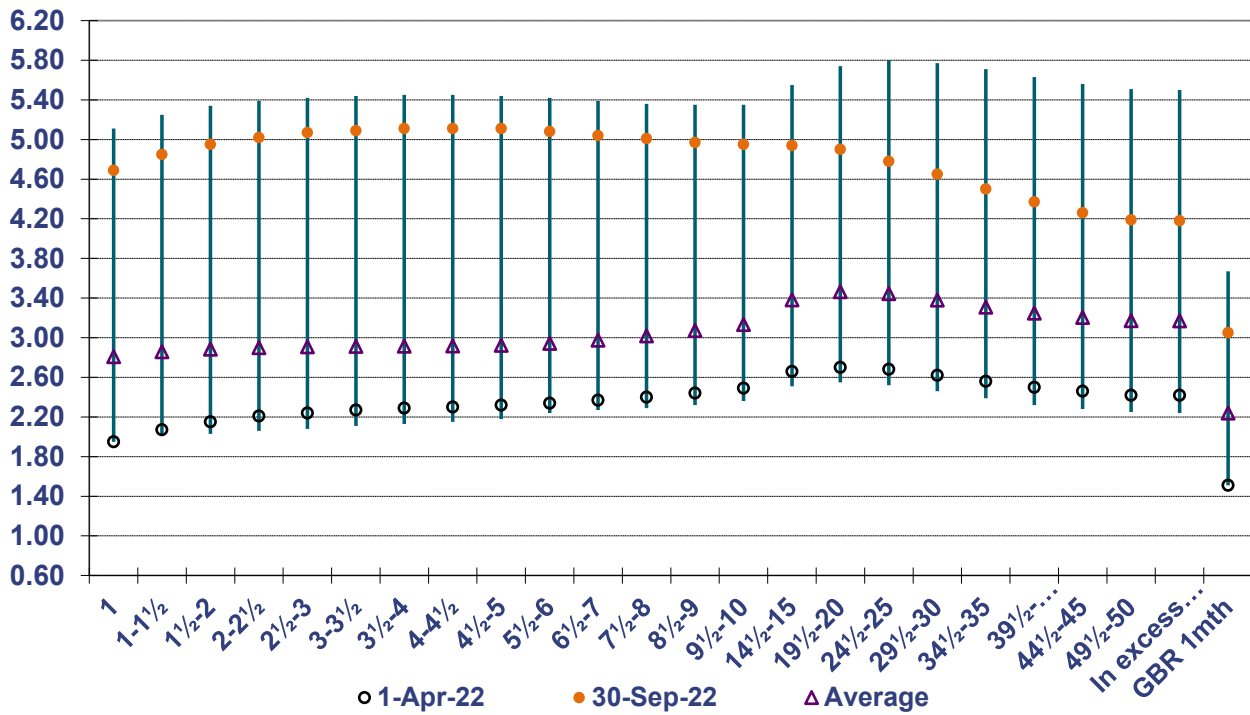
APPENDIX 2: Borrowing rates



HIGH/LOW/AVERAGE PWLB RATES FOR 01.04.22 – 30.09.22

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.35%	5.80%	5.51%
Date	28/09/2022	28/09/2022	28/09/2022	28/09/2022	28/09/2022
Average	2.81%	2.92%	3.13%	3.44%	3.17%
Spread	3.16%	3.26%	2.99%	3.28%	3.26%

PWLB Certainty Rate Variations 1.4.22 to 30.9.22



APPENDIX 3: Approved countries for investments as at 30th September 2022

Based on lowest available rating

AAA

- Australia
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- France

AA-

- Belgium
- Hong Kong
- **U.K.**

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Report of the Director of Finance & IT to the meeting of Governance & Audit Committee to be held on 24 November 2022

T

Subject: Update on the 2021-22 Draft Statement of Accounts

Summary statement:

This report presents an update on progress on the Council's 2021-22 draft statement of accounts.

This report also briefly details the salient financial implications from the accounts. A further report on the accounts will be presented at the meeting of Governance & Audit in January 2023. It is also anticipated that the final 2021-22 accounts will be presented on this date.

EQUALITY & DIVERSITY:

There are no direct implications for equality and diversity arising from this report. It concerns the process by which the Council complies with Statutory requirements in producing its Statement of Accounts.

Chris Chapman Director of Finance & IT

Portfolio:

Leader of Council and Corporate

Report Contact: Rachel Gledhill-Moseley
Head of Financial Accounting & Projects
(Interim)

Overview & Scrutiny Area:

Corporate

Phone: 07966 307065

E-mail: rachel.gledhill-moseley@bradford.gov.uk

1. SUMMARY

This report presents an update on progress on the Council's 2021-22 draft statement of accounts.

Due to a national issue concerning the valuation of Infrastructure Assets on Local Authorities balance sheets a statutory override is being put in place from 25th December 2022. In practical terms this means that the earliest date the 2020-21 accounts can be signed off is January 2023.

This is effecting all Local Authorities who have major infrastructure assets, such as highways and bridges.

2. BACKGROUND

The Accounts and Audit Regulations 2015 set out the requirements for the production and publication of the annual statement of accounts. The regulations require that the unaudited statement of accounts is certified by the section 151 officer as providing a true and fair view of the financial position of the Council as at 31st March 2022 and its income and expenditure for the year ended 31st March 2022.

The statement of accounts is prepared in accordance with proper practices as set out in the CIPFA /LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and is subject to scrutiny by the council's external auditor, which for the 2021-22 financial year is Mazars LLP

The draft accounts have been approved by the Section 151 Officer and are now available for public scrutiny on the Council's website. They are in the process of being externally audited, by the externally appointed auditors, Mazars.

3. OTHER CONSIDERATIONS

Following public scrutiny and the external audit, it is anticipated that the audited statement of accounts will be presented to the Governance and Audit Committee in January 2023 for approval.

Key issues from the 2020-21 accounts including Depreciated Replacement Costs (DRC) asset valuations and late pension fund valuations were resolved and form part of additional consideration in 2021-22.

4. FINANCIAL & RESOURCE APPRAISAL

The key financial transactional areas as at 31 March 2022 from the draft 2021-22 statement of accounts are summarised below:

- Covid – The accounts for the financial year 2021-22 reflect the nature of the

activity that has been undertaken to respond to the pandemic and also the continued provision of essential services. The financial pressures of the increased and new activity were supported by substantial additional Government grant and other funding, meaning that the additional Covid related costs and losses were mitigated in the financial year 2021-22.

- Useable reserves (excluding Capital Receipts and Capital Grants Unapplied) stood at £274.8m (Council £228.2m, and Schools £46.6m) (Page 13, & Note 5 page 38), compared to £299.4m at the end of 2020-21, representing a £24.6m decrease in total useable reserves. The main reason for the £24.6m reduction in Council useable reserves in 2021-22 was COVID-19 related, with the Council drawing down Covid related grants received in 2020-21 to support Council services in 2021-22. This included both funding to support Council service delivery (£27.2m), and also the drawdown of £15.8m from the reserve holding Section 31 grants and Tax income guarantee income to repay 2020-21 Business Rates and Council Tax collection fund deficits as planned. The Council also received some additional Covid related funding in 2021-22, and £11.2m of this has been carried forward to complete Covid related commitments in 2022-23. Unallocated reserves were £10.7m, and General Fund reserves stood at £19.5m. The General Fund Balance is held in accordance with statute; the purpose is as a safety net against unexpected variations in the Council's annual expenditure – this was £1.3 billion (page 20) as shown in the cost of services in the Comprehensive Income and Expenditure Statement. Earmarked reserves are held to protect against specific risks and commitments.
- The Council spent £104.7m on long term assets, as part of its Capital Programme. £4.2m from the sale of property was both received and used to fund capital spend during the 2021-22 year. £62.8m of spend was financed by grants and other third party contributions, £34.6m from borrowing and the remainder direct revenue contributions.
- The Council holds £60.3m of grants provided by external public sector bodies, which will be used in the future to finance the Capital Programme.
- The Council has £709.2m remaining of borrowing for past spend on capital investment. £146.1m of this borrowing is in the form of contractual Private Finance Initiative liabilities. £3.5m mainly relates to miscellaneous historical debt. £186.9m is temporarily borrowed from the Council's own cash held in earmarked reserves, reducing interest payments. The remaining £372.7m is actual borrowing from the Public Works Loan Board, LOBO'S and short term borrowing.
- Against the £709.2m of borrowing, the Council has £1,016.1m of land, buildings, equipment, other infrastructure and assets held for sale. The value of the Council's property is therefore significantly higher than the outstanding debt relating to it.
- The 2021-22 balance sheet value of the Council's non-current assets (including current assets held for sale and excluding long term debtors) is £1,016.1m. This has decreased by £5.8m from the 2020-21 value of

£1,021.9m. Capital enhancements to the value of £72.7m were made to these assets during 2021-22 and Assets to the value of £18.6m were disposed of during the year. Also Non-current assets were depreciated by £34.799m during 2021-22.

- The Council's estimated pension fund deficit has decreased to £896.649m, based on an estimate made in accordance with accounting rules. The overall defined benefit obligation has increased and this has been primarily due to a remeasurement of the fair value of assets following actuarial losses caused by changes in financial assumptions.
- The Council maintains a separate fund for Business Rates and Council Tax, from which it distributes pre-agreed shares to itself, the Government, West Yorkshire Fire and Rescue Authority and the Police and Crime Commissioner. Overall the fund ended 2021-22 with a deficit position for both Business Rates and Council Tax. The Council's own share was a £18.0m deficit on Business Rates, with the Government holding a £18.3m deficit (page 84). The significant Collection Fund deficit for 2020-21 has arisen largely in relation to reductions being applied to business rates. These reductions reflected central government's support for businesses, in response to the COVID-19 pandemic, by awarding expanded retail discounts and nursery reliefs, meaning that less rates were billed and therefore collectable in 2021-22. The business rates reductions are funded by central government through Section 31 Grants. The compensation is not included in the Collection Fund but is reimbursed to the Council through the General Fund account.

A full analysis of these and other financial issues is included in the Narrative Report which can be found at the front of the accounts.

Updated Points to Note

- The audit process is progressing well.
- The accounts have been amended for a material change in Pension, following an updated pension report.
- A number of minor amendments have been made to narrative in the report.
- Governance and Audit have been notified of an immaterial, client identified error.
- The audit process is ongoing and is anticipate that the bulk of the audit will be completed by the end of November 2022.

5. RISK MANAGEMENT AND GOVERNANCE ISSUES

There are no specific risk management issues.

6. LEGAL APPRAISAL

There are no specific legal issues arising from this report.
The production of the Statement of Accounts is a statutory requirement.

7. OTHER IMPLICATIONS

7.1 EQUALITY & DIVERSITY

There are no specific equality and diversity issues arising from this report.

7.2 SUSTAINABILITY IMPLICATIONS

There are no specific sustainability implications arising from this report.

7.3 GREENHOUSE GAS EMISSIONS IMPACTS

There are no specific greenhouse gas emissions impacts arising from this report.

7.4 COMMUNITY SAFETY IMPLICATIONS

There are no specific community safety implications arising from this report.

7.5 HUMAN RIGHTS ACT

There are no specific issues arising from this report.

7.6 TRADE UNION

➤ The Director of Human Resources may advise on this aspect.

7.7 WARD IMPLICATIONS

There are no specific issues arising from this report.

7.8 AREA COMMITTEE ACTION PLAN IMPLICATIONS (for reports to Area Committees only)

Nil

7.9 IMPLICATIONS FOR CHILDREN AND YOUNG PEOPLE

There are no specific corporate parenting implications arising from this report.

7.10 ISSUES ARISING FROM PRIVACY IMPACT ASSESMENT

There are no specific issues arising from this report.

8. NOT FOR PUBLICATION DOCUMENTS

Nil

9. OPTIONS

Not applicable

10. RECOMMENDATIONS

That the financial position of the Council's draft Statement of Accounts 2020/21 be noted.

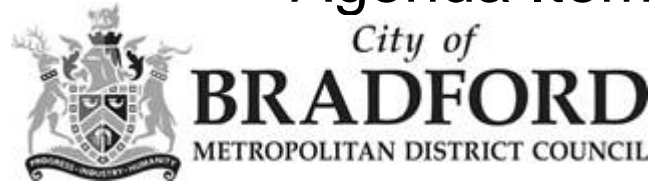
11. APPENDICES

None

12. BACKGROUND DOCUMENTS

None

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Report of External Audit to the meeting of the Governance and Audit Committee to be held on 24 November 2022

U

Subject:

External audit's progress report for 2021/22 audit of the City of Bradford Metropolitan District Council.

Summary statement:

This report provides the Governance and Audit Committee with an update on progress in delivering our responsibilities as your external auditors. It also includes a summary of recent national reports and publications for information.

Cameron Waddell
Partner
Mazars LLP
Report Contact: Nicola Hallas
Phone: 07881 283 559
e-mail: nicola.hallas@mazars.co.uk

1. SUMMARY

This report provides the Governance and Audit Committee with an update on progress in delivering our responsibilities as your external auditors.

It also includes a summary of recent national reports and publications for information.

2. BACKGROUND

Not applicable

3. OTHER CONSIDERATIONS

None

4. FINANCIAL & RESOURCE APPRAISAL

Not applicable

5. RISK MANAGEMENT AND GOVERNANCE ISSUES

None

6. LEGAL APPRAISAL

Not applicable

7. OTHER IMPLICATIONS

7.1 EQUALITY & DIVERSITY

Not applicable

7.2 SUSTAINABILITY IMPLICATIONS

Not applicable

7.3 GREENHOUSE GAS EMISSIONS IMPACTS

Not applicable

7.4 COMMUNITY SAFETY IMPLICATIONS

Not applicable

7.5 HUMAN RIGHTS ACT

Not applicable

7.6 TRADE UNION

Not applicable

7.7 WARD IMPLICATIONS

Not applicable

7.8 AREA COMMITTEE ACTION PLAN IMPLICATIONS (for reports to Area Committees only)

Not applicable

7.9 IMPLICATIONS FOR CORPORATE PARENTING

Not applicable

7.10 ISSUES ARISING FROM PRIVACY IMPACT ASSESMENT

Not applicable

8. NOT FOR PUBLICATION DOCUMENTS

None

9. OPTIONS

Not applicable

10. RECOMMENDATIONS

The Committee is asked to:

- (i) note the contents of this report.

11. APPENDICES

Progress report – City of Bradford Metropolitan District Council

12. BACKGROUND DOCUMENTS

None

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Audit Progress Report

City of Bradford Metropolitan District
Council

Governance and Audit Committee November 2022



1. Audit Progress
2. National publications

01

Section 01: **Audit Progress**

Audit progress

Purpose of this report

This report provides the Committee's November 2022 meeting with updates on:

- the 2020/21 Accounts audit 2021/22 audit in Section 1; and
- recent relevant reports and publications for your information in Section 2.

2020/21 Statement of Accounts audit

Our one remaining responsibility in respect of the 2020/21 financial year is a review of the Council's whole of government accounts (WGA) return. The National Audit Office (NAO) is in the process of finalising group instructions , which determines the testing we are required to undertake on the Council's WGA return (see page 12 of this report). We have not yet been informed which clients will be sample components, therefore we have not been able to complete this work. Once the NAO has provided this information, we will liaise with Officers to complete the required testing.

Per page 7 of this report, Department of Levelling up, Housing and Communities is currently consulting in regard to the accounting treatment of infrastructure assets. As the Council's infrastructure assets as at 31 March 2021 are material, we cannot issue our 2020/21 certificate until this issue is resolved. Following completion of the WGA work and resolution of the infrastructure assets issue, we will issue our Audit Certificate to formally close the 2020/21 audit

2021/22 Statement of Accounts audit

We are in the process of completing our work on the 2021/22 accounts audit. We will provide a verbal update on progress to Committee members at the meeting on 24th November.

02

Section 02: **National publications**

National publications

	Publication/update	Key points
Chartered Institute of Public Finance and Accountability (CIPFA)		
1	CIPFA : Audit Committees Practical Guidance for local authorities and police	Guidance and resources for audit committee members.
Department for Levelling Up, Housing and Communities		
2	Consultation on Infrastructure Asset Accounting	The Government is consulting on a proposed temporary Statutory Override to unlock the difficulty in agreeing an accounting solution to this matter.
National Audit Office (NAO)		
3	Guide to Corporate Finance in the Public Sector	The guide uses insights from NAO stakeholder engagement and draws on NAO experience of auditing government interventions and corporate finance activities
Financial Reporting Council		
4	Major Local Audits – Audit Quality Inspection	The Financial Reporting Council has published its annual report on the quality of local audit work. This follows its 2022 inspections of files for the 20/21 audit cycle.

NATIONAL PUBLICATIONS

CIPFA

1. CIPFA : Audit Committees Practical Guidance for local authorities and police 2022 edition – October 2022

The guidance and suite of publications (only available for those with a subscription) has separate guidance resources for audit committee members in authorities, members of police audit committees, and a supplement for those responsible for guiding the committee. New aspects include legislation changes in Wales and new expectations in England following the Redmond Review.

The link to the publication is here: <https://www.cipfa.org/policy-and-guidance/publications/a/audit-committees-practical-guidance-for-local-authorities-and-police-2022-edition>

Department for Levelling Up, Housing and Communities

3. Consultation on Infrastructure Asset Accounting – October 2022

CIPFA and CIPFA LASAAC have been seeking to assist in the resolution of this issue through changes to the Code of Practice on Local Authority Accounting (the Code). An accounting solution has not so far been found that satisfies all stakeholders for the amount to be derecognised. The government, therefore, undertook to review the necessity for an accounting statutory override whereby, under the Local Government Act 2003, it may make provision for local authority accounting practices.

The government is proposing to put in place a statutory accounting override to allow local authorities to treat the value of any replaced component of infrastructure assets as nil, without the need to further evidence that this is the case. The override also removes the requirement for authorities to make prior period adjustments to infrastructure asset balances. The override will not include any provision for matters relating to gross cost or accumulated depreciation, as these matters are anticipated to be addressed through the Code. Use of the override is expected to optional, and authorities may choose not to apply it.

It is the government's view that this is a necessary, short-term solution to avoid the widespread qualification of local authority accounts. The government recognises that a long-term solution is required, but due to the complexity of the issue this will necessarily take time, and there is an immediate need to mitigate the risks of widespread qualifications and delays to audit. The proposed override applies to all local authority accounts for which an audit certificate has not been issued, and is time limited such that the last financial year to which it applies will be 2024/25. The government is conducting this call for evidence to seek views from sector stakeholders on the effectiveness and clarity of the proposed statutory override.

The consultation includes a draft Statutory Instrument and Explanatory Memorandum. The Indicative date when this Statutory Instrument could take effect is 25 December 2022, so it is unlikely that auditors will be able to issue any audit opinions on clients with material infrastructure assets until January 2023.

[The Local Authorities \(Capital Finance and Accounting\) \(England\) \(Amendment\) Regulations 2022: call for evidence - Department for Levelling Up, Housing and Communities - Citizen Space](#)

NATIONAL PUBLICATIONS

National Audit Office

3. Guide to Corporate Finance in the Public Sector - September 2022

The NAO recently published a guide to corporate finance in the public sector. The guide uses insights from NAO stakeholder engagement and draws on NAO experience of auditing government interventions and corporate finance activities. It covers 14 themes over three core areas:

- Principles and concepts
- Organisations and functions
- Transactions

The interactive guide contains insights from 139 NAO reports and sets out key questions for senior decision-makers to consider when overseeing corporate finance activities. It may also be of interest to professionals supporting the government to deliver a range of transactions, including commercial investments, loans and guarantees. While not directly focussed on local public services the guide may be of interest to local auditors and audited bodies.

<https://www.nao.org.uk/insights/guide-to-corporate-finance-in-the-public-sector/>

Financial Reporting Council

4. Major Local Audits – Audit Quality Inspection – October 2022

The Financial Reporting Council (FRC) has published its annual report on the quality of local audit work. This follows its 2022 inspections of files for the 20/21 audit cycle.

The headlines from the FRC report are that:

- The number of audits categorised as good or limited improvements required has remained consistent with the prior year. FRC assessed 70% of financial statements audits as requiring no more than limited improvements, the same as in the previous year. This is an improvement on the 46% average over the preceding three years. However, FRC identified the increased number of audits assessed as requiring significant improvements (15% in 2021/22 and none in 2020/21) as unacceptable and states that inconsistency is preventing firms from eradicating poor quality audits.
- Based on their inspections, FRC state that the quality of auditors’ work on VfM arrangements remains high at all but one firm. Of the work inspected, 93% was categorised as good or limited improvements required (100% in the previous two years).

FRC is concerned at the timeliness of reporting in the sector and raises this as a priority improvement area for audited bodies and auditors.

<https://www.frc.org.uk/getattachment/aeb9149f-7bf9-45f2-802d-ca7b055b457e/Major-Local-Audits.pdf>

Contact

Mazars

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Email: Nicola.Hallas@mazars.co.uk

Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

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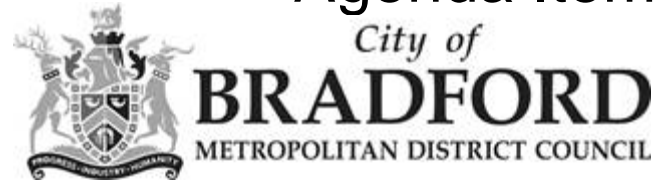
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Report of the Director West Yorkshire Pension Fund to the meeting of Governance and Audit Committee to be held on 24 November 2022

V

Subject:

Minutes of West Yorkshire Pension Fund (WYPF) Local Pension Board meetings held 28 June 2022.

Summary statement:

The role of the Pension Board, as defined by sections 5(1) and (2) of the Public Service Pensions Act 2013 is to assist the Council as Scheme Manager in ensuring the effective and efficient governance and administration of the LGPS.

City of Bradford Metropolitan District Council (the Council), as Scheme Manager, as defined under section 4 of the Public Service Pensions Act 2013, has delegated legal and strategic responsibility for West Yorkshire Pension Fund (WYPF) to the Governance and Audit Committee.

The minutes of the WYPF Pension Board meeting are to be submitted to this committee.

Rodney Barton
Director

Portfolio:

Leader of Council & Strategic Regeneration

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Overview & Scrutiny Area:

Corporate

1. SUMMARY

- The Council's Financial Regulations require the minutes of meeting of WYPF Local Pension Board to be submitted to this committee.

2. APPENDICES

- Appendix A - Minutes of WYPF Local Pension Board meeting of 28 June 2022

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Minutes of a meeting of the West Yorkshire Pension Fund Pension Board held on Tuesday, 28 June 2022 at 10.00 am in WYPF, Aldermanbury House, Godwin Street, Bradford

Commenced 10.05 am
Concluded 1.00 pm

Present – Members of the Committee

Employer Representatives	Member Representatives
Councillor S Lal (Chair) – Bradford Councillor L Martin – Leeds Mr Ben Petty – employer rep	Isaac Dziya – Unison Mick Binks - Unison

Councillor Lal in the Chair

Apologies: Cllr Lorna Malkin, Philip Charlton and Andy Jones

1. DISCLOSURES OF INTEREST

All those present who were members or beneficiaries of the West Yorkshire Pension Fund disclosed, in the interests of transparency, an interest in all relevant business under consideration.

Action: City Solicitor

2. MINUTES

Resolved –

That, with the amendment of the staging date for the Pensions Dashboard from November 2023 to April 2024 in Minute 40 the minutes of the meetings held on 14 December 2021 (adjourned and reconvened on 22 March 2022 at 1000 hours) and 22 March 2022 at 1030 hours be signed as a correct record.

Action: City Solicitor

3. INSPECTION OF REPORTS AND BACKGROUND PAPERS

There were no appeals made to view restricted documents.

4. REGISTER OF BREACHES OF LAW

The Director, West Yorkshire Pension Fund, presented a report (**Document “A”**) which informed Members that, in accordance with the Public Service Pensions Act 2013, from April 2015, all Public Service Pension Schemes now come under the remit of the Pensions Regulator (TPR).

Section 70 of the Pensions Act 2004 (the Act) imposed a requirement to report a matter to The Pensions Regulator as soon as it was reasonably practicable where that person had reasonable cause to believe that:

- A legal duty relating to the administration of the scheme had not been or was not being complied with, and
- The failure to comply was likely to be of material significance to The Pensions Regulator in the exercise of any of its functions.

A register of any breaches of the Pensions Code of Practice was maintained in accordance with the WYPF Breaches Procedure. The Register of Breaches 2021/22 was appended to Document “A”.

Members were advised that in addition to the register being a requirement of the TPR it also allowed the fund to determine trends and reduce future risks.

The entries on the Register of Breaches for 2021/2022 related to:

- Delays with Prudential updating members’ accounts with contributions, which had also delayed the payment of some retirement benefits. That breach had previously been considered to be of material significance due to the number of members involved and the continuing and prolonged rectification of this issue. As a result, the issue had been reported to the Pensions Regulator.
- Contributions being paid late by employers and therefore not being received by the fund until after the Pension regulators deadline of the 21st day of the following month.
- An outgoing Transfer Value which was paid after the 3 month guarantee date.
- The non-issue of Annual Benefit Statements by the 31 August 2021 for a small number of active members.

In response to those breaches it was explained that the issue with Prudential had been resolved but was still closely monitored.

There had been only one late payment of contributions made and the strict deadline had been breached by two days.

Annual Benefit Statements had been despatched by 31 August 2021 for 99.9% of members but that very small breach must still be recorded.

All four breaches had been assessed as not of material significance and had not been to the TPR.

Members were asked to note a late payment in October 2021 which it was thought was due to an administration error and believed to have been resolved. Assurances were provided that all payments would be made before or within seven days of the payment date.

In response to a Member's question it was explained that only breaches which were deemed to be of material significance were required to be reported to TPR. Those breaches were likely to be if there were repeat offences or if the employers were not engaging with the fund and they were closely monitored.

It was explained that employers were charged for late payments and the vast majority paid on time. The fund had seen a high employer staff turnover throughout the pandemic and support was provided.

Members were assured that all benefits would be paid correctly to members even if their contributions had not been received.

Resolved –

That the report and entries on the Register of Breaches of Law, contained in the appendix to Document “A”, be noted.

Action: Director, West Yorkshire Pension Fund

5. LOCAL GOVERNMENT PENSION SCHEME REGULATIONS UPDATE

The report of the Director, West Yorkshire Pension Fund, (**Document “B”**) provided an update on changes to the Local Government Pension Scheme (LGPS) 2014 and provided information on associated matters.

The report revealed, amongst other updates, that the consultation had closed on the Consultation on Fair Deal – Strengthening pension protection and on Local Valuation Cycle and the Management of Employer Risk to which responses were awaited.

An update on McCloud reported that the Department for Levelling Up, Housing and Communities (DLUHC) were expected to issue a full response to consultation and had been expected to publish draft regulations in the spring. As the overriding

legislation was in place the Fund could commence the necessary preparations and software suppliers could begin to update systems.

A Member questioned why the response to the McCloud remedy had not been received in Spring, as has been expected, and it was explained that Fund's had not yet been consulted. People were protected until 1 April 2022 but it was not intended to have regulations in place until October 2023.

It was queried if software suppliers could build their systems without the regulations being in place and explained that this had never been done in the past because of the risk if systems were built before requirements were confirmed.

More recently suppliers had liaised with the Local Government Association to get an understanding of the likely requirements and impact.

With regard to the Money and Pensions Service – Pensions Dashboard update, Members were informed that the Fund was waiting for TPR to published a new code of conduct and more detailed information would be provided in future reports.

A Member requested clarity on the McCloud remedy. It was explained that when public sector pension schemes were amended, in 2014, members within 10 years of retirement were given protection via an uplift in benefits if they were deemed to be disadvantaged by the changes. The uplift had since been deemed unfair on younger staff and anyone in the scheme was now entitled to the same protection. The remedy would have a big impact on the fund in terms of the work generated as information must be gathered over an eight-year period. Some employers may no longer exist or have outsourced pension administration. There were up to 80,000 members affected some of which would have retired or died and their benefits must be assessed.

The impact on the fund and the delay in receipt of regulations was questioned. It was confirmed that there was no delay in payments as members had already been paid, however, benefits must be assessed and recalculated. Provisions for the payment of interest were already in the regulations but there could be lots of issues with income tax.

It was reported that the number of members who had been impacted detrimentally would be low. Some members were expecting windfalls but this was unlikely as the provisions of the amended were more favourable.

It was explained that the fund had factored a value of 0.9% within liability costs for the McCloud remedy. The cost of the software systems required to administer the remedy would be £1.4 – £2 million for all funds supported.

Resolved -

That the report be noted.

Action: Director, West Yorkshire Pension Fund

6. PENSIONS ADMINISTRATION

The report of the Director, West Yorkshire Pension Fund (**Document “C”**) provided an update on West Yorkshire Pension Fund’s (WYPF) pensions administration activities for the period 1 January 2022 to 31 March 2022.

The report revealed that as well as providing pensions administration for WYPF scheme members, WYPF provided a full administration service to Lincolnshire Pension Fund, the London Borough of Hounslow and more recently the London Borough of Barnet and to twenty-three Fire Authorities. That included pensioner payroll (except for the London Borough of Hounslow), all member and scheme level events, reporting to statutory bodies, provision of data to external bodies such as actuaries, and local authorities for the production of the scheme accounts.

Performance and Benchmarking figures revealed performance against key areas of work for the period 1 January 2022 to 31 March 2022. The majority of performance indicators had been met or exceeded and the rationale for any underperformance was provided.

The report presented work in progress; scheme information; praise and complaints; internal dispute resolution procedures; administration and staffing updates; employer training; figures depicting member using the Member Portal and categories where the fund had been shortlisted for awards.

A Member questioned the use of acronyms and requested clarification on AVC. In response it was explained that members had the option to pay Additional Voluntary Contributions (AVC) to the fund or from two independent AVC providers, Prudential and Scottish Widows, to accrued benefits outside of the Local Government Pension Scheme.

Monthly posting performance figures contained in the report were questioned and it was explained that, some years previously, the fund had moved from posting annual returns to producing monthly returns on members’ records. This had been to prevent data cleansing issues required on outdated information. The Finance Team were currently helping the Contact Centre answer high call volumes following the distribution of P60s and letters to pensioners regarding My Pension registration. Those arrangements had been necessary following a decision to move staff to areas with more critical issues. It was acknowledged to an employer representative that Bradford University had been part of a pilot scheme to test the monthly returns process and confirmed that performance had improved significantly since that pilot.

Engagement in employer training was questioned and it was confirmed that involvement had been good with most employers. The provision of webinars had increased that engagement with many training videos accessed via the fund’s website.

Disaster recovery plans were queried and it was explained that these had been unofficially tested during COVID when all staff had suddenly to work from home. Measures had to be in place to ensure that all payments were made. It was

explained that the fund had a backup data centre and all systems were tested. It was explained that if, for any reason, the payroll process could not be operated banks would be instructed to make payments as in the previous month. The likelihood of cyber-attacks was of greater concern with increased remote working. Training for Members on that issue had been provided at a previous meeting.

Resolved -

That the report be noted.

Action: Director, West Yorkshire Pension Fund

7. WYPF 2021/22 BUDGET OUTTURN AND 2022/23 BUDGET ESTIMATES

The Director, West Yorkshire Pension Fund (WYPF) presented a report, (**Document “D”**) which reported the latest WYPF spend for 2021/22 and forecasts for 2022/23.

A summary of the report revealed that Budget and expenditure monitoring was a routine monthly activity within WYPF and underpinned financial control, financial planning and financial risk management. Detailed service activity analysis of expenditure, contracts, commitments, identified service risks, regulatory changes and service best practice was used on a monthly basis to produce budget monitoring reports for decision making and management information. That detailed process was also known as zero base budget management and provided the most effective financial control. Summarised results of the budget monitoring and review process were provided in the report for 2021/22 and 2022/23.

The report also contained detail of the WYPF 2021/22 budget outturn; the WYPF 2022/23 budget; WYPF 2021/22 and 2022/23 cost performance and investment costs of management.

The report detailed an underspend on salaries (£0.42m) and it was questioned if salaries were competitive. In response it was explained that challenges were being experienced in staff recruitment. It was confirmed that recruitment to senior and specialist roles had been particularly difficult on the legal and investment side of the fund. The fund struggled to compete with the private sector which provided higher rates of pay.

Members were assured that investment was made in apprenticeships to develop the fund's specialists staff internally. The age profile of the workforce was discussed and challenges with staff preferring to work in London or Manchester were reported.

It was explained that a Local Government survey on recruitment and retention had confirmed that the fund's pay was comparable with other pension funds and was why it had not lost staff to other pension funds in the public sector. The issue was with a limited talent pool and the ability to work remotely resulting in specialist staff

being able to work in various parts of the country without having to relocate. In addition, the fund was tied to local authority pay scales and could not compete with large finance houses and pension pools. The Council's Human Resources officers were considering market supplements to entice staff, however, these were not guaranteed or permanent.

It was questioned if market supplements had been agreed with the trade unions and it was explained that the provision was not new but HR were reluctant to implement. Market supplements could be removed so may not entice personnel from firms paying higher salaries and bonus payments.

It was stressed that it was critical that investment was made in employing specialist staff within the organisation as the alternative cost of employing specialist firms to carry out that work would be significantly high.

A Member questioned if staff working remotely were compensated for utility costs. In response it was confirmed that offices remained open and maintained so now costs were saved through remote working. The costs of laptops; masks, hand sanitiser etc. had also been significant. Officers were able to claim some costs from the government and did save on transportation, parking and time when working from home. The majority of staff felt that they had benefited from working remotely.

Resolved –

- 1. That the WYPF total net expenditure forecast of £10.46m for 2021/22 be noted.**
- 2. That the net expenditure budget of £14.7 and forecast of £14.75m for 2022/23 be noted.**
- 3. That the WYPF total cost per member of £33.63, supported by strong service performance and quality and as the lowest Local Government Pension Scheme cost per member, be noted.**

Action: Director, West Yorkshire Pension Fund

8. TRAINING STRATEGY

The report of the Director, West Yorkshire Pension Fund, (**Document “E”**) reminded Members that the role of The Pension Board, as defined by sections 5(1) and (2) of the Public Service Pensions Act 2013 was to assist the Council as Scheme Manager in ensuring the effective and efficient governance and administration of the Local Government Pension Scheme (LGPS) including securing compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS; securing compliance with the requirements imposed in relation to the LGPS by the Pensions Regulator; and any other such matters as the LGPS regulations may specify.

The training of Pension Board members to understand their responsibilities and the issues they were dealing with was a very high priority. To be able to assist the

Scheme Manager and meet the requirements of the Public Service Pensions Act 2013, Pension Board Members must be able to demonstrate suitable knowledge and skills relating to the LGPS to effectively scrutinise the decisions made by officers.

The proposed West Yorkshire Pension Fund Knowledge and Skills Training Strategy was appended to the report and Members were asked to adopt that strategy as the formal commitment to meeting the requirement to demonstrate their knowledge and skills of the Local Government Pension Scheme.

The appendix to that report set out the rationale of the strategy; its application and purpose and a summary of its objectives. The delivery of training and training plans were reported and included external events. Continuing development; recording of progress and achievements and resources and materials were also contained in the document.

It was proposed that all Members complete two training modules from the online TPR Public Sector Took Kit and two modules from the Hyman Robertson's online Learning Academy, before each Pension Board meeting. It was envisaged that the timing would result in all Members being fully trained and compliant with legislation within 12 months. It was stressed that if the strategy were adopted the 12-month timescale commenced immediately. If Members could inform the report contact of their completion of the modules he would maintain a record of achievements.

It was reported that links to the TRP Public Sector tool kit had been sent to Members and could be resent on request. All Members had been registered for the Hyman Robertson's training and would receive links directly.

Members acknowledged and welcomed the training opportunities and appreciated the ability to access training on line. In response they were advised that physical attendance at events could be facilitated, if requested, to allow them the opportunity to network and learn from others.

A Member suggested completing the Fundamentals Training as it provided an introduction to the modules to be completed.

Members were reminded to complete the Pension Scam module and provide learning certificates to the report contact to enable him to confirm that the module had been undertaken.

Resolved –

That the West Yorkshire Pension Fund Knowledge and Skills Training Strategy, appended to Document “E”, be adopted as the formal commitment to meeting the requirement to demonstrate the knowledge and skills of the LGPS and to assist the scheme manager as defined by the Public Services Pensions Act 2013.

Action: Director, West Yorkshire Pension Fund

9. TRAINING - EVENTS AND OPPORTUNITIES

The Director, West Yorkshire Pension Fund (WYPF), presented a report, (**Document “F”**) providing details of training courses, conferences and seminars to assist Pension Board Members.

A training session was provided including an overview of the Local Government Pension Scheme. A plan of training topics to June 2023 and events throughout the year was also presented.

The comprehensive session included a history of the scheme; eligibility; contributions; real costs; benefit examples; defined benefit schemes; final salary schemes; career average CARE schemes; protected benefits; death benefits; retirement details; lump sums and conversions; workload volumes; payroll benefit values paid and fund activities.

Resolved -

1. That The Pension’s Regulator (TPR) Toolkit online training and the Hymans Robertson online Learning Academy Training will be undertaken and it be acknowledged that in doing the requirements defined by the Public Service Pensions Act 2013 will be met.
2. That Members be encouraged to attend external training events provided by PLSA, LGA & actuaries and consideration be given to the West Yorkshire Pension Fund’s representation at various national events such as the PLSA Conference and LGA Governance conference.

Action: Director, West Yorkshire Pension Fund

10. WEST YORKSHIRE PENSION FUND DATA IMPROVEMENT PLAN

The report of the Director, West Yorkshire Pension Fund (**Document “G”**) informed Members that The Pension Regulator’s (TPR) Code of Practice 14 and The Public Service Pensions (Record Keeping & Miscellaneous Amendments) Regulations 2014 set out the requirements for public sector pension funds to maintain comprehensive and accurate data on their members and their member’s pension contributions.

The report revealed that there were two types of data that should be measured which was Common Data and Scheme Specific Data. It was explained that Common Data was used to identify scheme members and included name, address, national insurance number and date of birth. Scheme Specific Data (also known as Conditional Data) was essential to calculate benefits entitlement such as pensionable pay and service history. It also encompassed data relating to events that occurred during and individual’s membership, for example transfers.

The West Yorkshire Pension Fund Data Improvement Plan was appended to the report.

Resolved –

That Document “G” and the WYPF Data Improvement Plan, appended to that Document, be noted.

Action: Director, West Yorkshire Pension Fund

11. TRIVIAL COMMUTATION - UPDATE

The Director, West Yorkshire Pension Fund, (WYPF) presented a report (**Document “H”**) which updated Members on the work currently done by WYPF in making trivial commutation payments to its members and plans for the future. It was explained that trivial commutation was an option where Members or dependants were able to elect to take a one off lump sum in exchange for a pension under certain circumstances.

Resolved -

That the report be noted.

Action: Director, West Yorkshire Pension Fund

12. EXCLUSION OF THE PUBLIC

Resolved –

That the public be excluded from the meeting during consideration of the Not for Publication Appendix to Document “I” relating to the minutes of a West Yorkshire Pension Fund Investment Advisory Panel meeting held on 28 April 2022 because information would be disclosed which is considered to be exempt information within paragraph 3 (Financial or Business Affairs) of Schedule 12A of the Local Government Act 1972 (as amended).

It is considered that, in all the circumstances, the public interest in maintaining this exemption outweighs the public interest in disclosing this information as it is in the overriding interest of proper administration that Members are made aware of the financial implications of any decision without prejudicing the financial position of the West Yorkshire Pension Fund.

13. MINUTES OF THE WEST YORKSHIRE PENSION FUND INVESTMENT ADVISORY PANEL 28 APRIL 2022

The report of the Director, West Yorkshire Pension Fund, (**Document “I – containing a **Not Publication Appendix****) reminded Members that the role of the Pension Board, as defined by sections 5(1) and (2) of the Public Service Pensions Act 2013 was to assist the Council as Scheme Manager in ensuring the effective and efficient governance and administration of the Local Government Pension Scheme (LGPS) including securing compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS; securing compliance with the requirements imposed in relation to the LGPS by the Pensions Regulator; and any other such matters as the LGPS regulations may specify.

The Minutes of the meeting of the WYPF Investment Advisory Panel were submitted to the Pension Board to enable the Board to ensure effective and efficient governance and administration of the LGPS.

Resolved –

1. That the minutes of the West Yorkshire Pension Fund Investment Advisory Panel, 28 April 2022, be noted.
2. That the concerns raised at the meeting by Members regarding recruitment and succession planning be communicated by the Chair to the host authority’s (Bradford Council) Chief Executive and Leader of Council.
3. That Members representing Trade Unions on the local Pension Board be kept informed of progress made in managing significant risks of losing key personnel from the West Yorkshire Pension Fund.

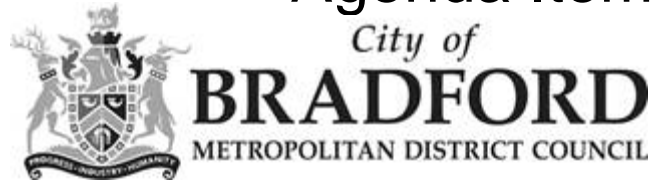
ACTION: Director, West Yorkshire Pension Fund / Chair WYPF Pension Board

Chair

Note: These minutes are subject to approval as a correct record at the next meeting of the West Yorkshire Pension Fund Pension Board.

THIS AGENDA AND ACCOMPANYING DOCUMENTS HAVE BEEN PRODUCED, WHEREVER POSSIBLE, ON RECYCLED PAPER

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Report of the Director West Yorkshire Pension Fund to the meeting of Governance and Audit Committee to be held on 24 November 2022

W

Subject:

Minutes of West Yorkshire Pension Fund (WYPF) Joint Advisory Group held 28 July 2022

Summary statement:

The Council's Financial Regulations require the minutes of meeting of the WYPF Joint Advisory Group to be submitted to this committee.

Rodney Barton
Director

Portfolio:

Leader of Council & Strategic Regeneration

Report Contact: Rodney Barton
Phone: (01274) 432317
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Overview & Scrutiny Area:

Corporate

1. SUMMARY

- The Council's Financial Regulations require the minutes of meeting of the WYPF Joint Advisory Group to be submitted to this committee.

2. APPENDICES

- Minutes of the Joint Advisory Group 28 July 2022.

Minutes of a meeting of the West Yorkshire Pension Fund Joint Advisory Group held on Thursday, 28 July 2022 in Committee Room 1 - City Hall, Bradford

Commenced 1.40 pm
Concluded 3.00 pm

Present – Members

<u>Bradford Members</u> Councillors: Salam Thornton Winnard	<u>Calderdale Members</u> Councillors: Hutchinson Lynn
<u>Kirklees Members</u> Councillors: Crook Ramsay	<u>Leeds Members</u> Councillors: Scopes
<u>Wakefield Members</u> Councillors: Mitchell Swift	<u>Trades Union Members</u> Tristan Chard (GMB) Andrew Goring (Unison) Liz Bailey (Unison)
<u>Scheme Members</u> Mark Morris	

Apologies: Councillors Pillai, Firth, Shemilt and Nicholls

1. APPOINTMENT OF CHAIR (Standing Order 35)

Resolved –

That Councillor Thornton be appointed Chair of the West Yorkshire Pension Fund Joint Advisory Group for the municipal year 2022/2023.

Action: Interim City Solicitor

2. APPOINTMENT OF DEPUTY CHAIR (Standing Order 35)

Resolved –

That Councillor Winnard be appointed Deputy Chair of the West Yorkshire Pension Fund Joint Advisory Group for the municipal year 2022/2023.

Action: Interim City Solicitor

3. DISCLOSURES OF INTEREST

All those present who were members or beneficiaries of the West Yorkshire Pension Fund disclosed, in the interests of transparency, an interest in all relevant business under consideration.

Action: Interim City Solicitor

4. MINUTES

Resolved –

That the minutes of the meeting held on 27 January 2022 be signed as a correct record.

Action: Interim City Solicitor

5. INSPECTION OF REPORTS AND BACKGROUND PAPERS

There were no appeals submitted by the public to review decisions to restrict documents.

6. RISK MANAGEMENT REPORT

The report of the Director, West Yorkshire Pension Fund (**Document “A”**) was presented to provide Members with details relating to the identified risks which had been rated and plotted on a matrix and a risk tolerance line agreed in order to prioritise the risks.

The risk matrix measured each risk for its likelihood and impact in terms of its potential for affecting the ability of WYPF to achieve its objectives.

Members expressed concern regarding the risk identified with recruitment and retention of experienced staff. It was suggested that the structure of pay scales was an inhibitor to recruitment and retention and felt there was a disparity between the fund and private sector organisations. It was suggested that the Council be put on notice that Members were deeply concerned about the risk and if something was not done quickly to rectify the issue they would take action. It was expected that the Council should provide a thorough action plan including steps required to meet the challenges before the next meeting.

In response to questions about the likely consequences of the risk in the short

term it was explained that the fund had struggled to recruit to a number of posts despite advertising two or three times. Risks included that Key Performance Indicators may not be met. The fund provided shared services to 23 fire authorities and three Local Government Pension Funds and must report to those services on a regular basis. If performance was not met those contracts could be lost.

A risk to members through processes not completed on time or benefits paid was also a concern. Additional pressure fell on existing employees during periods of holiday or staff sickness. A lot of KPIs continued to be met but there were some that were not and shared partners focus on those indicators.

A Member questioned changes the changes to inflation rates could have on the triannual valuation of the fund which had taken place. It was explained that the valuation was taking place currently and positive results were expected. There would be no need for a revaluation but Inflation rate increases were recognised as an issue going forward. The fund was currently 100% funded and there was a need to maintain stable contributions for employers so there would be no reductions in employer contributions made.

It was questioned how much the job market and how much host authority requirements impacted on recruitment and retention issues. It was explained that there was a significant host authority issue. External consultants had reviewed pay grades and that review been accepted by Bradford Council. Issues had arisen as the Council had stated that WYPF personnel could not be paid on different grades to other Council employees. The fund was feeling the repercussions of that decision.

Comparisons had been reviewed between private and public sector organisations in the review undertaken. The Local Government Association had also compared regional pay and the results were currently being analysed. Recruitment and retention issues were faced across the whole pensions sector and it was felt that this was because there were some many issues in the pension arena currently. All funds were competing for expertise to deal with the McCloud remedy; Good Governance; Pensions Dashboard and other requirements.

Resolved –

That the report be noted.

Action: Director, West Yorkshire Pension Fund

7. PENSIONS ADMINISTRATION

The report of the Director, West Yorkshire Pension Fund (**Document “B”**) was submitted to the Group to provide details of activities relating to the administration of the fund in the preceding 6 months.

In addition to providing pensions administration for WYPF scheme members, WYPF provided a full administration service to Lincolnshire Pension Fund, the

London Borough of Hounslow and more recently the London Borough of Barnet and to 23 Fire Authorities. This included pensioner payroll (except for the London Borough of Hounslow), all member and scheme level events, reporting to statutory bodies, provision of data to external bodies such as actuaries, and local authorities for the production of the scheme accounts.

The report contained a number of appendices that broke activities down into categories.

Officers stated that most KPI's were being met despite ongoing staffing shortages which was a credit to the staff in post. Some targets, however, had been affected and a narrative was provided in relation to these. The investment in process automation would contribute to reductions in output deficit, but due to the increased number of members, the work load would be sustained.

Some hi-lights from the report were shared with Members including the member survey, employer training to ensure good quality and timely submitted data. Disputes which were low in comparison with the size of the fund, hybrid working, which had been fully implemented with a 2/3 day split between working from home and attendance in the office.

A letter that had been written to Prudential was also shared regarding the ongoing issues around service delivery, which was a national one, not just a problem for WYPF members. Two more fire authorities had come on board and annual benefit statements (ABS) had been sent out with 96.2% of active members and 99.2% of deferred members statements being dispatched on time.

Arising from a Bradford Council internal audit, the 5 recommendations made had all been implemented.

Members were then given the opportunity to ask questions or to comment. The details of which and the responses given are as below.

- From the ABS sent electronically, was there any tracking done to see if they had been accessed by members? Officers advised that a software solution to address this had been sought from Civica. There was no indication as to what data could be provided, but in the interim, Members would be encouraged to access the portal
- The improvements required from Prudential had taken a long time, what actions or recourse was available to get them on track? Officers advised that the Fund could switch providers, which was already being investigated and a report would be submitted at the next meeting.
- The number of unfilled vacancies was raised as was the rising level of sickness absence. Was this an indicator that staff were starting to succumb to the extra pressure? Officers advised that some figures related to long term absence with 1 retirement due to ill health but sickness levels still compared favourably to the Council. Vacancy information would be added onto the report at the next meeting.

Resolved –

That the report be noted.

Action: Director, West Yorkshire Pension Fund

8. WYPF FINANCE REPORT

The Director, West Yorkshire Pension Fund submitted a report (**Document “C”**) which presented the WYPF 2021/22 financial outturn, financial and service performance and the draft 2021/22 annual report and accounts (WYPF accounts). The report revealed that the Local Government Pension Scheme Regulations 2013 (LGPS Reg 2013), Regulation 57 specified that:

1. An annual report must be prepared each year ending 31 March.
2. The annual report must be published by 1st December following the year end.
3. In preparing and publishing the annual report, WYPF must have regard to guidance from the Secretary of State and use best practice.

Members referred to the recurring issue of recruitment and retention. It was noted that there was a continued underspend on staffing budgets and concern was expressed about the pressure on staff whilst work was expanding.

A Member questioned the number of employers quoted in the report as an increase of 40 since March 2021 contradicting previous information. It was confirmed that numbers do change but that figure was correct.

Members felt that the information in the report was only relevant when compared to liabilities and questioned if an interim funding update at 31 March 2022 was to be provided. It was confirmed that the update would be provided shortly.

Resolved –

That the content of the annual report, including the financial and service performance, be noted.

Action: Director, West Yorkshire Pension Fund

9. BUSINESS PLAN 2022-2027

The report of the Director, West Yorkshire Pension Fund (**Document “D”**) was submitted to the Group to provide Members with details of the 5-year Business Plan including its objectives and priorities and how these would be achieved.

The plan would be formally reviewed and approved annually in addition to ongoing monitoring and updates as necessary throughout each year.

The 5 key objectives, as set out in the plan came under the following categories:

- Governance
- Funding
- Investments
- Administration

- Communications

The report included details of developments and changes that would impact WYPF which were focused on by the Fund to put WYPF in a strong position to meet future challenges.

There were a number of key focus points included in the business plan with a detailed account of these in the business plan document (Appendix A).

Officers stated that it was the first comprehensive 5-year business plan and would be brought to JAG each year. It would be a working document that would reflect response to ongoing issues and developments. The most recent being updates to McCloud, the pensions dashboard, online member self-service, the Pension Regulator's single Modular Code, good governance review and compliance with the TCDF (Task Force on Climate-related Financial Disclosures). The plan placed everything that the Fund wished to achieve in one place.

Members were then given the opportunity to comment or ask questions, the details of which and the responses given are as below.

- Officers were commended that the business plan document was easy to understand, well set out and could be understood by anyone to see what WYPF were doing
- Were employers who were experiencing issues submitting data correctly or on time presenting a problem as there were numerous member of the organisation? Officers advised that employer training was key to ensure that data was of good quality and submitted in a timely manner. Employees responsible for the submission of data appeared to change frequently so there was a task to keep current member employers trained. WYPF had recently employed employer engagement officers and had another 2 vacancies to fill to strengthen the team. They further stated that training was being delivered online and via webinars with continued and improving engagement. Issues still prevailed with some smaller employers but engagement would continue.

Process automation for data submission was included in investments planned and phase 3 of this would see data errors having to be resolved at the employer end before submission to WYPF.

- Officers were asked to explain employer flexibilities and were advised that there were 3 elements:

Change of rate between validations

Employers who exit the fund with a surplus – lump sum payments

Deferred agreement option (debt spreading agreement)

These were explained more fully in the funding strategy statement document.

Resolved –

That the report be noted.

Action: Director, West Yorkshire Pension Fund

10. LOCAL GOVERNMENT PENSION SCHEME REGULATIONS UPDATE

The report of the Director, West Yorkshire Pension Fund (**Document “E”**) was presented to provide an update on changes to the Local Government Pension Scheme (LGPS) 2014 and associated matters.

Changes to contribution bands were questioned and Members were concerned that some people who had received pay increases were being left worse off because those increases had moved them into higher contribution bands. It was questioned if the fund had any influence on those bands and felt that they should also be progressively increased.

An anomaly occurring with the timing of pay awards was discussed and it was acknowledged that a 12 month arrears payment had caused that issue. It was acknowledged that the fund had no authority in the matter. It was agreed that it would be beneficial for the contribution bands to be organised as tax bands where lower contribution payments were required on amounts of pay up to a certain level and higher contributions were only required on the actual amount of pay above the higher threshold.

Resolved –

That the report be noted.

ACTION: Director, West Yorkshire Pension Fund

11. 2022 ACTUARIAL VALUATION

The report of the Director, West Yorkshire Pension Fund (**Document “F”**) was submitted to the Joint Advisory Group to provide Members with an update on the work undertaken for the scheduled Actuarial valuation. The valuation carried out by the appointed actuary was intended to assess the financial position of the fund as at 31 March 2022, determine employer contributions and to ensure compliance with regulations in relation to the actuarial valuation.

Officers advised that the Terms of Reference had been agreed with the actuary and indicated that there was a slowdown in improvements since the last valuation. All data had been sent to the Actuary and was being processed with data validation work to follow. It was anticipated to have preliminary results by September or October 2022. Final assumptions would be agreed in October with new employer rates effective from April 2023.

Resolved –

That the report be noted.

Action: Director, West Yorkshire Pension Fund

12. REGISTER OF BREACHES OF LAW

The report of the Director, West Yorkshire Pension Fund (**Document “G”**) was presented to provide Members with the details of the register of breaches in accordance with West Yorkshire Pension Fund (WYPF) Breaches procedure.

In accordance with the Public Service Pensions Act 2013, from April 2015 all Public Service Pension Schemes come under the remit of The Pensions Regulator.

Section 70 of the Pensions Act 2004 imposed a requirement to report a matter to The Pensions Regulator, as soon as is reasonably practicable where that person has reasonable cause to believe that:

- (a) a legal duty relating to the administration of the scheme has not been or is not being complied with, and
- (b) the failure to comply is likely to be of material significance to The Pensions Regulator in the exercise of any of its functions.

The entries on the Register of Breaches for 2021/22, related to:

- the late payment of employee’s pension contributions by employers,
- delay in making a transfer out payment to a new pension provider,
- the non-issue of Annual Benefit Statements by the 31 August 2021 to a small number of active members.
- delays in settlement amounts paid to the Fund by Prudential when members had retired. (details of that breaches and copy of the submission to the Pension Regulator reporting that breach were supplied to the July 2021 JAG meeting).

A Member referred to delays to payments by Prudential and questioned if the situation had improved since it had been reported in July 2021. He was advised that the situation had improved significantly since that time. Annual Benefit Statements (ABS) had been issued for the previous year and it would be monitored when ABS were provided for the current year.

He referred to people who he had seen take early retirement through necessity over the previous two years and was concerned that payment delays beyond a 13-week period had caused additional pressure in their lives. In response he was assured that Key Performance Indicators stipulated that payments should be made within three days. If Additional Voluntary Contribution payments from the Prudential had been delayed members would still have received their lump sums. The reasons that benefits were not paid by the fund and AVC provider separately was to avoid a much higher rate of tax which was required on a second payment.

Resolved –

That the entries on the Register of Breaches of Law 2021/22 be noted.

ACTION: *Director, West Yorkshire Pension Fund*

13. POOLING OF ACADEMIES

The report of the Director, West Yorkshire Pension Fund (**Document “H”**) was submitted to inform Members in relation to the Fund’s proposal to introduce pooling to all academies for funding purposes.

The proposal was in response to the rising number of academies and the variations in contribution rates for individuals and those in Multi Academy Trusts (MATs) and the subsequent amount of work involved for WYPF staff. The benefit for employers would be that risk would be shared, with no notional assets being allocated to any one single academy or MAT, reductions in the fluctuations of contribution rates and a saving on administration and valuation costs.

Consultation was due to be carried out with employers in September 2022, the Funding Strategy Statement would be updated to include the proposal (if agreed) and the changes arising from the 2022 valuation.

A Member asked how many employers would need to be in agreement in order for pooling to be implemented and was advised that an analysis of responses would be carried out and would be dependent on the response.

A Member asked whether individual academies would have an adequate understanding of the financial implications and was advised that all information would be provided and would be for non-teaching staff only.

Resolved –

- 1. That the principle to move towards pooling all academies for funding purposes be noted.**
- 2. That the outcome of the consultation exercise with all employers and updates to the Funding Strategy Statement will be considered in January 2023.**

Action: *Director, West Yorkshire Pension Fund*

14. MAZARS EXTERNAL AUDIT REPORT TO JAG

The report of the external auditors (Mazars) (**Document “I”**) was presented to provide Members with the Draft Audit Strategy Memorandum (ASM) which set out the plan for the external audit of the West Yorkshire Pension Fund for the year ended 31 March 2022.

The Draft Audit Strategy Memorandum was appended to the report. As this was a lengthy document salient points were highlighted and Members provided with

an opportunity to raise any questions on the document.

It was explained that fieldwork on the ASM was ongoing.

Significant risks identified included management of override of controls and valuation of investments within level 3 of the fair value hierarchy.

An enhanced risk was reported as valuation of investments within level 2 of the fair value hierarchy.

Members were assured that further testing would be carried out on those risks.

Audit fees were to be confirmed as it was preferred to consider the additional work required before those fees were stated.

Materiality levels were those identified at the planning stage and the percentage to be used was consistent with the sector in prior years.

The draft statement had been received and amendments were reported.

Resolved –

That the report be noted.

ACTION: *Director, West Yorkshire Pension Fund*

15. TRAINING, CONFERENCES AND SEMINARS

The report of the Director, West Yorkshire Pension Fund (**Document “J”**) was submitted to remind Members that new guidance resulting from the Good Governance Report (yet to be introduced) would require key individuals within the LGPS, including LGPS officers and pensions committee members, to have the appropriate level of knowledge and understanding to carry out their duties effectively.

Members would be provided with individual training needs analysis questionnaire in order to assist WYPF Officers and Hymans, a bespoke training provider for LGPS to deliver appropriate training.

Monthly reports were provided to WYPF with training activities undertaken which indicated that there was an outstanding programme of training still not completed, some of which was mandatory so needed to be addressed. A report would be submitted either via the Annual Report or the Governance Compliance Statement to show what training was undertaken in the previous 12 months.

Members were advised that if they had attended any training externally, to provide details in order that it could be added to their training record.

Resolved –

That members complete the online training as soon as possible and give consideration to attendance at the events as provided.

Action: Members and the Director, West Yorkshire Pension Fund

Chair

Note: These minutes are subject to approval as a correct record at the next meeting of the West Yorkshire Pension Fund Joint Advisory Group.

THESE MINUTES HAVE BEEN PRODUCED, WHEREVER POSSIBLE, ON RECYCLED PAPER

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