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<b>To:</b> Members of the Governance, Audit and Scrutiny Committee	<b>Enquiries to:</b> Samm Campbell <b>Email:</b> <a href="mailto:committeemanager@humbersidefire.go.uk">committeemanager@humbersidefire.go.uk</a> <b>Tel. Direct:</b> (01482) 393205 <b>Date:</b> 12 February 2021
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Dear Member

I hereby give you notice that in accordance with The Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020, a **REMOTE MEETING** of the **GOVERNANCE, AUDIT AND SCRUTINY COMMITTEE** will be held on **MONDAY, 22 FEBRUARY 2021 at 10.00AM.**

**To access this remote meeting please visit <<https://zoom.us/join>> and then enter:**

**Meeting ID: 998 4440 9390**

**Password: 514891**

Or telephone +44 203 901 7895 and use the above Meeting ID and Password

The business to be transacted is set out below.

Yours sincerely



**Mathew Buckley**  
**Monitoring Officer & Secretary to Fire Authority**

Enc.

## **A G E N D A**

<b>Business</b>	<b>Page Number</b>	<b>Lead</b>	<b>Primary Action Requested</b>
<b><u>Procedural</u></b>			
1. Apologies for absence	-	Monitoring Officer/ Secretary	To record
2. Declarations of Interest (Members and Officers)	-	Monitoring Officer/ Secretary	To declare and withdraw if pecuniary
3. Minutes of the meeting of 25 January 2021	(pages 1 - 11)	Chairperson	To approve
4. Matters arising from the Minutes, other than on the Agenda	-	Chairperson	To raise

Business	Page Number	Lead	Primary Action Requested
<b><u>Governance</u></b>			
5. Update: Matters Arising/ Feedback from Fire Authority	verbal	Chairperson and Monitoring Officer/ Secretary	To consider and make any recommendations to the HFA
<b><u>Audit</u></b>			
6. Draft External Audit Strategy Memorandum 2020/21	(pages 12 - 43)	External Audit (Mazars)	To consider and make any recommendations to the HFA
7. Internal Audit Report - Health and Safety	(pages 44 - 52)	Internal Audit (TIAA)	To consider and make any recommendations to the HFA
8. Draft Internal Audit Plan 2021/22	(pages 53 - 64)	Internal Audit (TIAA)	To consider and make any recommendations to the HFA
<b><u>Finance and Performance</u></b>			
9. Treasury Management and Capital Expenditure Prudential Indicators, Treasury Management Policy Statement 2021/22, and Minimum Revenue Provision 2021/22	(pages 65 - 106)	Head of Finance	To consider and make any recommendations to the HFA
10. Pay Policy Statement 2021/22	(pages 107 - 113)	Temporary Director of People and Development	To consider and make any recommendations to the HFA
11. HMICFRS Inspection Update	verbal	Director of Service Improvement	To consider and make any recommendations to the HFA
<b><u>Scrutiny Programme</u></b>			
12. GAS Committee Scrutiny Programme 2020/21	(pages 114 - 118)	Monitoring Officer/Secretary	To approve
13. Any Other Business	-	All Members	To raise

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**HUMBERSIDE FIRE AUTHORITY**  
**GOVERNANCE, AUDIT AND SCRUTINY COMMITTEE**

**25 JANUARY 2021**

**PRESENT:** Independent Co-opted Members Mr D Chapman (Chairperson), Mr M Allingham, Mr J Doyle, Mrs P Jackson, Mr A Smith, Mrs M Thomlinson and Mr C Vertigans.

Councillor Green attended as an observer.

Phil Shillito - Deputy Chief Fire Officer & Executive Director Service Delivery, Paul McCourt - Director of Service Delivery, Steve Topham - Director of Service Support, Simon Rhodes - Head of Corporate Assurance, Martyn Ransom - Head of Finance, Jason Kirby - Temporary Head of People and Development, Steve Duffield - General Manager Community Preparedness, Mathew Buckley - Monitoring Officer/Secretary, Samm Campbell - Committee Manager, Peter Harrison - Internal Audit (TIAA) and Ross Woodley - External Audit (Mazars) were also present.

The meeting was held remotely via video-conference (Zoom). The meeting commenced at 10.00 a.m.

**PROCEDURAL**

**1/21 APOLOGIES FOR ABSENCE** - There were no apologies for absence.

**2/21 DECLARATIONS OF INTEREST** - There were no declarations of interest.

**3/21 MINUTES - *Resolved*** - That the minutes of the meeting of the Committee held on 16 November 2020 be confirmed as a correct record.

**4/21 MATTERS ARISING FROM THE MINUTES, OTHER THAN ON THE AGENDA -**

Minute 88/20 - A member queried whether the Service had decided to publish details of complaints on its website. The Service had considered the Committee's suggestion and was due to publish summaries of complaints received imminently.

Minute 90/20 - The Employee Assistance Programme cost the Service around £6,000 per annum. This represented a saving of around £9,000 and offered employees access to more services than they had had previously.

Minute 94/20 - An update on the establishment of a joint programme with Yorkshire Ambulance Service in relation to psychological wellbeing would be circulated following the meeting.

Minute 96/20 - TIAA was due to undertake an investigation in relation to the two items of correspondence received by the Committee. A summary of TIAA's findings would be reported to the Committee at a future meeting.

**GOVERNANCE**

**5/21 UPDATE: MATTERS ARISING/FEEDBACK FROM FIRE AUTHORITY** - The Monitoring Officer/Secretary provided feedback on items considered by the Fire Authority at its meetings of 27 November and 7 December 2020.

***Resolved*** - (a) That the update be received, and

(b) that the Committee's thanks be recorded for all Humberside Fire and Rescue Service staff, especially those working outside of their usual roles in support of other services in the effort to deal with Covid-19.

### **Audit**

**6/21 EXTERNAL AUDIT UPDATE** - Ross Woodley (Mazars) delivered an external audit progress update.

An extraordinary meeting of the Fire Authority had been held on 27 November 2020 in order to approve the final accounts and conclude the external audit for 2019/20. The audit plan for 2020/21 would be the first under the updated Code of Audit Practice issued by the National Audit Office during the previous year. Under the new Code, the value for money conclusion would no longer be binary, but a narrative including details of any weaknesses as they were identified, with a dedicated report at the end of each year. The draft plan would be presented to the Committee at its meeting due to be held on 22 February 2021.

Mazars and the Service had been able to meet the deadline for the audit of the final accounts (31 November 2020) which had been extended earlier in the year in the light of the Covid-19 pandemic. This had been achieved despite delays (Minute 85/20 refers) while, nationally, 95 percent of audits had been submitted late.

A Member asked how the Service had progressed in relation to gender representation among firefighters. The number of female firefighters employed by the Service had been steadily increasing in line with national figures. However, recruitment during the previous 20 years had not been significant and it would take time to change. The Service's most senior female employee was at grade 13, sitting just under the directors in the Service's structure. Among firefighters specifically, the most senior female employee was a station manager.

**Resolved** - That the update be received.

**7/21 EXTERNAL AUDIT LETTER** - Ross Woodley (Mazars) submitted the annual external audit letter.

The annual external audit letter summarised audit activity in relation to the 2019/20 accounts and value for money and Mazars had given an unqualified opinion as follows:

Area of responsibility	Summary
Audit of the financial statements	Our auditor's report issued on 27 November 2020 included our opinion that the financial statements: <ul style="list-style-type: none"> <li>• give a true and fair view of the Authority's financial position as at 31 March 2020 and of its expenditure and income for the year then ended; and</li> <li>• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20</li> </ul>
Other information published alongside the audited financial statements	Our auditor's report included our opinion that: <ul style="list-style-type: none"> <li>• the other information in the Statement of Accounts is consistent with the audited</li> </ul>

	financial statements.
Value for money conclusion	Our auditor's report concluded that we are satisfied that in all significant respects, the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.
Reporting to the group auditor	In line with group audit instructions, issued by the NAO on 4th November, we reported to the group auditor in line with the requirements applicable to the Authority's WGA return.
Statutory reporting	Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Authority.

There remained significant concern and uncertainty around pensions, with the remedy for the Sargeant/McCloud and Matthews/O'Brien cases yet to be finalised and implemented. Within the letter, Mazars had detailed a number of fee increases, explaining which were single charges resulting from extra work undertaken due to the Covid-19 pandemic, and charges that would recur. Covid-19 would continue to be the most significant operational and financial challenge ahead, including the impact of lost revenue resulting from a decrease in collected council tax. A revised financial plan had been submitted to the Fire Authority at its meeting of 7 December 2020. Other issues included the potential for all fire and rescue services to be overseen by local police and crime commissioners, a matter currently under consideration by the Government.

**Resolved -** (a) That the annual external audit letter be received, and

(b) that the Committee's thanks be recorded for the efforts of both the Service and Mazars to successfully meet the 31 November 2020 deadline.

**8/21 INTERNAL AUDIT UPDATE** - Peter Harrison (TIAA) delivered an internal audit progress update.

Covid-19 continued to be the most significant risk to internal controls both strategically and operationally. The pandemic had necessitated new ways of working, which TIAA had borne in mind throughout the audit process. TIAA had completed six audits, with one more planned audit yet to be conducted, and an additional audit (Minute 4/21 refers) which was ongoing:

- Performance Monitoring - evaluated as 'substantial'. TIAA's recommendations were being implemented and the new performance monitoring system (based on thresholds) had improved reporting. Testing by TIAA had not revealed any issues.
- Health and Safety - evaluated as 'reasonable'. Few recommendations were made and it was agreed that the full report would be circulated to the Committee prior to its February 2021 meeting.
- Arson Prevention - evaluated as 'substantial'. TIAA made only one priority-3 recommendation in relation to arson prevention, finding no significant issues.

- ICT Cyber Security - evaluated as 'reasonable'. Two priority-2 recommendations had been made relating to the security of computer password standards and the number of privileged accounts on the Service's systems.
- Business Safety - evaluated as 'reasonable'. TIAA issued one priority-2 and three priority-3 recommendations.
- Key Financial Controls - evaluated 'substantial'. No anomalies had been identified during TIAA's testing. With many officers working remotely, it was increasingly important that good controls were in place. TIAA made no recommendations in relation to key financial controls.

A Member asked about phishing; fraudulent communications designed to appear legitimate in order to get recipients to surrender information such as personal data and passwords. Awareness of phishing among the Service's staff remained an ongoing piece of work, with training and information delivered regularly. As part of its education process, the Service also conducted phishing exercises to see how many times a fake web-link or document would be accessed by staff.

A Member queried whether the recommendations resulting from the audit of ICT Cyber Security had been implemented by December 2020 and it was confirmed that they had been. The Service had drafted a policy on home working and had circulated it for consultation. Following the consultation process, the policy would be considered by the Fire Authority for approval.

An audit of the risk of staff shortages affecting business continuity had been planned for March 2021 but the Service had requested that the subject of the audit be changed. A Member asked why the Service had requested this change of topic and was informed that the matter of how the final audit topic should be used was still under discussion.

- Resolved -**
- (a) That the update be received;
  - (b) that the audit report relating to health and safety be circulated to the Committee prior to its next meeting, and
  - (c) that the Committee be informed of the final topic for the 2020/21 internal audit programme.

## **PERFORMANCE, RISK AND PROGRAMME MANAGEMENT**

**9/21 ANNUAL ACCOUNTS CLOSE-DOWN TIMETABLE 2020/21** - The Head of Finance submitted a report summarising the close-down timetable for the annual accounts.

The Service planned to complete the close-down process a month ahead of the deadline (30 September 2021) in order to undertake further quality assurance. The Head of Finance explained that the Service had been successfully building a resilient team that did not rely too heavily on any one member of staff.

- Resolved -** That the report be received.

**10/21 MANAGEMENT ACCOUNTS - PERIOD ENDING 31 DECEMBER 2020** - The Head of Finance submitted the Management Accounts for the period ending 31 December 2020.

Contrary to earlier expectations in the light of the ongoing pandemic, the Service had underspent in many areas. The receipt of the Covid-19 grant funding had been a significant help. Spending had decreased in areas such as travel and fuel and some capital projects had been pushed back as a result of the Covid-19 restrictions. The Goole Fire Station, uniform and personal protective equipment (PPE) projects had been pushed back to the 2021/22 financial year and discussions with Humberside Police about Howden Fire Station were ongoing. The Service was in the process of measuring staff members for the replacement of their PPE.

**Resolved** - That the Management Accounts be received.

**11/21 REVIEW OF ANTI-FRAUD RELATED POLICIES** - The Head of Corporate Assurance provided an update in relation to the review of anti-fraud related policies.

The annual review of anti-fraud related policies had been undertaken in a more detailed way than it had in previous years with the involvement of two Members of the Committee. The changes to the policies would be implemented and the policies uploaded to the Service's website.

**Resolved** - That the update be received.

**12/21 HMICFRS INSPECTION UPDATE** - The Head of Corporate Assurance provided the Committee with a verbal update in relation to Her Majesty's Inspectorate of Constabulary and Fire and Rescue Service's (HMICFRS).

The national thematic report focussed on Covid-19 and the reports resulting from its individual inspections of each fire and rescue service had been published by HMICFRS on 22 January 2021. In its summary report, the Inspectorate had indicated that too many firefighters had been prevented from helping the public by undertaking different roles. Locally, however, engagement with the relevant unions had been undertaken early to ensure that agreements over how firefighter could help could be reached.

During its inspection, HMICFRS had found that the Service had been able to maintain its statutory functions as well as helping other services and supporting the community. The Inspectorate had also concluded that this had all been done safely.

The Inspectorate's annual State of Fire and Rescue report was due to be published in March 2021. The Service's next normal, graded inspection was due to be undertaken between September 2021 and February 2022, and the report to be published in summer 2022.

**Resolved** - That the update be received.

### **SCRUTINY PROGRAMME**

**13/21 PROTECTION ENGAGEMENT WITH THE COMMERCIAL AND BUSINESS COMMUNITY** - The Director of Service Support submitted a report in response to the Committee's scope relating to protection engagement with the commercial and business community.

The Service had begun to change its approach to fire safety inspections in 2018, establishing a new Risk-Based Inspection Programme (RBIP), which had been the subject of the Committee's scrutiny in February 2020 (Minute 28/20 refers). The RBIP's two-tier system

had been shared with the National Fire Chiefs Council (NFCC) as it was in the process of developing a national framework for fire and rescue services.

The RBIP provided the Service with the means to conduct its inspection programme in a targeted way, but also to be reactive by training operational staff to engage with businesses in relation to fire safety, thereby providing the Service with intelligence and forwarding concerns to the inspection team. The data used to prioritise inspections took into account many more risk factors than previously.

The Service had worked hard to respond to all of the recommendations in the Grenfell Tower Inquiry's phase-one report and continued to undertake its responsibilities in relation to the national Building Risk Review (BRR). The recommendations from the phase-one report featured prominently in the Services Improvement Plan, which had been developed following the Service's first inspection by HMICFRS. The Building Safety and Fire Safety bills were both in undergoing the parliamentary approval process, and both bills, when enacted, would place additional duties on fire and rescue services. While there was grant funding available for some of the work resulting from the phase-one report, it was unclear whether extra funding would be made available following the passage of the two bills. The Service was awaiting the publication of the Inquiry's phase-two report, which was likely to have an impact on HMICFRS's inspection process.

The main challenge faced by the Service with regard to furthering its protection engagement with the commercial and business community was that many businesses had been closed for extended periods of time since the beginning of the Covid-19 pandemic and associated restrictions in the UK (since March 2020). With a contemporary national lockdown ongoing, the Service's options in terms of inspecting commercial properties were limited. However, many of the more properties which were closed were not high-risk. The Service had undertaken a lot of engagement with businesses over the phone and planned to restart the programme of seminars online. The Service had continued to undertake its duties in prosecuting breaches of fire safety; two cases were ongoing, one of which was likely to progress to a court trial.

Members asked questions in relation to:

- Work with the University of Hull - The Service remained in frequent contact with the University. The postgraduate student who had initially undertaken the project was no longer able to do so and the University had agreed to find replacement.
- Recruitment - The Service had been working to fill vacancies in its inspection team and to upskill current members of staff in line with the competency framework.
- Engagement by Phone - One of the challenges with this temporary approach had been resourcing it in the light of other, competing duties during the Covid-19 pandemic. However, the Services was keen to ensure that its rate of timely consultations in relation to fire safety did not drop below 90 percent. Engagement by phone had still proven to be effective as, in one case, the telephone consultation had led to an inspection in person, which had resulted in the Service issuing a prohibition to the business.
- Commercial Property - There had been no changes with regard to insurance against fire damage as a result of the Grenfell Tower Inquiry. A meeting of the National Fire Chiefs Council (NFCC) was due to be held, with a focus on the impacts of changes to inspections and duties resulting from the Grenfell Tower Inquiry and the Building Safety and Fire Safety bills.



The Committee thanked the Service for its work on improving its inspection programme and its support for the business and commercial community. However, the Committee also appreciated that, due to the ongoing effects of the Covid-19 pandemic, the Service had not been able to make the progress it had intended to and agreed that an update would be received during its 2021/22 scrutiny programme.

**Resolved -** (a) That an update on the Service's protection engagement be received during the 2021/22 scrutiny programme;

(b) that the Committee be assured that the new Risk-Based Inspection Programme methodology enables the Service to prioritise and target engagement activities effectively, and

(c) that the Committee note the ongoing impacts of both the Grenfell Tower fire and the Covid-19 pandemic, including the positive changes arising from them.

**14/21 GAS COMMITTEE SCRUTINY PROGRAMME 2020/21** - The Committee Manager submitted a report summarising the Committee's Scrutiny Programme 2020/21.

**Resolved -** (a) That the updates be received, and

(b) that the Workforce Plan be added as a matter for consideration as part of the scrutiny item due to be heard on 12 April 2021, Diversity and Recruitment - Progress and Plans.

**15/21 ANY OTHER BUSINESS** - There was no other business.

Date	Item	Minute	Resolution	Responsible	Brief summary of outcome
13 July 2020	Internal Audit Update	49/20	<b>Resolved -</b> (b) that the Committee be updated in relation to TIAA's assessment of key financial controls at a future meeting.	TIAA	
13 July 2020	Draft Annual Performance Report 2019/20	51/20	<b>Resolved -</b> b) that the report be revised, taking into account the Committee's suggested amendments, prior to its receipt by the Fire Authority on 24 July 2020.	Director of Service Improvement	
13 July 2020	LGA Consultation on Draft Code of Conduct	54/20	<b>Resolved -</b> That the Committee respond to the consultation collectively through Mandy Tomlinson.	Mandy Tomlinson	The consultation was responded to as planned.
13 July 2020	GAS Committee Scrutiny Programme 2020/21	56/20	<b>Resolved -</b> That the Scrutiny Programme 2020/21 be approved subject to the addition of scoping questions agreed by the Committee.	Committee Manager	Scrutiny Programme updated.
13 July 2020	AOB - Action Schedule	58/20	<b>Resolved -</b> That the Committee receive an action schedule tracking its recommendations at future meetings.	Committee Manager	Action schedule created.
7 September 2020	Internal Audit Progress Update	68/20	<b>Resolved -</b> that the TIAA briefing note, Cyber Threats using the COVID-19 Pandemic, be circulated to the Committee.	TIAA	The briefing note was circulated to the Committee following the meeting.
7 September 2020	Performance Reporting Update	70/20	<b>Resolved -</b> that, in future, changes of this calibre be communicated to the Committee further in advance.	Director of Service Improvement	ONGOING
7 September 2020	Absence Management Q1	72/20	<b>Resolved -</b> that the Service seek further feedback from its employees in relation to its anti-bullying campaign.	Director of People and Development	
7 September 2020	Effectiveness of the Protection Risk-Based Targeting Strategy	77/20	<b>Resolved -</b> (b) that the Service be commended for its work in developing its Risk-Based Inspection Programme;	Director of Service Delivery Support	

			<p>(c) that the Committee be updated in six months in relation to the uptake of fire safety inspection training among on-call firefighters, and</p> <p>(d) that the Committee be updated in six months in relation to the Service's work with the University of Hull.</p>		
7 September 2020	Update in relation to the Emergency Medical Response Cost Recovery Model (Scrutiny Programme 2019/20)	78/20	<b>Resolved</b> - That the updates be received.	Director of Service Delivery	Reschedule for further update.
16 November 2020	Performance and Risk Report - Second Quarter 2020/21	88/20	<b>Resolved</b> - (b) that the Service consider publishing details of the complaints it receives on its website.	Director of Service Improvement	A summary of complaints was uploaded to the Service's website.
16 November 2020	Absence Management - Second Quarter 2020/21	90/20	<b>Resolved</b> - (b) that the Temporary Director of People and Development update Members with the costs related to the delivery of the Employee Assistance Programme.	Temporary Director of People and Development	The Committee was provided an update on 30 November 2020.
16 November 2020	Treasury Management Mid-Year Update Report 2020/21	91/20	<b>Resolved</b> - (b) that the Service facilitate a session for the Committee on long-term treasury management issues.	Head of Finance	
16 November 2020	Development and Delivery Plans to Support the Health and Wellbeing of Staff	94/20	<b>Resolved</b> - (a) That Head of Occupational Health and Wellbeing be commended on the quality of her work during the previous year, and	Head of Occupational Health	

			(b) that a verbal update be provided to the Committee in around three months.		
16 November 2020	Update in relation to the Emergency Medical Response Cost Recovery Model (Scrutiny Programme 2019/20)	95/20	<b>Resolved -</b> (b) that the matter of the Emergency Medical Response Cost Recovery Model be considered resolved.	Director of Service Delivery	The cost recovery programme in relation to the Emergency Medical Response service was aligned across the Service's area.
25 January 2021	Internal Audit Update	8/21	<b>Resolved -</b> (b) that the audit report relating to health and safety be circulated to the Committee prior to its next meeting, and  (c) that the Committee be informed of the final topic for the 2020/21 internal audit programme.	(b) Committee Manager  (c) Head of Corporate Assurance	(b) The health and safety audit report was circulated on 2 February 2021 and included on the agenda for the 22 February 2021 meeting.  (c) The decision was taken to move this slot into 2021/22 and await further guidance regarding the focus of the HMICFRS inspection before deciding on the topic. The following topic was also due to be proposed to the Committee for scrutiny in 2021/22:  <b>Business Continuity – Response to Covid Pandemic:</b> Evaluation of lessons learned and the adoption of new working practices.

25 January 2021	Protection Engagement with the Commercial and Business Community	13/21	<p><b>Resolved -</b></p> <p>(a) That an update on the Service's protection engagement be received during the 2021/22 scrutiny programme;</p> <p>(b) that the Committee be assured that the new Risk-Based Inspection Programme methodology enables the Service to prioritise and target engagement activities effectively, and</p> <p>(c) that the Committee note the ongoing impacts of both the Grenfell Tower fire and the Covid-19 pandemic, including the positive changes arising from them.</p>	Committee Manager/ Director of Service Support	
25 January 2021	GAS Scrutiny Programme 2020/21	14/21	<p><b>Resolved -</b></p> <p>(b) that the Workforce Plan be added as a matter for consideration as part of the scrutiny item due to be heard on 12 April 2021, Diversity and Recruitment - Progress and Plans.</p>	Committee Manager	The Programme was updated and included on the agenda for the 22 February 2021 meeting.



# Audit Strategy Memorandum

Humberside Fire Authority

Year ending 31 March 2021



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Appendix – Key communication points

This document is to be regarded as confidential to Humberside Fire Authority. It has been prepared for the sole use of the Authority and the Governance, Audit and Scrutiny Committee. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.





Humberside Fire Authority and Governance, Audit and Scrutiny Committee  
Humberside Fire and Rescue Service Headquarters  
Summergroves Way  
Hull. HU4 7BB

12 February 2021  
Dear Sirs / Madams

Mazars LLP  
Salvus House  
  
Aykley Heads  
  
Durham DH1 5TS

**Audit Strategy Memorandum – Year ending 31 March 2021**

We are pleased to present our Audit Strategy Memorandum for Humberside Fire Authority for the year ending 31 March 2021. The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, section 7 of this document also summarises our considerations and conclusions on our independence as auditors. We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Humberside Fire Authority which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

With that in mind, we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion around our audit approach, any questions, concerns or input you may have on our approach or role as auditor. This document also contains an appendix that outlines our key communications with you during the course of the audit,

Client service is extremely important to us and we strive to provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 0191 383 6300.

Yours faithfully  
  
Signed: {{\_es\_:signer1:signature }}  
  
Gavin Barker  
  
Mazars LLP

# 01

Section 01:

## **Engagement and responsibilities summary**

# 1. Engagement and responsibilities summary

## Overview of engagement

We are appointed to perform the external audit of Humberside fire Authority for the year to 31 March 2021. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>. Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.



### Audit opinion

We are responsible for forming and expressing an opinion on the financial statements. Our audit does not relieve management or the Authority, as those charged with governance, of their responsibilities.



### Going concern

The Authority is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. The Executive Director of Corporate Services is responsible for the assessment of whether it is appropriate for the Authority to prepare its accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence, and conclude on the appropriateness of the Executive Director of Corporate Services use of the going concern basis of accounting in the preparation of the financial statements and the adequacy of disclosures made.



### Value for money

We are also responsible for reaching a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.



### Electors' rights

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Authority and consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.



### Fraud

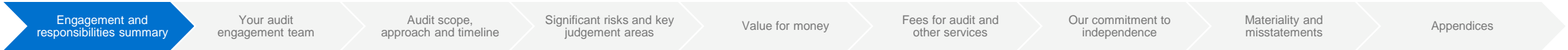
The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. This includes establishing and maintaining internal controls over reliability of financial reporting.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance, including key staff as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.



### Reporting to the NAO

We report to the NAO on the consistency of the Authority's financial statements with its Whole of Government Accounts (WGA) submission. We do this by issuing an assurance certificate which confirms that the Authority is below the threshold set by the NAO.



# 02

Section 02:

**Your audit engagement team**

## 2. Your audit engagement team



**Gavin Barker, CPFA**

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Manager

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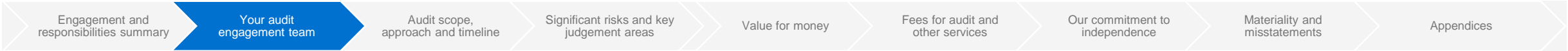


**Louise Allison, ACA**

Team Leader and Assistant Manager

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# 03

Section 03:

**Audit scope, approach and timeline**

# 3. Audit scope, approach and timeline

## Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

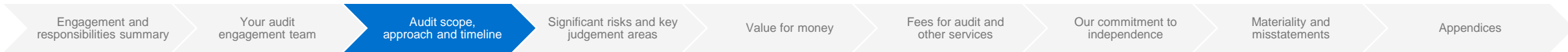
## Audit approach

Our audit approach is a risk based approach primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

If we conclude that appropriately designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise: tests of details (of classes of transactions, account balances, and disclosures); and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram on the next page outlines the procedures we perform at the different stages of the audit.



# 3. Audit scope, approach and timeline

## Planning February 2021

- Planning visit and developing our understanding of the Authority
- Initial opinion and value for money risk assessments
- Considering proposed accounting treatments and accounting policies
- Developing the audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Preliminary analytical review
- Documenting systems and controls
- Performing walkthroughs

## Completion September 2021

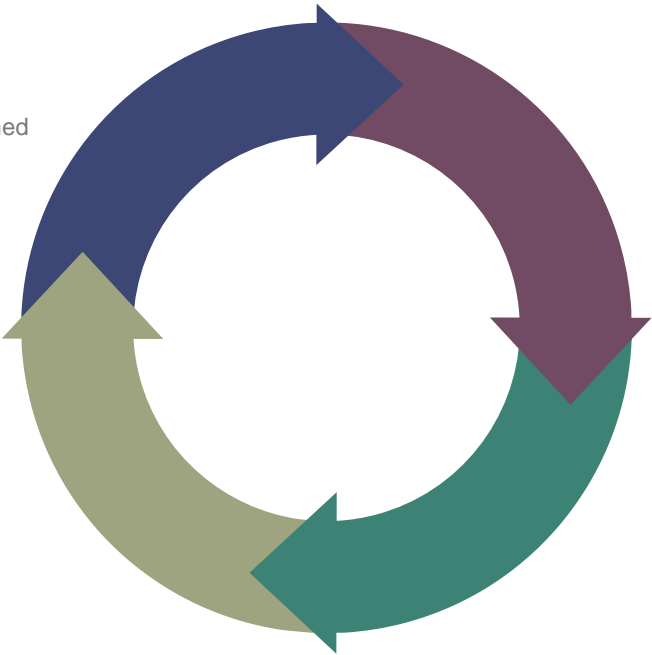
- Final review and disclosure checklist of financial statements
- Final partner review
- Agreeing content of letter of representation
- Reporting to the Authority and Governance, Audit and Scrutiny Committee
- Reviewing subsequent events
- Signing the auditor's report

## Interim March 2021

- Interim controls testing including tests of IT general controls
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary

## Fieldwork June to September 2021

- Receiving and reviewing draft financial statements
- Reassessment of audit plan and revision if necessary
- Executing the strategy starting with significant risks and high risk areas
- Communicating progress and issues
- Clearance meeting





# 3. Audit scope, approach and timeline

## Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will liaise with internal audit to consider the progress and findings of their work prior to the commencement of any controls testing.

If we decide to place reliance on the work on internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

## Management’s and our experts

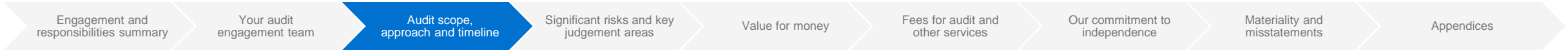
Management makes use of experts in specific areas when preparing the Authority’s financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Item of account	Management’s expert	Our expert
Defined benefit liability	Government Actuary’s Department (FFPS) and Hymans Robertson (LGPS).	NAO’s Consulting Actuary (PWC)
Property, plant and equipment valuation	Carter Jonas	
Financial instruments	Link Asset Services	

## Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third party organisations that provide services to the Authority that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by the Authority and our planned audit approach.

Items of account	Service organisation	Audit approach
Processing the payroll system underpinning expenditure figures and remuneration disclosures within the financial statements.	East Riding of Yorkshire Council	We are also the auditor of the Council and have direct access to accounting records and staff. Accordingly, we can substantively test the financial statements in the same way as if the Authority did not rely on a service organisation. We will review and document the controls in place for production of the financial statements and also within the material financial information systems.
Processing the treasury management system underpinning loans and investment figures and financial instrument disclosures within the financial statements.	Hull City Council	We are also the auditor of the Council and have direct access to accounting records and staff. Accordingly, we can substantively test the financial statements in the same way as if the Authority did not rely on a service organisation. We will review and document the controls in place for production of the financial statements and also within the material financial information systems.



# 04

Section 04:

**Significant risks and other key  
judgement areas**

# 4. Significant risks and other key judgement areas

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard. The definitions of the level of risk rating are given below:

## Significant risk

A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.

## Enhanced risk

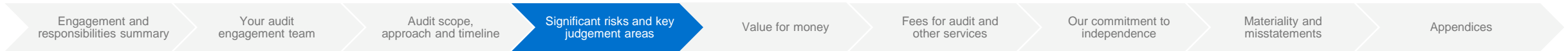
An enhanced risk is an area of higher assessed risk of material misstatement ('RMM') at audit assertion level other than a significant risk. Enhanced risks require additional consideration but does not rise to the level of a significant risk, these include but may not be limited to:

- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

These should include all areas of judgement and significant estimation uncertainty reported by the Accounting Officer in the financial statements, which would be expected to give rise to enhanced audit risks as relevant.

## Standard risk

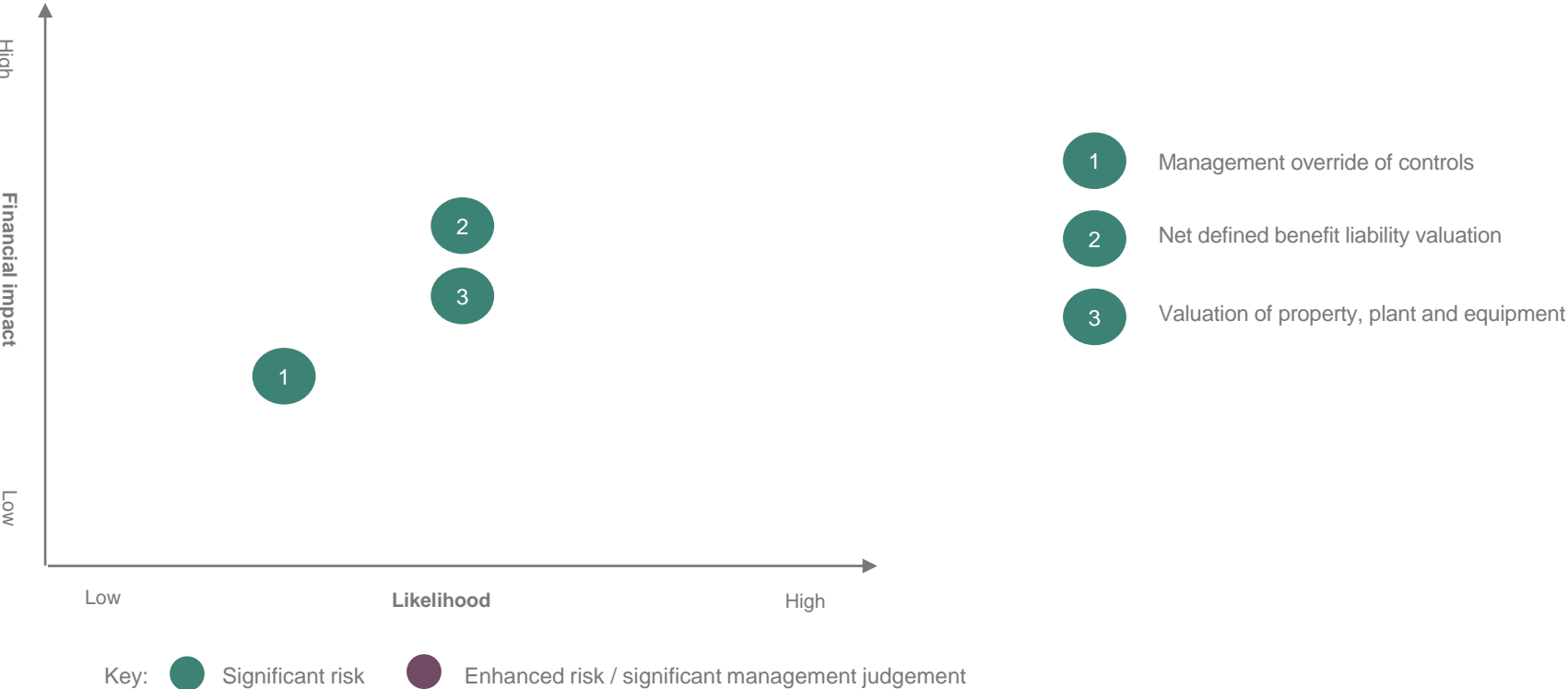
This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.



# 4. Significant risks and other key judgement areas

## Summary risk assessment

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant and other enhanced risks in respect of the Authority. We have summarised our audit response to these risks on the next page.

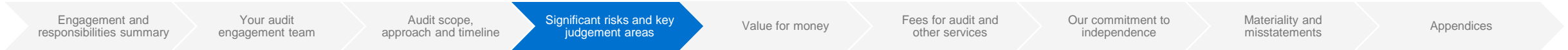


# 4. Significant risks and other key judgement areas

## Specific identified audit risks and planned testing strategy

We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Authority and Governance, Audit and Scrutiny Committee.

	Description	Fraud	Error	Judgement	Planned response
1	<p><b>Management override of controls</b> This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	●	○	○	<p>We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.</p> <p>We will use a computer audit analytical technique (CAAT) to efficiently identify journals with risk characteristics and test 100% of such adjustments to the financial ledger.</p>



## 4. Significant risks and other key judgement areas

### Significant risks

	Description	Fraud	Error	Judgement	Planned response
2	<b>Net defined benefit liability valuation</b>  The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. Moreover, in 2019/20 the local government pension assets were subject to material valuation uncertainty and due to the ongoing COVID-19 pandemic there is a risk that this might recur in 2020/21. This results in an increased risk of material misstatement.	○	●	●	We will discuss with key contacts any significant changes to the pension estimates. In addition to our standard programme of work in this area, we will evaluate the management controls you have in place to assess the reasonableness of the figures provided by the Actuary and consider the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally.  We will review the appropriateness of the key assumptions included within the valuations, compare them to expected ranges and review the methodology applied in the valuation. We will consider the adequacy of disclosures in the financial statements.  We will also seek assurance from the audit of East Riding Pension Fund.
3	<b>Valuation of property, plant and equipment</b>  The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Authority's holding of PPE. Although the Authority uses a valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of PPE due to the significant judgements and number of variables involved in providing revaluations. We have therefore identified the valuation of PPE to be an area of significant risk.	○	●	●	We plan to address this risk by considering the Authority's arrangements for ensuring that PPE values are reasonable and will engage our own expert to provide data to enable us to assess the reasonableness of the valuations provided by the external valuer. We will also assess the competence, skills and experience of the valuer.  We plan to discuss methods used with the valuer and examine test valuations. We will use indices provided by our own expert to confirm the assets not revalued are unlikely to have materially changed in value. We will test a sample of revaluations in year to valuation reports and supporting calculation sheets and ensure the calculations are correct and source data agrees with floor plans.

Engagement and responsibilities summary

Your audit engagement team

Audit scope, approach and timeline

Significant risks and key judgement areas

Value for money

Fees for audit and other services

Our commitment to independence

Materiality and misstatements

Appendices

# 05

## Section 05: **Value for Money**

# 5. Value for Money

## The framework for Value for Money work

We are required to form a view as to whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our view, and sets out the overall criterion and sub-criteria that we are required to consider.

The new Code of Audit Practice (the Code) has changed the way in which we report our findings in relation to Value for Money (VFM) arrangements from 2020/21. Whilst we are still required to be satisfied that the Authority has proper arrangements in place, we will now report by exception in our auditor’s report where we have identified significant weakness in those arrangements. This is a significant change to the requirements under the previous Code which required us to give a conclusion on the Authority’s arrangements as part of our auditor’s report.

Under the new Code, the key output of our work on VFM arrangements will be a commentary on those arrangements which will form part of the Auditor’s Annual Report.

## Specified reporting criteria

The Code requires us to structure our commentary to report under three specified criteria:

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

## Our approach

Our work falls into three primary phases as outlined opposite. We need to gather sufficient evidence to support our commentary on the Authority’s arrangements and to identify and report on any significant weaknesses in arrangements. Where significant weaknesses are identified we are required to report these to the Authority and make recommendations for improvement. Such recommendations can be made at any point during the audit cycle and we are not expected to wait until issuing our overall commentary to do so.

Planning and risk assessment	Obtaining an understanding of the Authority’s arrangements for each specified reporting criteria. Relevant information sources will include: <ul style="list-style-type: none"><li>• NAO guidance and supporting information</li><li>• Information from internal and external sources including regulators</li><li>• Knowledge from previous audits and other audit work undertaken in the year</li><li>• Interviews and discussions with staff and members</li></ul>
Additional risk based procedures and evaluation	Where our planning work identifies risks of significant weaknesses, we will undertake additional procedures to determine whether there is a significant weakness.
Reporting	We will provide a summary of the work we have undertaken and our judgements against each of the specified reporting criteria as part of our commentary on arrangements. This will form part of the Auditor’s Annual Report.  Our commentary will also highlight: <ul style="list-style-type: none"><li>• Significant weaknesses identified and our recommendations for improvement</li><li>• Emerging issues or other matters that do not represent significant weaknesses but still require attention from the Authority.</li></ul>





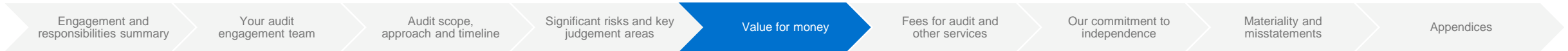
# 5. Value for Money

## Identified risks of significant weaknesses in arrangements

The NAO’s guidance requires us to carry out work at the planning stage to understand the Authority’s arrangements and to identify risks that significant weaknesses in arrangements may exist.

Due to the late release of the NAO’s Auditor Guidance Note and supporting information to auditors, we have not yet fully completed our planning and risk assessment work. We will report the results of our planning and risk assessment work to the Governance, Audit and Scrutiny Committee in April 2021.

Although we have not fully completed our planning and risk assessment work, we have held discussions with management and reviewed the Medium Term Financial Plan. We have not identified any significant weaknesses in arrangements from this initial planning and risk assessment.



# 06

Section 06:

**Fees for audit and other services**

# 6. Fees for audit and other services

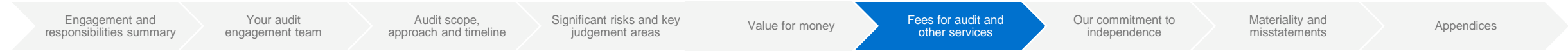
## Fees for work as the Authority’s appointed auditor

In the Annual Audit Letter that we presented to the Governance, Audit and Scrutiny Committee in January 2021 and the Authority in February 2021 we explained that due to increased regulatory pressures there would be additional recurring fees of £4,966 as well as some one-off fees in respect of extra work arising from the COVID-19 pandemic. We are still awaiting approval from Public Sector Audit Appointments Limited for these fees, but we have included them in the table below for transparency.

In Section 5 we explained that we are still completing our planning and risk assessment in respect of the VFM Conclusion. We will communicate any fee implications to you when this work is complete.

Area of work	2020/21 Proposed Fee	2019/20 Actual Fee
Delivery of audit work under the NAO Code of Audit Practice	24,561	24,561
Recurring increases in the base audit fee arising from regulatory pressures	4,966	4,966
One-off fee increases for 2019/20 specific issues		2,052
<b>Total audit fees *</b>	<b>29,527 *</b>	<b>31,579</b>

- The revised Code of Audit Practice is likely to lead to additional audit work to support the new value for money conclusion and the changes in reporting requirements. It is currently unclear exactly what impact this will have on the work required and fees. We have consequently not reflected any impact in the proposed fee. We will update management, the Governance, Audit and Scrutiny Committee and the Authority as the position is clarified.



# 07

Section 07:

**Our commitment to independence**

# 7. Our commitment to independence

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually in writing that we comply with the FRC's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

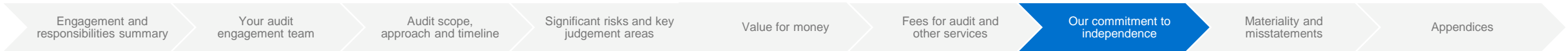
- All partners and staff are required to complete an annual independence declaration;
- All new partners and staff are required to complete an independence confirmation and also complete computer based ethical training;
- Rotation policies covering audit engagement partners and other key members of the audit team; and
- Use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Gavin Barker in the first instance.

Prior to the provision of any non-audit services Gavin Barker will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

No threats to our independence have been identified.

Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.



# 08

Section 08:

**Materiality and other misstatements**

# 8. Materiality and misstatements

## Summary of initial materiality thresholds

Threshold	Initial threshold £'000s
Overall materiality	1,500
Performance materiality	1,200
Trivial threshold for errors to be reported to the Authority and Governance, Audit and Scrutiny Committee.	45

## Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- Have a reasonable knowledge of business, economic activities and accounts;
- Have a willingness to study the information in the financial statements with reasonable diligence;
- Understand that financial statements are prepared, presented and audited to levels of materiality;
- Recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- Will make reasonable economic decisions on the basis of the information in the financial statements.

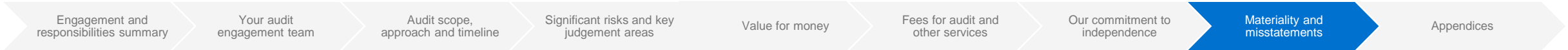
We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of 2% of gross expenditure. We will identify a figure for materiality but identify separate levels for procedures design to detect individual errors, and also a level above which all identified errors will be reported to the Authority and Governance, Audit and Scrutiny Committee. We consider that gross expenditure remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.



# 8. Materiality and misstatements

## Materiality (continued)

We expect to set a materiality threshold at 2% of gross revenue expenditure at the surplus / deficit level after excluding exceptional items and revaluation and impairment gains and losses. Based on the 2019/20 financial statements we anticipate the overall materiality for the year ending 31 March 2021 to be in the region of £1.5m (£1.4m in the prior year).

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

## Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 80% of overall materiality as performance materiality.

## Misstatements

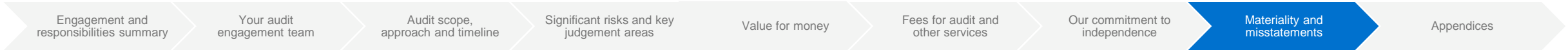
We accumulate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Authority and Governance, Audit and Scrutiny Committee that is consistent with the level of triviality that we consider would not need to be

accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £45,000, based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Gavin Barker.

## Reporting to the Authority and Governance, Audit and Scrutiny Committee

The following three types of audit differences will be presented to the Authority and Governance, Audit and Scrutiny Committee.

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).







## Appendix: Key communication points

# Appendix: Key communication points

We value communication with Those Charged With Governance as a two way feedback process at the heart of our client service commitment. ISA 260 (UK) ‘Communication with Those Charged with Governance’ and ISA 265 (UK) ‘Communicating Deficiencies In Internal Control To Those Charged With Governance And Management’ specifically require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

## Form, timing and content of our communications

We will present the following reports:

- Our Audit Strategy Memorandum;
- Our Audit Completion Report; and
- Auditor’s Annual Report

These documents will be discussed with management prior to being presented to yourselves and their comments will be incorporated as appropriate.

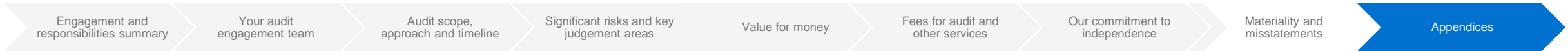
## Key communication points at the planning stage as included in this Audit Strategy Memorandum

- Our responsibilities in relation to the audit of the financial statements;
- The planned scope and timing of the audit;
- Significant audit risks and areas of management judgement;

- Our commitment to independence;
- Responsibilities for preventing and detecting errors;
- Materiality and misstatements; and
- Fees for audit and other services.

## Key communication points at the completion stage to be included in our Audit Completion Report

- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Our conclusions on the significant audit risks and areas of management judgement;
- Summary of misstatements;
- Management representation letter;
- Our proposed draft audit report; and
- Independence.



# Appendix: Key communication points

ISA (UK) 260 ‘Communication with Those Charged with Governance’, ISA (UK) 265 ‘Communicating Deficiencies In Internal Control To Those Charged With Governance And Management’ and other ISAs (UK) specifically require us to communicate the following:

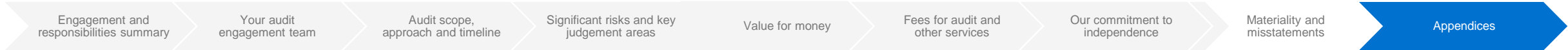
Required communication	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and those charged with governance.	Audit Strategy Memorandum
The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks.	Audit Strategy Memorandum
With respect to misstatements: <ul style="list-style-type: none"> <li>• Uncorrected misstatements and their effect on our audit opinion;</li> <li>• The effect of uncorrected misstatements related to prior periods;</li> <li>• A request that any uncorrected misstatement is corrected; and</li> <li>• In writing, corrected misstatements that are significant.</li> </ul>	Audit Completion Report
With respect to fraud communications: <ul style="list-style-type: none"> <li>• Enquiries of the Authority and Governance, Audit and Scrutiny Committee to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity;</li> <li>• Any fraud that we have identified or information we have obtained that indicates that fraud may exist; and</li> <li>• A discussion of any other matters related to fraud.</li> </ul>	Audit Completion Report and discussion at the Authority and Governance, Audit and Scrutiny Committee Audit Planning and Clearance meetings

# Appendix: Key communication points

Required communication	Where addressed
<p>Significant matters arising during the audit in connection with the entity’s related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>• Non-disclosure by management;</li> <li>• Inappropriate authorisation and approval of transactions;</li> <li>• Disagreement over disclosures;</li> <li>• Non-compliance with laws and regulations; and</li> <li>• Difficulty in identifying the party that ultimately controls the entity.</li> </ul>	Audit Completion Report
<p>Significant findings from the audit including:</p> <ul style="list-style-type: none"> <li>• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;</li> <li>• Significant difficulties, if any, encountered during the audit;</li> <li>• Significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management;</li> <li>• Written representations that we are seeking;</li> <li>• Expected modifications to the audit report; and</li> <li>• Other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to the Authority and Governance, Audit and Scrutiny Committee in the context of fulfilling their responsibilities.</li> </ul>	Audit Completion Report
Significant deficiencies in internal controls identified during the audit.	Audit Completion Report
Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.	Audit Completion Report

# Appendix: Key communication points

Required communication	Where addressed
Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and enquiry of the Authority and Governance, Audit and Scrutiny Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that Authority and Governance, Audit and Scrutiny Committee may be aware of.	Audit Completion Report and Authority and Governance, Audit and Scrutiny Committee meetings
With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> <li>Whether the events or conditions constitute a material uncertainty;</li> <li>Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and</li> <li>The adequacy of related disclosures in the financial statements.</li> </ul>	Audit Completion Report
Reporting on the valuation methods applied to the various items in the annual financial statements including any impact of changes of such methods	Audit Completion Report
Indication of whether all requested explanations and documents were provided by the entity	Audit Completion Report



# Gavin Barker, Director – Public Services

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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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Internal Audit

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## Humberside Fire & Rescue

Assurance Review of Health & Safety

2020/21

July 2020

## Executive Summary

OVERALL ASSESSMENT	KEY STRATEGIC FINDINGS								
	<div><div></div><div>A Legislation Register is not in place at HFRS.</div></div> <div><div></div><div>HFR has a risk assessment management system, however evidence suggests there are concerns surrounding its user friendliness and it may not be being fully utilised.</div></div> <div><div></div><div>A disproportionate "no blame" culture may encourage an adverse safety culture, where accountability is removed as a contributing factor once harm is realised.</div></div> <div><div></div><div>Staff were not always aware of risk assessments, checklists and protocols and in some cases not applying them diligently.</div></div>								
ASSURANCE OVER KEY STRATEGIC RISK / OBJECTIVE	GOOD PRACTICE IDENTIFIED								
<p>The Authority have a responsibility to ensure the safety of its employees, visitors and contractors and ensure that relevant legislation is adhered to.</p>	<div><div></div><div>An established and knowledgeable health and safety team is in post, able to guide HFR in line with legislation in a high risk specialist environment.</div></div> <div><div></div><div>Health and safety is considered at a corporate level to be equal to other organisational objectives.</div></div>								
SCOPE	ACTION POINTS								
<p>The review appraised: the adequacy of the arrangements for managing the health and safety requirements of the organisation. The scope of the review did not include: carrying out or providing an opinion on the adequacy of the arrangements that are in place for meeting the legislative requirements.</p>	<table><tr><th>Urgent</th><th>Important</th><th>Routine</th><th>Operational</th></tr><tr><td>0</td><td>3</td><td>1</td><td>0</td></tr></table>	Urgent	Important	Routine	Operational	0	3	1	0
Urgent	Important	Routine	Operational						
0	3	1	0						



## Assurance - Key Findings and Management Action Plan (MAP)

Rec.	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
1	Directed	HFRS has in place a risk assessment management system, however evidence suggest there is concerns regarding its user friendliness.  The usability of risk assessments has been raised in the Health and Safety Consultative meeting.	A review of the risk assessment system be undertaken to ensure that it meets the organisation's intended purpose, taking into account local audit findings, staff feedback and accident investigation outcomes.	2			
3	Directed	HFRS has a no blame culture approach to accident investigations. On occasion root causes such an apathy, complacency, time pressures or peer pressures may be overlooked. It will set the bar for reoccurring accidents and could promote an unsafe work environment.	It be ensured that human factors are considered during investigations and individuals must be held responsible in some way where management safety protocols are found to have not been followed.	2			
4	Directed	HFRS does not at this time have a Legislation Register, as required by its policies.	A Legislation Register be documented and brought into operation.	2			
2	Directed	It was identified that risk assessments are not always being effectively incorporated into safe working. This may indicate complacency, apathy of management arrangements or a risk taking culture.	The risk appetite of operational staff particularly in terms of applying basic and established safety protocols be evaluated in order to develop a stronger dynamic and compliant risk culture.	3			

### PRIORITY GRADINGS

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

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

**3** **ROUTINE** Control issue on which action should be taken.

# Operational - Effectiveness Matter (OEM) Action Plan

Ref	Risk Area	Finding	Suggested Action	Management Comments
No Operational Effectiveness Matters were identified.				

ADVISORY NOTE

Operational Effectiveness Matters need to be considered as part of management review of procedures.

## Findings







### Directed Risk:

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

Ref	Expected Key Risk Mitigation		Effectiveness of arrangements	Cross Reference to MAP	Cross Reference to OEM
GF	Governance Framework	There is a documented process instruction which accords with the relevant regulatory guidance, Financial Instructions and Scheme of Delegation.	In place	1 & 4	-
RM	Risk Mitigation	The documented process aligns with the mitigating arrangements set out in the corporate risk register.	Partially in place	-	-
C	Compliance	The management monitoring arrangements identify and action any non-compliance with the documented process.	Partially in place	2 & 3	-

### Other Findings

-  Humberside Fire and Rescue Service (HFRS) has an up-to-date Health and Safety Policy Statement, which is a legal requirement under the Health and Safety at Work Act etc. 1974.
-  HFRS has in place the necessary corporate safety policies, which clearly explain the arrangements that are required to meet their holistic legislative requirements.
-  HFRS has developed a robust and effective training plan for both staff and management that is appropriately monitored.
-  Competency and budgetary resources are deemed “suitable and sufficient” in order for HFRS to deliver effective advice, support and delivery by its Corporate Health and Safety team.

**Other Findings**

An effective health and safety reporting system was confirmed and being in place and subject to monitoring and review.



HFRS has in place a robust outsourced arrangement for the management of statutory and mandatory equipment maintenance.



The Authority has in place effective corporate planning measures that are in line with the Corporate Planning policy objectives.









### Delivery Risk:

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

Ref	Expected Key Risk Mitigation		Effectiveness of arrangements	Cross Reference to MAP	Cross Reference to OEM
PM	Performance Monitoring	There are agreed KPIs for the process which align with the business plan requirements and are independently monitored and corrective action is taken in a timely manner.	In place	-	-
FC	Financial Constraint	The process operates within the agreed financial budget for the year.	In place	-	-
R	Resilience	Good practice to enhance the economic, effective and efficient delivery is adopted.	In place	-	-

### Other Findings

-  HFRS has in place the necessary tiers of management in order to effectively monitor health and safety performance.
-  The process operates within the agreed financial budget for the year. There are no current financial constraints observed that compromise health and safety performance.
-  HFRS rely substantially on the Health and Safety Guidance Document (HSG 65). This is a tried and tested framework and is deemed best practice.
-  Risk assessments are shared across locations and services and require local management to take ownership and ensure risks are relevant and controls are effective.
-  The two tier risk appraisal system is well designed and caters for the different environments in which staff work.
-  A suitably well trained safety workforce was observed through the training programmes. This is complimented by a knowledgeable and experienced Corporate Health and Safety team who have substantial insight into the organisation's undertaking, meeting its legal duty under the Management of Health and Safety at Work Regulations (Reg. 7).

## EXPLANATORY INFORMATION

## Appendix A

### Scope and Limitations of the Review

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

### Disclaimer

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

### Effectiveness of arrangements

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

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

### Assurance Assessment

4. The definitions of the assurance assessments are:

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

### Acknowledgement

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

### Release of Report

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

Stage	Issued	Response Received
<b>Audit Planning Memorandum:</b>	10 <sup>th</sup> July 2020	10 <sup>th</sup> July 2020
<b>Draft Report:</b>	30 <sup>th</sup> July 2020	
<b>Final Report:</b>		

# AUDIT PLANNING MEMORANDUM

## Appendix B

<b>Client:</b>	Humberside Fire & Rescue		
<b>Review:</b>	Health & Safety		
<b>Type of Review:</b>	Assurance	<b>Audit Lead:</b>	Christian Classen

<b>Outline scope (per Annual Plan):</b>	The review appraises: the adequacy of the arrangements for managing the health and safety requirements of the organisation. The scope of the review does not include: carrying out or providing an opinion on the adequacy of the arrangements that are in place for meeting the legislative requirements.		
<b>Detailed scope will consider:</b>	<p>Directed</p> <p>Governance Framework: There is a documented process instruction which accords with the relevant regulatory guidance, Financial Instructions and Scheme of Delegation.</p> <p>Risk Mitigation: The documented process aligns with the mitigating arrangements set out in the corporate risk register.</p> <p>Compliance: The management monitoring arrangements identify and action any non-compliance with the documented process.</p>	<p>Delivery</p> <p>Performance monitoring: There are agreed KPIs for the process which align with the business plan requirements and are independently monitored and corrective action is taken in a timely manner.</p> <p>Financial constraint: The process operates with the agreed financial budget for the year.</p> <p>Resilience: Good practice to enhance the economic, effective and efficient delivery is adopted</p>	
<b>Requested additions to scope:</b>	(if required then please provide brief detail)		
<b>Exclusions from scope:</b>			

<b>Planned Start Date:</b>	17/07/2020	<b>Exit Meeting Date:</b>	22/07/2020	<b>Exit Meeting to be held with:</b>	<p>Jamie Morris</p> <p>Robert Lashley</p> <p>Pete Allman</p>
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### SELF ASSESSMENT RESPONSE

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







Internal Audit

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## Humberside Fire and Rescue Service

### Audit Strategy and Annual Internal Audit Plan

2021/22

February 2021

## Overview

### Introduction

The Audit Plan for 2021/22 has been informed by consideration of the key issues and risks facing the service following discussion with senior management and our understanding of risk more widely affecting Fire Authorities and Fire and Rescue Services. The resultant plan will ensure that coverage for the year is focussed on the key audit risks, and will enable a robust annual Head of Internal Audit Opinion to be provided.

### Key Emerging Themes

This year will continue to be another challenging year for Fire Authorities and Fire and Rescue Services in terms of funding, balancing budgets, service delivery and dealing with the ongoing impact of the COVID-19 pandemic. We have identified a number of key areas which require consideration when planning internal audit coverage.

**COVID-19:** The impact of the pandemic will carry through into 2021/22, continuing the pressure on fire and rescue service resources and the knock-on effect of carried-forward leave and sickness absences.

**Transition out of the EU:** Whilst the UK and the EU have reached agreement on trade, there will be continued uncertainties around staffing and supply chains. EU, EEA or Swiss citizens will need to apply to continue living in the UK, and those arriving from January may need to apply for a visa. The recognition of professional qualifications also needs to be addressed.

**Cyber-crime:** A continuing theme and fire and rescue services need to take steps to assure themselves over the robustness of their overall arrangements. Cyber-crime has continued to increase in complexity and scale with fraudulent activity seeing a significant increase during the Covid-19 pandemic.

### Providing Assurance during the COVID-19 pandemic

We have successfully transitioned to new and remote ways of working without any diminution of the service and we recognise that many if not all of our clients have had to implement changes in the way that they work. This may have resulted in gaps in control or exposures that previously didn't exist.

We have carried out extensive research to establish the Root Cause Indicators (RCI) which underpin the reasons for any weaknesses identified by our Internal Audit work in an organisation's governance, risk and control framework.

The RCIs include identifying the extent to which COVID-related factors are the cause of the identified exposure.

Further details in relation to RCIs can be found at Appendix A.

### Adequacy of the planned audit coverage

The reviews identified in the audit plan for 2021/22 support the Head of Internal Audit's annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control as required by TIAA's charter. The reviews have been identified from your assurance framework, risk registers and key emerging themes.

## Internal Audit Plan

### Audit Strategy Methodology

We adopt a proprietary risk-based approach to determining your audit needs each year which includes reviewing your risk register and risk management framework, the regulatory framework, external audit recommendations and previous internal audit work for the organisation, together with key corporate documentation such as your business and corporate plan, standing orders, and financial regulations. For 2021/22, we have conducted an analysis of the key risks facing the sector and client base more broadly to inform our annual planning. The Audit Strategy is based predominantly on our understanding of the inherent risks facing Humberside Fire and Rescue Service and those within the sector and has been developed with senior management and Committee. Our approach is based on the International Standards for the Professional Practice of Internal Auditing which have been developed by the Institute of Internal Auditors (IIA) and incorporate the Public Sector Internal Audit Standards (PSIAS).

### Risk Prioritisation

Each year an updated risk assessment is carried out to ensure the Audit Strategy remains fully aligned with the key risks facing Humberside Fire and Rescue Service.

### Internal Audit Strategy and Plan

Following the risk prioritisation review, the Audit Strategy has been produced (Appendix B) and the Annual Plan (Appendix C) sets out the reviews that will be carried out, the planned times and the high-level scopes for each of these reviews.

The Annual Plan will be subject to ongoing review and could change as the risks change for the organisation and will be formally reviewed with senior management and the Governance, Audit and Scrutiny Committee mid-way through the financial year or should a significant issue arise.

The overall agreed time for the delivery of the Annual Plan includes: research; preparation and issue of terms of reference; site work; production and review of working papers; and reporting.

The Annual Plan has been prepared on the assumption that the expected controls will be in place.

The total number of days required to deliver the Audit Plan is as agreed in the contract between TIAA and Humberside Fire and Rescue Service. This number of days is fixed and it is TIAA's responsibility to deliver the Audit Plan for this number of days. Where Humberside Fire and Rescue Service agrees additional work the required number of days and the aggregate day rate will be agreed in advance with the Executive Director of Service Support and S151 Officer and will be clearly set out in the terms of reference for the additional review(s).

### Release of Report

The table below sets out the history of this plan.

<b>Date plan issued:</b>	12 <sup>th</sup> February 2021
<b>Date revised plan issued:</b>	12 <sup>th</sup> February 2021

## Appendix A: Providing Assurance

### Corporate Assurance Risks

We consider two corporate assurance risks – Directed and Delivery. Underneath these corporate risks sit six Root Cause Indicators (RCI). We have carried out extensive research to establish the RCI which underpin the reasons for any weaknesses identified by our Internal Audit work in an organisation's governance, risk and control framework. The benefits of adopting this new approach is that it enables management and Audit Committees to clearly understand and focus on the significant issues arising from our work. For each audit assignment, we will provide a RCI for each of our findings in that area.



**Directed Risk: Failure to properly direct the service to ensure compliance with the requirements of the organisation.**

Root Cause  
Indicator

<b>Governance Framework</b>	There is a documented process instruction which accords with the relevant regulatory guidance, Financial Instructions and Scheme of Delegation.
<b>Risk Mitigation</b>	The documented process aligns with the mitigating arrangements set out in the corporate risk register.
<b>Compliance</b>	Compliance with statutory, regulatory and policy requirements is demonstrated, with action taken in cases of identified non-compliance.



**Delivery Risk: Failure to deliver the service in an effective manner which meets the requirements of the organisation.**

Root Cause  
Indicator

<b>Performance Monitoring</b>	There are agreed KPIs for the process which align with the business plan requirements and are independently monitored, with corrective action taken in a timely manner.
<b>Financial Constraint</b>	The process operates within the agreed financial budget for the year.
<b>Resilience</b>	Good practice to respond to business interruption events and to enhance economic, effective and efficient delivery is adopted.

## Appendix B: Rolling Strategic Plan

Review Area	Type	2021/22	2022/23	2023/24
<b>Governance and Risk Management</b>				
National Operational Guidance Phase 3 and 4	Assurance	✓		
Data Quality – Risk Information	Assurance	✓		
Partnerships	Assurance		✓	
Risk Management Health Check	Appraisal		✓	
Anti-Fraud	Assurance		✓	
Business Planning	Assurance			✓
Performance Management	Assurance			✓
Health & Safety	Assurance			✓
<b>Finance</b>				
Key Financial Controls	Compliance	✓	✓	✓
Procurement	Assurance		✓	
Payment Cards	Assurance			✓
<b>Workforce</b>				
HR – Grievance Arrangements	Assurance	✓		
Productivity – Shift System	Assurance	✓		
Equality, Diversity and Inclusion	Assurance	✓		
Out of Hours Arrangements	Assurance	✓		
HR Management – Training	Assurance		✓	
HR - Recruitment Management	Assurance			✓
<b>Operational Performance &amp; Infrastructure</b>				
Enforcement	Assurance	✓		
Fleet Management – Fuel	Assurance		✓	

Review Area	Type	2021/22	2022/23	2023/24
Estate Management – Delivery	Assurance		✓	
Fleet Management – Procurement	Assurance			✓
Business Safety	Assurance			✓
Contingency	TBC	✓		✓
<b>ICT</b>				
Disaster Recovery	Assurance		✓	
ICT Cyber Security	Assurance			✓
<b>Management and Planning</b>				
Follow Up	-	✓	✓	✓
Strategy and Plan	-	✓	✓	✓
Annual Report	-	✓	✓	✓
Audit Management	-	✓	✓	✓
	<b>Total Days</b>	<b>65</b>	<b>60</b>	<b>60</b>

## Appendix C: Annual Plan – 2021/22

Quarter	Review	Type	Days	Scope
1	National Operational Guidance Phase 3 and 4	Assurance	6	The review follows on from the review of Phase One and Two in 2020/21 and will consider the implementation of Phase 3 and 4 of the Service's action plan.
1	Productivity – Shift System	Assurance	6	The review will consider the ongoing trial of the 24 hour day Self-rostering shift system to determine if the expected project benefits in relation to the public, efficiency and costs and staff morale have been demonstrated.
1	Equality, Diversity and Inclusion	Assurance	4	The review considers the arrangements that HFRS has put into place, which demonstrate that the Service operates fairly and equally in its operations. The review will also consider how policies and processes have been embedded into the everyday working practices of HFRS and consider interaction both internally and externally.
1	Enforcement	Assurance	4	The review considers the arrangements for enforcement plans to provide assurance that the highest risks are appropriately prioritised and that proportionate monitoring and evaluation is being carried out.
2	Out of Hours Arrangements	Assurance	6	The review will seek to provide assurance that there is adequate out of hour's arrangements for urgent protection work.
2	Data Quality – Risk Information	Assurance	6	The review considers the quality assurance of recording processes for RBIP, 72d and protection activities including transition into new recording system
3	Grievance Arrangements	Assurance	4	The review will consider the arrangements for the operation of the grievance procedure at HFRS and will focus on the effectiveness of the process and the appropriateness the evidence held to support grievances. The review will also consider whether the level of trends or patterns in relation to submitted grievances are being considered and actions are being taken to address concerns.

Quarter	Review	Type	Days	Scope
4	Key Financial Controls	Assurance	8	<p>The review will assess the adequacy and effectiveness of the internal controls in place for managing the following key financial systems.</p> <ul style="list-style-type: none"> <li>• Creditor Payments;</li> <li>• Payroll;</li> <li>• Treasury Management;</li> <li>• Debtors;</li> <li>• General Ledger; and Pensions</li> </ul>
3 -4	Contingency (targeted on inspection outcomes)	N/A	10	A review of the Annual Plan will be undertaken in September 2021 to determine the areas that will be covered in two more audits in the second half of the year.
4	Follow-up	Follow up	3	Follow-up of implementation of agreed priorities one and two actions from audit reports, ensuring the organisation is implementing recommendations, and providing reports to the Gas, Audit and Scrutiny Committee.
1	Annual Planning	Management	2	Assessing the organisation's annual audit needs.
4	Annual Report	Planning/Reporting	1	Reporting on the overall conclusions and opinion based on the year's audits and other information and providing input to the Annual Governance Statement.
1-4	Audit Management	Planning/Reporting	5	This time includes: meeting client management, overseeing the audit plan, reporting and supporting the Governance, Audit and Scrutiny Committee, liaising with External Audit and Client briefings (including fraud alerts, fraud digests and committee briefings).
Total days			65	



## Appendix D: Internal Audit Charter

### The Need for a Charter

The Audit Charter formally defines internal audit's purpose, authority and responsibility. It establishes internal audit's position within Humberside Fire and Rescue Service and defines the scope of internal audit activities. The establishment of the Audit Charter is a requirement of the Public Sector Internal Audit Standards (PSIAS) and approval of the charter is the responsibility of the Governance, Audit and Scrutiny Committee.

### The Role of Internal Audit

The main objective of the internal audit activity carried out by TIAA is to provide, in an economical, efficient and timely manner, an objective evaluation of, and opinion on, the overall adequacy and effectiveness of the framework of governance, risk management and control. TIAA is responsible for providing assurance to Humberside Fire and Rescue Service's governing body (being the body with overall responsibility for the organisation) on the adequacy and effectiveness of the risk management, control and governance processes.

### Standards and Approach

TIAA's work will be performed with due professional care, in accordance with the requirements of the PSIAS and the IIA standards which are articulated in the International Professional Practices Framework (IPPF).

### Scope

All Humberside Fire and Rescue Service activities fall within the remit of TIAA. TIAA may consider the adequacy of controls necessary to secure propriety, economy, efficiency and effectiveness in all areas. It will seek to confirm that Humberside Fire and Rescue Service management has taken the necessary steps to achieve these objectives and manage the associated risks. It is not within the remit of TIAA to question the appropriateness of policy decisions; however, TIAA is required to examine the arrangements by which such decisions are made, monitored and reviewed.

TIAA may also conduct any special reviews requested by the Authority, Governance, Audit and Scrutiny Committee or the nominated officer (being the post responsible for the day-to-day liaison with TIAA), provided such reviews do not compromise the audit service's objectivity or independence, or the achievement of the approved audit plan.

### Access

TIAA has unrestricted access to all documents, records, assets, personnel and premises of Humberside Fire and Rescue Service and is authorised to obtain such information and explanations as they consider necessary to form their opinion. The collection of data for this purpose will be carried out in a manner prescribed by TIAA's professional standards, Information Security and Information Governance policies.

### Independence

TIAA has no executive role, nor does it have any responsibility for the development, implementation or operation of systems; however, it may provide independent and objective advice on risk management, control, governance processes and related matters, subject to resource constraints. For day-to-day administrative purposes only, TIAA reports to a nominated officer within Humberside Fire and Rescue Service and the reporting arrangements must take account of the nature of audit work undertaken. TIAA has a right of direct access to the Chair of the Authority, the Chair of the Governance, Audit and Scrutiny Committee and the responsible accounting officer (being the post charged with financial responsibility).

To preserve the objectivity and impartiality of TIAA's professional judgement, responsibility for implementing audit recommendations rests with Humberside Fire and Rescue Service management.

## Conflict of Interest

Consultancy activities are only undertaken with distinct regard for potential conflict of interest. In this role we will act in an advisory capacity and the nature and scope of the work will be agreed in advance and strictly adhered to.

We are not aware of any conflicts of interest and should any arise we will manage them in line with TIAA's audit charter and internal policies, the PSIAS/IIA standards and Humberside Fire and Rescue Service's requirements.

## Irregularities, Including Fraud and Corruption

TIAA will without delay report to the appropriate regulator, serious weaknesses, significant fraud, major accounting and other breakdowns subject to the requirements of the Proceeds of Crime Act 2002.

TIAA will be informed when evidence of potential irregularity, including fraud, corruption or any impropriety, is discovered so that TIAA can consider the adequacy of the relevant controls, evaluate the implication of the fraud on the risk management, control and governance processes and consider making recommendations as appropriate. The role of TIAA is not to investigate the irregularity unless commissioned to do so.

## Limitations and Responsibility

Substantive testing will only be carried out where a review assesses the internal controls to be providing 'limited' or 'no' assurance with the prior approval of Humberside Fire and Rescue Service and additional time will be required to carry out such testing. Humberside Fire and Rescue Service is responsible for taking appropriate action to establish whether any loss or impropriety has arisen as a result of the control weaknesses.

Internal controls can only provide reasonable and not absolute assurance against misstatement or loss. The limitations on assurance include the possibility of one or more of the following situations, control activities being circumvented by the collusion of two or more persons, human error, or the overriding of controls by management. Additionally, no assurance can be provided that the internal controls will continue to operate effectively in future periods or that the controls will be adequate to mitigate all significant risks that may arise in future.

The responsibility for a sound system of internal controls rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses that may exist. Neither should internal audit work be relied upon to identify all circumstances of fraud or irregularity, should there be any, although the audit procedures have been designed so that any material irregularity has a reasonable probability of discovery. Even sound systems of internal control may not be proof against collusive fraud.

Reliance will be placed on management to provide internal audit with full access to staff and to accounting records and transactions and to ensure the authenticity of these documents.

The matters raised in the audit reports will be only those that come to the attention of the auditor during the course of the internal audit reviews and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. The audit reports are prepared solely for management's use and are not prepared for any other purpose.

## Liaison with the External Auditor

We will liaise with Humberside Fire and Rescue Service's External Auditor. Any matters in the areas included in the Annual Plan that are identified by the external auditor in their audit management letters will be included in the scope of the appropriate review.

## Reporting

**Assignment Reports:** A separate report will be prepared for each review carried out. Each report will be prepared in accordance with the arrangements contained in the Terms of Reference agreed with TIAA and which accord with the requirements of TIAA's audit charter and PSIAS/IIA standards.

**Progress Reports:** Progress reports will be prepared for each Governance, Audit and Scrutiny Committee meeting. Each report will detail progress achieved to date against the agreed annual plan.

**Follow Up Reports:** We will provide an independent assessment as to the extent that priority 1 and 2 recommendations have been implemented. Priority 3 recommendations are low-level/housekeeping in nature and it is expected that management will monitor and report on implementation as considered appropriate.

**Annual Report:** An Annual Report will be prepared for each year in accordance with the requirements set out in TIAA's audit charter and the Global IIA standards. The Annual Report will include a summary opinion of the effectiveness of Humberside Fire and Rescue Service's governance, risk management and operational control processes based on the work completed during the year.

**Other Briefings:** During the year Client Briefing Notes, Benchmarking and lessons learned digests will be provided. These are designed to keep the organisation abreast of in-year developments which may impact on the governance, risk and control assurance framework.

## Assurance Assessment Gradings

We use four levels of assurance assessments as set out below.

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

## Performance Standards

The following Performance Targets will be used to measure the performance of internal audit in delivering the Annual Plan:

Area	Performance Measure	Target
Achievement of the plan	Completion of planned audits.	100%
	Audits completed in time allocation.	100%
Reports Issued	Draft report issued within 10 working days of exit meeting.	100%
	Final report issued within 10 working days of receipt of responses.	100%
Professional Standards	Compliance with TIAA's audit charter and PSIAS/IIA Standards.	100%

## Data Protection

TIAA has policies, procedures and processes in place to comply with all associated regulation and legislation on information security, which is underpinned by mandatory annual awareness training for all staff. To carry out our role effectively, we need to obtain information that is reliable, relevant and sufficient to support our findings and recommendations. The collection of data, particularly sensitive personal data, is minimised and is not shared with unauthorised persons unless there is a valid and legal requirement to do so. We have clear policies on the retention of data and its appropriate, controlled disposal. TIAA has a fully robust Information Security Management System that meets all the requirements of ISO27001:2013.

## Quality Assurance

TIAA recognises the importance of Internal Audit being controlled at each stage to ensure that we deliver a consistent and efficient Internal Audit service that is fully compliant with professional standards and also the conditions of contract. We operate a comprehensive internal operational quality review process to ensure that all Internal Audit work is carried out in accordance with these standards. These quarterly reviews are part of our quality management system which has ISO 9001:2015 accreditation.

## Gas, Audit and Scrutiny Committee Responsibility

It is the responsibility of the Gas, Audit and Scrutiny Committee to determine that the number of audit days to be provided and the planned audit coverage are sufficient to meet the Committee's requirements and the areas selected for review are appropriate to provide assurance against the key risks within the organisation.

By approving this document, the Gas, Audit and Scrutiny Committee is also approving the Internal Audit Charter.

## Disclaimer

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

Governance, Audit and Scrutiny Committee  
22 February 2021

Report by the Head of Finance

**TREASURY MANAGEMENT AND CAPITAL EXPENDITURE  
PRUDENTIAL INDICATORS, TREASURY MANAGEMENT  
POLICY STATEMENT 2021/22 AND MINIMUM REVENUE  
PROVISION (MRP) 2021/22**

REPORT EXECUTIVE SUMMARY

This report sets out the Prudential Indicators for Treasury Management and Capital and the Treasury Management Policy Statement proposed for adoption for the financial year 2021/22. The Authority's Constitution requires that the Policy Statement is approved by the full Fire Authority and this responsibility cannot be delegated.

This report also outlines the recommended policy to be adopted in respect of creating the Minimum Revenue Provision (MRP) for 2021/22, in line with the statutory requirements set out in The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008.

## RECOMMENDATIONS

1. Members note and make any recommendations to the Fire Authority as required on the attached Treasury Management Strategy Statement for 2021/22 onwards.

## BACKGROUND

2. Treasury Management, as defined by the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice 2017 is:

‘The management of the organisation’s investments and cash-flows, its banking and money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks’.

3. An updated version of the Code was published in December 2017; this strategy statement has been prepared in accordance with the requirements of the new Code.

## TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS

4. The Local Government Act 2003 and supporting regulations require the Authority to ‘have regard to’ the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set, on an annual basis, a range of Prudential and Treasury Indicators for the next three years to ensure that its capital investment plans are affordable, prudent and sustainable. This report details the proposed indicators relating to the Authority’s Treasury Management activities, capital expenditure and external debt for 2021/22 for Members’ consideration and approval.

5. The suggested strategy for 2021/22 in respect of the following aspects of the treasury management function is based upon the S.151 Officer’s views on interest rates, supplemented with leading market forecasts provided by the Authority’s treasury management advisors and support from the treasury management team within Hull City Council. The strategy covers:

- limits in force which will limit the treasury risk and activities of the Authority;
- the Treasury Management and Prudential Indicators;
- the current treasury position;
- prospects for interest rates;
- the borrowing requirement and strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy;
- the MRP strategy;
- policy on use of external service providers

6. The 2003 Act, revised Investment Guidance issued 2010 and the updated CIPFA Code also require that Members give consideration to the Authority’s Annual Investment Strategy, setting out how investments will be managed and the priorities for security and liquidity of those investments as well as the Annual Borrowing Strategy; these have also been incorporated into this report.

7. In addition, it is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Authority to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital decisions. This therefore means,

that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:

- a. increased interest charges from additional borrowing and;
- b. increased running costs from new capital projects

are limited to a level that is affordable within the projected income of the Authority.

#### STRATEGIC PLAN COMPATIBILITY

8. Treasury Management is an integral part of the financial management of the Authority with Prudential Indicators providing a framework for the Authority to monitor key elements of its financial position. Utilising approved Borrowing and Investment Strategies, the Executive Director of Corporate Services/S.151 Officer will seek to minimise borrowing costs and maximise investment income whilst adopting a prudent approach to the Authority's exposure to market risks, especially given the current economic situation.

#### FINANCIAL/RESOURCES/VALUE FOR MONEY IMPLICATIONS

9. The approach outlined within the report is aimed at achieving effective and efficient management of the Authority's financial resources and reflects a prudent approach to the management of financial risk for the Authority.

#### LEGAL IMPLICATIONS

10. The Authority must comply with the requirements of the CIPFA Code of Practice on Treasury Management 2017 and the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2017. This report ensures such compliance.

#### EQUALITY IMPACT ASSESSMENT/HR IMPLICATIONS

11. No direct issues arising from this report.

#### CORPORATE RISK MANAGEMENT IMPLICATIONS

12. The formulation and application of a prudent Treasury Management Policy and MRP provision ensures that the Authority effectively manages financial risks such as exposure to interest rate changes and liquidity risk whilst minimising borrowing costs and maximising investment income. It further ensures that sufficient levels of resource are set aside for the repayment of debt. Effective treasury management is key to making the best use of the Authority's financial resources and thus the successful delivery of its Strategic Plan.

#### HEALTH AND SAFETY IMPLICATIONS

13. No direct issues arising.

#### COMMUNICATIONS ACTIONS ARISING

14. No direct issues arising.

#### DETAILS OF CONSULTATION AND/OR COLLABORATION

15. No direct issues arising.

## BACKGROUND PAPERS AVAILABLE FOR ACCESS

16. 2021/22 Budget and Precept and Medium-Term Financial Plan 2021/22 to 2024/25 – Report to Fire Authority 12 February 2021  
Treasury Management Mid-year Update Report 2020/21 – Report to Fire Authority December 2020  
CIPFA Prudential Code (Revised 2011) and November 2012 and 2017 update  
The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 and 2017.

## RECOMMENDATIONS RESTATED

17. Members note and make any recommendations to the Fire Authority as required on the attached Treasury Management Strategy Statement for 2021/22 onwards.

**M RANSOM**

Officer Contact: Martyn Ransom ☎ 01482 567176  
Head of Finance

Humberside Fire & Rescue Service  
Summergroves Way  
Kingston upon Hull

KWMR/SJ  
9 February 2021





# Treasury Management Strategy Statement Minimum Revenue Provision Policy Statement and Annual Investment Strategy Humberside Fire Authority 2021/22



**HUMBERSIDE**  
Fire & Rescue Service

# INTRODUCTION

## Background

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

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

CIPFA defines treasury management as:

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

## Reporting requirements

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

**Prudential and treasury indicators and treasury strategy** (this report) - The first and most important report covers:

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

**A mid-year treasury management report** – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.

**An annual treasury report** – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

## Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the Authority. This role is undertaken by the Governance, Audit and Scrutiny Committee.

### **Capital Strategy**

In December 2017, CIPFA issued revised Prudential and Treasury Management Codes. From 2019-20, all local authorities are required to prepare an additional report, a Capital Strategy report, which is intended to provide the following:-

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

The aim of this report is to ensure that all members on the Authority fully understand the overall strategy, governance procedures and risk appetite. The Capital Strategy is set out at Appendix 8 of this report.

### **Treasury Management Strategy for 2021/22**

The strategy for 2021/22 covers two main areas:

#### **Capital issues**

- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

#### **Treasury management issues**

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

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

The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny. Training will be arranged as required.

**Treasury management consultants**

The Authority uses Link Asset Services, Treasury solutions as its external treasury management advisors.

The Authority recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

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

## THE CAPITAL PRUDENTIAL INDICATORS 2021/22 – 2024/25

The Authority's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans.

### Capital expenditure – Indicator 1

This prudential indicator is a summary of the Authority's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital expenditure £m	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
<b>Total</b>	<b>3.423</b>	<b>6.647</b>	<b>1.487</b>	<b>2.750</b>	<b>2.593</b>

Other long-term liabilities. The above financing need excludes other long-term liabilities, such as PFI and leasing arrangements, which already include borrowing instruments.

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Financing of capital expenditure £m	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Capital receipts	-	-	-	-	-
Capital grants	-	-	-	-	-
Capital reserves	-	0.500	0.487	0.500	0.500
Revenue	0.785	1.400	1.000	1.000	1.000
<b>Net financing need for the year</b>	<b>2.638</b>	<b>4.747</b>	<b>-</b>	<b>1.250</b>	<b>1.093</b>

### The Authority's borrowing need (the Capital Financing Requirement) – Indicator 2

The second prudential indicator is the Authority's Capital Financing Requirement (CFR). The CFR is simply 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 Authority's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Authority's borrowing requirement, these types of scheme include a borrowing facility by the PFI, PPP lease provider and so the Authority is not required to separately borrow for these schemes. The Authority had £0.966m of such schemes within the CFR as at 31<sup>st</sup> March 2020.

The Authority is asked to approve the CFR projections below:

£m	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
<b>Capital Financing Requirement</b>					
Underlying CFR	18.873	22.843	21.639	21.637	21.351
Other LT Liabilities*	0.951	0.936	0.919	0.900	0.880
<b>Total CFR</b>	<b>19.824</b>	<b>23.779</b>	<b>22.558</b>	<b>22.537</b>	<b>22.231</b>
<b>CFR as a % of BR</b>	<b>44.09%</b>	<b>52.65%</b>	<b>48.72%</b>	<b>47.67%</b>	<b>45.92%</b>
<b>Movement in CFR</b>	<b>1.953</b>	<b>3.955</b>	<b>(1.221)</b>	<b>(0.021)</b>	<b>(0.306)</b>

<b>Movement in CFR represented by</b>					
Net financing need for the year (above)	2.638	4.747	-	1.250	1.093
Less MRP/VRP and other financing movements	(0.685)	(0.792)	(1.221)	(1.271)	(1.399)
<b>Movement in CFR</b>	<b>1.953</b>	<b>3.955</b>	<b>(1.221)</b>	<b>(0.021)</b>	<b>(0.306)</b>

This table shows CFR increasing to 53% of our Budget Requirement (BR) in 2021/22 before falling to 46% in the period 2022/23 to 2024/25.

\*IFRS16 Leases comes into effect from 2022/23. The impact of this is yet to be established and will be reviewed throughout the year.

### Core funds and expected investment balances – Indicator 3

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

Year End Resources £m	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Fund balances / reserves	12.636	12.000	10.423	9.816	9.186
Capital receipts	0.030	0.030	0.030	0.030	0.030
<b>Total core funds</b>	<b>12.666</b>	<b>12.030</b>	<b>10.453</b>	<b>9.846</b>	<b>9.216</b>
Working capital*	(2.500)	(2.500)	(2.500)	(2.500)	(2.500)
(Under)/over borrowing	(1.976)	(5.775)	(4.470)	(4.967)	(4.523)
<b>Expected investments</b>	<b>8.190</b>	<b>3.755</b>	<b>3.483</b>	<b>2.379</b>	<b>2.193</b>

\*Working capital balances shown are estimated year-end; these may be higher mid-year

## TREASURY MANAGEMENT PRUDENTIAL INDICATORS 2021/22 – 2024/25

The capital expenditure plans set out in this section provide details of the service activity of the Authority. The treasury management function ensures that the Authority's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Authority's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

### Current portfolio position

The Authority's estimated treasury portfolio position at 31 March 2021, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£m	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
<b>External Debt</b>					
Debt at 1 April	13.530	16.896	17.069	17.169	16.669
Expected change in Debt	3.366	0.173	0.100	(0.500)	0.159
Other long-term liabilities (OLTL)	0.966	0.951	0.936	0.919	0.900
Expected change in OLTL	(0.014)	(0.016)	(0.017)	(0.018)	(0.020)
Actual gross debt at 31 March	<b>17.848</b>	<b>18.004</b>	<b>18.008</b>	<b>17.570</b>	<b>17.708</b>
The Capital Financing Requirement	<b>19.824</b>	<b>23.779</b>	<b>22.558</b>	<b>22.537</b>	<b>22.231</b>
Under / (over) borrowing	<b>1.976</b>	<b>5.775</b>	<b>4.470</b>	<b>4.967</b>	<b>4.523</b>

Within the prudential indicators there are a number of key indicators to ensure that the Authority operates its activities within well-defined limits. One of these is that the Authority needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2021/22 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Executive Director of Corporate Services & S.151 Officer reports that the Authority complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

## Treasury Indicators: limits to borrowing activity

### The operational boundary – Indicator 4

This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational boundary £m	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Debt	21.600	21.600	21.600	21.600
Other long term liabilities	3.500	3.500	3.500	3.500
Total	25.100	25.100	25.100	25.100

### The authorised limit for external debt – Indicator 5

A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Authority. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all authorities' plans, or those of a specific authority, although this power has not yet been exercised.
2. The Authority is asked to approve the following authorised limit:

Authorised limit £m	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Debt	27.600	27.600	27.600	27.600
Other long term liabilities	3.500	3.500	3.500	3.500
Total	31.100	31.100	31.100	31.100

### Prospects for interest rates

The Authority has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. The following table gives our central view.

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

Additional notes by Link on this forecast table: -

- Please note that we have made a slight change to our interest rate forecasts table above for forecasts for 3, 6 and 12 months. Traditionally, we have used LIBID forecasts, with the rate calculated using market convention of 1/8th (0.125%) taken off



the LIBOR figure. Given that all LIBOR rates up to 6m are currently running below 10bps, using that convention would give negative figures as forecasts for those periods. However, the liquidity premium that is still in evidence at the short end of the curve means that the rates actually being achieved by local authority investors are still modestly in positive territory. While there are differences between counterparty offer rates, our analysis would suggest that an average rate of around 10 bps is achievable for 3 months, 10bps for 6 months and 20 bps for 12 months.

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

The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its subsequent meetings to 16<sup>th</sup> December, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected in the near-term as economic recovery is expected to be only gradual and, therefore, prolonged. These forecasts were based on an assumption that a Brexit trade deal would be agreed by 31.12.20: as this has now occurred, these forecasts do not need to be revised.

### Gilt yields / PWLB rates

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

Gilt yields had therefore already been on a generally falling trend up until the coronavirus crisis hit western economies during March 2020. After gilt yields spiked up during the financial crisis in March, we have seen these yields fall sharply to unprecedented lows as investors panicked during March in selling shares in anticipation of impending recessions in western economies, and moved cash into safe haven assets i.e. government bonds. However, major western central banks took rapid action to deal with excessive stress in financial markets during March, and started massive quantitative easing purchases of government bonds: this also acted to put downward pressure on government bond yields at a time when there has been a huge and quick expansion of government expenditure financed by issuing government bonds. Such unprecedented levels of issuance in “normal” times would have caused bond yields to rise sharply. Gilt yields and PWLB rates have been at remarkably low rates so far during 2020/21.

As the interest forecast table for PWLB certainty rates above shows, there is expected to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment, (as shown on 9<sup>th</sup> November when the first results of a successful COVID-19 vaccine trial were announced). Such volatility could occur at any time during the forecast period.

### Investment and borrowing rates

- **Investment returns** are likely to remain exceptionally low during 2021/22 with little increase in the following two years.
- **Borrowing interest rates** fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England: indeed, gilt yields up to 6 years were negative during most of the first half of 20/21. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. The unexpected increase of 100 bps in PWLB rates on top of the then current margin over gilt yields of 80 bps in October 2019, required an initial major rethink of local authority treasury management strategy and risk management. However, in March 2020, the Government started a consultation process for reviewing the margins over gilt rates for

PWLB borrowing for different types of local authority capital expenditure. *(Please note that Link has concerns over this approach, as the fundamental principle of local authority borrowing is that borrowing is a treasury management activity and individual sums that are borrowed are not linked to specific capital projects.)* It also introduced the following rates for borrowing for different types of capital expenditure: -

- **PWLB Standard Rate** is gilt plus 200 basis points (G+200bps)
- **PWLB Certainty Rate** is gilt plus 180 basis points (G+180bps)
- As a consequence of these increases in margins, many local authorities decided to refrain from PWLB borrowing unless it was for HRA or local infrastructure financing, until such time as the review of margins was concluded.
- On 25.11.20, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme. The new margins over gilt yields are as follows: -
  - **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
  - **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **Borrowing for capital expenditure.** As Link's long-term forecast for Bank Rate is 2.00%, and all PWLB rates are under 2.00%, there is now value in borrowing from the PWLB for all types of capital expenditure for all maturity periods, especially as current rates are at historic lows. Longer-term borrowing could also be undertaken for the purpose of certainty, where that is desirable, or for flattening the profile of a heavily unbalanced maturity profile.
- While this Authority will not be able to avoid borrowing to finance new capital expenditure, to replace maturing debt and the rundown of reserves, there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

### Borrowing strategy

The Authority is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2021/22 treasury operations. The Executive Director of Corporate Services & S.151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.*
- *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase*

*in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.*

Any decisions will be reported to the Authority at the next available opportunity.

### **Policy on borrowing in advance of need**

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

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

### **Debt rescheduling**

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as the 100 bps increase in PWLB rates only applied to new borrowing rates and not to premature debt repayment rates.

All rescheduling will be reported to the Authority, at the earliest meeting following its action.

### **New financial institutions as a source of borrowing and / or types of borrowing**

Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both HRA and non-HRA borrowing. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).
- Municipal Bonds Agency (possibly still a viable alternative depending on market circumstances prevailing at the time).

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

## Approved Sources of Long and Short Term Borrowing

On Balance Sheet	Fixed	Variable
PWLB	●	●
Municipal bond agency	●	●
Local authorities	●	●
Banks	●	●
Pension funds	●	●
Insurance companies	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	
Local authority bills	●	●
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Finance leases	●	●

# ANNUAL INVESTMENT STRATEGY

## Investment policy – management of risk

The MHCLG and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

The Authority’s investment policy has regard to the following: -

- MHCLG’s Guidance on Local Government Investments (“the Guidance”)
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 (“the Code”)
- CIPFA Treasury Management Guidance Notes 2018

The Authority’s investment priorities will be security first, portfolio liquidity second and then yield, (return).

The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.
2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Authority will engage with its advisors to maintain a monitor on market pricing such as “**credit default swaps**” and overlay that information on top of the credit ratings.
3. **Other information sources** used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
4. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix 4 under the categories of ‘specified’ and ‘non-specified’ investments.
  - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
  - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.
5. **Non-specified investments limit.** The Authority has determined that it will limit the maximum total exposure to non-specified investments as being 10% of the total investment portfolio.
6. **Lending limits,** (amounts and maturity), for each counterparty will be set through applying the matrix table in the creditworthiness policy.

7. **Transaction limits** are set for each type of investment in the creditworthiness policy.
8. This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**.
9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**.
10. This authority has engaged **external consultants**, to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.
11. All investments will be denominated in **sterling**.

### **Creditworthiness policy**

The primary principle governing the Authority's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Authority will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Authority's prudential indicators covering the maximum principal sums invested.

The Executive Director of Corporate Services & S.151 Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Authority for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Authority may use, rather than defining what types of investment instruments are to be used.

Credit rating information is supplied by Link Asset Services, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer-term bias outside the central rating view) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating Watch applying to counterparty at the minimum Authority criteria will be suspended from use, with all others being reviewed in light of market conditions.

The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is:

- Banks 1 - good credit quality – the Authority will only use banks which:
  - i. are UK banks; and/or
  - ii. are non-UK and domiciled in a country which has a minimum sovereign Long Term rating of AA-

and have, as a minimum, the following Fitch, Moody's and Standard & Poor's credit ratings (where rated):

- i. Short Term – F1;
- Banks 2 – Part nationalised UK bank – Royal Bank of Scotland. This bank can be included provided it continues to be part nationalised or it meets the ratings in Banks 1 above;
- Building societies - The Authority will use all societies which:
  - i. Meet the ratings for banks outlined above;
- Money Market Funds – £1m limit (each). Subject to £3m maximum;
- Local authorities, Police and Fire and Crime Commissioners - £2m limit (each);
- Debt Management Office (DMO) - £no limit.

**Use of additional information other than credit ratings.** Additional requirements under the Code require the Authority to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating Watches/Outlooks) will be applied to compare the relative security of differing investment counterparties.

**Time and monetary limits applying to investments.** The time and monetary limits for institutions on the Authority's counterparty list are as follows (these will cover both specified and non-specified investments):

	Fitch Long-term Rating (or equivalent)	Money Limit	Transaction Limit	Time Limit
Individual Banks 1&2 higher quality	F1+	£3m	£3m	364 days
Individual Banks 1&2 medium Quality	F1	£2m	£2m	364 days
Individual UK Building societies	F1+	£3m	£3m	364 days
Individual UK Building societies	F1	£2m	£2m	364 days
Local authorities/Police, Fire and Crime Commissioners		£2m	£2m	364 days
Money Market Funds	AAA	£1m (each)	£1m (each)	liquid

The proposed criteria for specified and non-specified investments are shown in the appendices for approval.

### Country and sector limits

Due care will be taken to consider the country, group and sector exposure of the Authority's investments.

The Authority has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch. The list of countries that qualify using this credit



criteria as at the date of this report are shown in the appendices. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

In addition:

- limits in place above will apply to a group of companies;
- sector limits will be monitored regularly for appropriateness.

### Investment strategy

**In-house funds.** Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

### Investment returns expectations.

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

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows (the long term forecast is for periods over 10 years in the future):

Average earnings in each year	
2020/21	0.10%
2021/22	0.10%
2022/23	0.10%
2023/24	0.10%
2024/25	0.25%
Long term later years	2.00%

- The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is subject to major uncertainty due to the virus and how quickly successful vaccines may become available and widely administered to the population. It may also be affected by what, if any, deal the UK agrees as part of Brexit.
- There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, or a return of investor confidence in equities, could impact gilt yields, (and so PWLB rates), in the UK.

### Negative investment rates

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

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

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

### **Investment risk benchmarking**

This Authority will use an investment benchmark to assess the investment performance of its investment portfolio of 3 month LIBID uncompounded.

### **End of year investment report**

At the end of the financial year, the Authority will report on its investment activity as part of its Annual Treasury Report.

### **Day to day Treasury Management**

Kingston Upon Hull City Council manage the Authority's treasury management functions under the terms of a service level agreement in accordance with the approved Annual Treasury Management Strategy.

## APPENDICES

1. Prudential and treasury indicators and MRP statement
2. Interest rate forecasts
3. Economic background
4. Treasury management practice 1 – credit and counterparty risk management
5. Approved countries for investments
6. Treasury management scheme of delegation
7. The treasury management role of the section 151 officer
8. Capital Strategy

## THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2021/22 – 2024/25 AND MRP STATEMENT

The Authority's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans.

### Capital expenditure

Capital expenditure £m	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
<b>Total</b>	<b>3.423</b>	<b>6.647</b>	<b>1.487</b>	<b>2.750</b>	<b>2.593</b>

### Minimum revenue provision (MRP) policy statement

The Authority is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

CLG regulations have been issued which require the Authority to approve **an MRP Statement** in advance of each year. A variety of options are provided to authorities, so long as there is a prudent provision. The Authority is recommended to approve the following MRP Statement:

For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- **Existing practice** - MRP will follow the existing practice outlined in former CLG regulations (option 1);
- **Based on CFR** – MRP will be based on the CFR (option 2).

These options provide for an approximate 4% reduction in the borrowing need (CFR) each year.

From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be:

- **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3a);
- **Depreciation method** – MRP will follow standard depreciation accounting procedures (option 4).

These options provide for a reduction in the borrowing need over approximately the asset's life.

As a result of guidance that was recently issued a review was undertaken during 2020/21 to move to the annuity method (option 3b).

The annuity method is now widely used as it makes provision for an annual charge to revenue that takes account of the time value of money (whereby £100 in 10 years time is less of a burden than paying £100 now). The charges produced by the annuity method result in a consistent charge over the life of the asset taking into account the real value of the annual charges when they fall due. The method also reflects the fact that assets deteriorate and deterioration is slower in the early years and accelerates towards the latter end of the life of the assets. This approach conforms to the

MHCLG requirement to make a prudent provision over a period which is broadly commensurate with the period that the capital expenditure provides benefit. The annuity calculation method results in lower MRP payments in the early years but higher payment in later years but has the advantage of linking MRP to the flow of benefits from an asset where these are expected to be in later years.

The proposal if adopted will be subject to external audit as part of the annual accounts process.

Repayments included in annual PFI or finance leases are applied as MRP.

The Authority has historically made Voluntary Revenue Provisions (VRP) of £772k.

### **Affordability prudential indicators**

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Authority's overall finances. The Authority is asked to approve the following indicators:

#### **Ratio of financing costs to net revenue stream – Indicator 6**

This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the net revenue stream.

%	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Ratios	4.62%	6.23%	6.14%	6.05%	6.17%

The estimates of financing costs include current commitments and the proposals in this budget report.

#### **Maturity structure of borrowing**

Maturity structure of borrowing. These gross limits are set to reduce the Authority's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Authority is asked to approve the following treasury indicators and limits:

<b>Maturity structure of fixed interest rate borrowing 2021/22 – Indicator 7</b>		
	<b>Lower</b>	<b>Upper</b>
Under 12 months	0	15%
12 months to 2 years	0	15%
2 years to 5 years	0	30%
5 years to 10 years	0	60%
10 years and above	0	80%

## Interest rate forecasts

Market Rates											
Equities					Currencies			Commodities		Risk Indicators	
	FTSE 100	DOW	NIKKEI	STX 600	£/\$	€/£	€/€	Brent	Gold	VIX	MOVE
Level	6,489.33	31,148.24	29,388.50	409.54	1.3728	1.1405	1.2037	59.82	1,815.70	20.8700	47.2000
Change	-0.22%	0.30%	2.12%	0.00%	0.46%	-0.24%	0.69%	0.85%	1.12%	-4.13%	-0.11%
Interest Rates										Average LIBID / LIBOR Rates	
O/n	1W	1M	3M	6M	9M	12M	24M	36M	48M	60M	SONIA
0.05	0.05	0.05	0.05	0.05	0.1	0.15	0.2	0.3	0.4	0.5	0.0484
PWLB (Includes Certainty Rate)										Forward Rates	
1y	5y	10y	25y	50y	3M/3M FWD	3M/6M FWD	3M/9M FWD	6M/12M FWD			
0.77	0.96	1.35	1.92	1.76	0.00	-0.02	-0.03	0.22			
Interest Rate Forecasts											
Bank Rate	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22			
Link	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%			
Cap Econ	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%			
5Y PWLB RATE											
Link	0.80%	0.80%	0.80%	0.80%	0.90%	0.90%	0.90%	0.90%			
Cap Econ	0.85%	0.90%	0.90%	0.95%	0.95%	0.95%	0.95%	0.95%			
10Y PWLB RATE											
Link	1.10%	1.10%	1.10%	1.10%	1.20%	1.20%	1.20%	1.20%			
Cap Econ	1.25%	1.25%	1.30%	1.30%	1.30%	1.30%	1.30%	1.30%			
25Y PWLB RATE											
Link	1.50%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%			
Cap Econ	1.80%	1.80%	1.80%	1.80%	1.80%	1.80%	1.80%	1.80%			
50Y PWLB RATE											
Link	1.30%	1.40%	1.40%	1.40%	1.40%	1.50%	1.50%	1.50%			
Cap Econ	1.65%	1.70%	1.70%	1.70%	1.70%	1.70%	1.70%	1.70%			

### Appendix 3

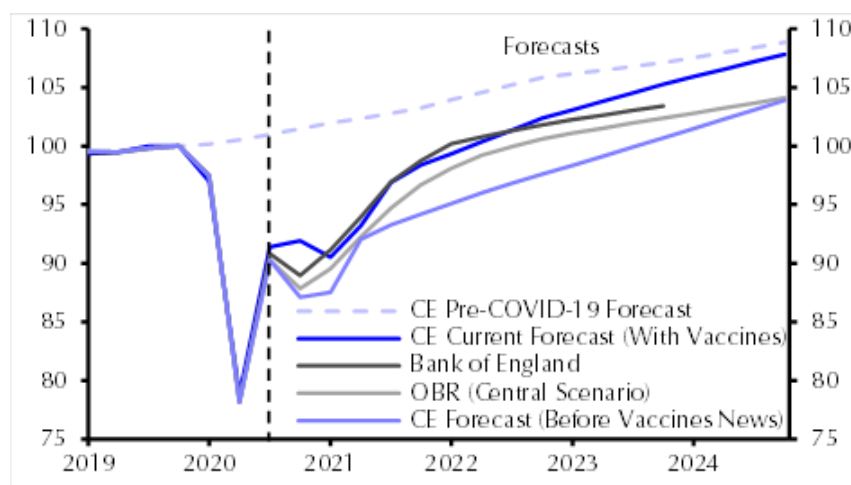
#### ECONOMIC BACKGROUND

- **UK.** The key quarterly meeting of the Bank of England Monetary Policy Committee kept **Bank Rate** unchanged on 5.11.20. However, it revised its economic forecasts to take account of a second national lockdown from 5.11.20 to 2.12.20 which is obviously going to put back economic recovery and do further damage to the economy. It therefore decided to do a further tranche of **quantitative easing (QE) of £150bn**, to start in January when the current programme of £300bn of QE, announced in March to June, runs out. It did this so that “announcing further asset purchases now should support the economy and help to ensure the unavoidable near-term slowdown in activity was not amplified by a tightening in monetary conditions that could slow the return of inflation to the target”.
- Its forecasts appeared, at that time, to be rather optimistic in terms of three areas:
  - The economy would recover to reach its pre-pandemic level in Q1 2022
  - The Bank also expected there to be excess demand in the economy by Q4 2022.
  - CPI inflation was therefore projected to be a bit above its 2% target by the start of 2023 and the “inflation risks were judged to be balanced”.
- Significantly, there was no mention of **negative interest rates** in the minutes or Monetary Policy Report, suggesting that the MPC remains some way from being persuaded of the case for such a policy, at least for the next 6 -12 months. However, rather than saying that it “stands ready to adjust monetary policy”, the MPC this time said that it will take “whatever additional action was necessary to achieve its remit”. The latter seems stronger and wider and may indicate the Bank’s willingness to embrace new tools.
- One key addition to **the Bank’s forward guidance in August** was a new phrase in the policy statement, namely that “it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably”. That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years’ time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. Our Bank Rate forecast currently shows no increase, (or decrease), through to quarter 1 2024 but there could well be no increase during the next five years as it will take some years to eliminate spare capacity in the economy, and therefore for inflationary pressures to rise to cause the MPC concern. **Inflation** is expected to briefly peak at just over 2% towards the end of 2021, but this is a temporary short lived factor due to base effects from twelve months ago falling out of the calculation, and so is not a concern. Looking further ahead, it is also unlikely to be a problem for some years as it will take a prolonged time for spare capacity in the economy, created by this downturn, to be used up.
- **Public borrowing** was forecast in November by the Office for Budget Responsibility (the OBR) to reach £394bn in the current financial year, the highest ever peace time deficit and equivalent to 19% of GDP. In normal times, such an increase in total gilt issuance would lead to a rise in gilt yields, and so PWLB rates. However, the QE done by the Bank of England has depressed gilt yields to historic low levels, (as has similarly occurred with QE and debt issued in the US, the EU and Japan). This means that new UK debt being issued, and this is being done across the whole yield curve in all maturities, is locking in those historic low levels through until maturity. In addition, the UK has one of the longest average maturities for its entire debt portfolio, of any country in the world. Overall, this means that the total interest bill paid by the Government is manageable despite the huge increase in the total amount of debt. The OBR was also forecasting that the government will still be running a budget deficit of £102bn (3.9% of GDP) by 2025/26. However, initial

impressions are that they have taken a pessimistic view of the impact that vaccines could make in the speed of economic recovery.

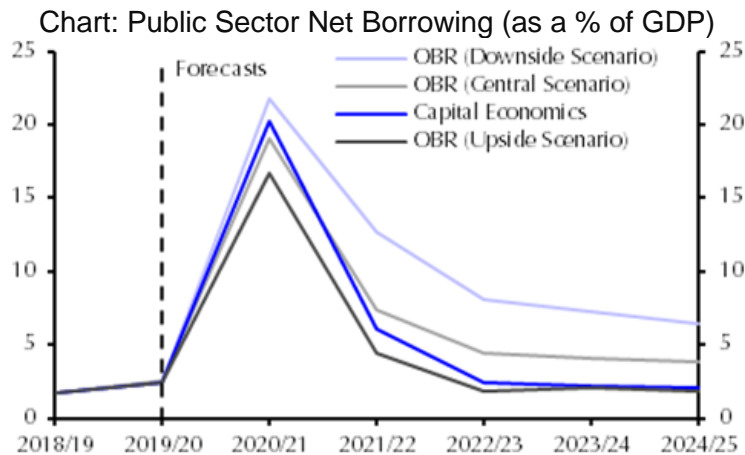
- Overall, **the pace of recovery** was not expected to be in the form of a rapid V shape, but a more elongated and prolonged one. The initial recovery was sharp after quarter 1 saw growth at -3.0% followed by -18.8% in quarter 2 and then an upswing of +16.0% in quarter 3; this still left the economy 8.6% smaller than in Q4 2019. While the one month second national lockdown that started on 5<sup>th</sup> November caused a further contraction of 5.7% m/m in November, this was much better than had been feared and showed that the economy is adapting to new ways of working. This left the economy 'only' 8.6% below the pre-crisis level.
- Vaccines – the game changer.** The Pfizer announcement on 9<sup>th</sup> November of a successful vaccine has been followed by approval of the Oxford University/AstraZeneca and Moderna vaccines. The Government has set a target to vaccinate 14 million people in the most at risk sectors of the population by 15<sup>th</sup> February; as of mid-January, it has made good, and accelerating progress in hitting that target. The aim is to vaccinate all adults by September. This means that the national lockdown starting in early January, could be replaced by regional tiers of lighter restrictions, beginning possibly in Q2. At that point, there would be less reason to fear that hospitals could become overwhelmed any more. Effective vaccines have radically improved the economic outlook so that it may now be possible for GDP to recover to its pre-virus level as early as Q1 2022. These vaccines have enormously boosted confidence that **life could largely return to normal during the second half of 2021**. With the household saving rate having been exceptionally high since the first lockdown in March, there is plenty of pent-up demand and purchasing power stored up for when life returns to normal.
- Provided that both monetary and fiscal policy are kept loose for a few years yet, then it is still possible that in the second half of this decade, the economy may be no smaller than it would have been if COVID-19 never happened. The significant risk is if another mutation of COVID-19 appears that defeats the current batch of vaccines. However, now that science and technology have caught up with understanding this virus, new vaccines ought to be able to be developed more quickly to counter such a development, and vaccine production facilities are being ramped up around the world.

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





This recovery of growth which eliminates the effects of the pandemic by about the middle of the decade, would have major repercussions for public finances as it would be consistent with the government deficit falling to around 2.5% of GDP without any tax increases. This would be in line with the OBR's most optimistic forecast in the graph below, rather than their current central scenario which predicts a 4% deficit due to assuming much slower growth. However, Capital Economics forecasts assumed that politicians do not raise taxes or embark on major austerity measures and so, (perversely!), depress economic growth and recovery.



- There will still be some **painful longer term adjustments** as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever, even if vaccines are fully successful in overcoming the current virus. There is also likely to be a **reversal of globalisation** as this crisis has exposed how vulnerable long-distance supply chains are. On the other hand, **digital services** are one area that has already seen huge growth.
- **Brexit.** The final agreement of a trade deal on 24.12.20 has eliminated a significant downside risk for the UK economy. The initial agreement only covers trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis. As the forecasts in this report were based on an assumption of a Brexit agreement being reached, there is no need to amend these forecasts.
- **Monetary Policy Committee meeting of 17 December.** All nine Committee members voted to keep interest rates on hold at +0.10% and the Quantitative Easing (QE) target at £895bn. The MPC commented that the successful rollout of vaccines had reduced the downsides risks to the economy that it had highlighted in November. But this was caveated by it saying, "Although all members agreed that this would reduce downside risks, they placed different weights on the degree to which this was also expected to lead to stronger GDP growth in the central case." So, while vaccines are a positive development, in the eyes of the MPC at least, the economy is far from out of the woods in the shorter term. The MPC, therefore, voted to extend the availability of the Term Funding Scheme, (cheap borrowing), with additional incentives for small and medium size enterprises for six months from 30.4.21 until 31.10.21. (The MPC had assumed that a Brexit deal would be agreed.)
- **Fiscal policy.** In the same week as the MPC meeting, the Chancellor made a series of announcements to provide further support to the economy: -

- An extension of the COVID-19 loan schemes from the end of January 2021 to the end of March.
- The furlough scheme was lengthened from the end of March to the end of April.
- The Budget on 3.3.21 will lay out the “next phase of the plan to tackle the virus and protect jobs”. This does not sound like tax rises are imminent, (which could hold back the speed of economic recovery).
- The **Financial Policy Committee** (FPC) report on 6.8.20 revised down their expected credit losses for the banking sector to “somewhat less than £80bn”. It stated that in its assessment, “banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC’s central projection”. The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC’s projection, with unemployment rising to above 15%.
- **US.** The Democrats gained the presidency and a majority in the House of Representatives in the November elections: after winning two key Senate seats in Georgia in elections in early January, they now also have a very slim majority in the Senate due to the vice president’s casting vote. President Biden will consequently have a much easier path to implement his election manifesto. However, he will not have a completely free hand as more radical Democrat plans may not be supported by all Democrat senators. His initial radical plan for a fiscal stimulus of \$1.9trn, (9% of GDP), is therefore likely to be toned down in order to get through both houses.
- **The economy** had been recovering quite strongly from its contraction in 2020 of 10.2% due to the pandemic with GDP only 3.5% below its pre-pandemic level and the unemployment rate dropping below 7%. However, the rise in new cases during quarter 4, to the highest level since mid-August, suggests that the US could be in the early stages of a fourth wave. The latest upturn poses a threat that the recovery in the economy could stall. This is **the single biggest downside risk** to the shorter term outlook – a more widespread and severe wave of infections over the winter months, which is compounded by the impact of the regular flu season and, as a consequence, threatens to overwhelm health care facilities. Under those circumstances, individual states might feel it necessary to return to more draconian lockdowns.
- The restrictions imposed to control the spread of the virus are once again weighing on the economy with employment growth slowing sharply in November and declining in December, and retail sales dropping back. The economy is set for further weakness into the spring. **GDP growth** is expected to rebound markedly from the second quarter of 2021 onwards as vaccines are rolled out on a widespread basis and restrictions are loosened.
- After Chair Jerome Powell unveiled the **Fed's adoption of a flexible average inflation target** in his Jackson Hole speech in late August 2020, the mid-September meeting of the Fed agreed by a majority to a toned down version of the new inflation target in his speech - that *"it would likely be appropriate to maintain the current target range until labour market conditions were judged to be consistent with the Committee's assessments of maximum employment and inflation had risen to 2% and was on track to moderately exceed 2% for some time."* This change was aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary “trap” like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade, (and this year), so financial markets took note that higher levels of inflation are likely to be in the pipeline; long-term bond yields duly rose after the meeting. The FOMC’s updated economic and rate projections in mid-September showed that officials expect to leave the fed funds rate at near-zero until at least end-2023 and probably for another year or two beyond that. There is now some

expectation that where the Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal.

- The Fed's meeting on **5 November** was unremarkable - but at a politically sensitive time around the elections. At its **16 December** meeting the Fed tweaked the guidance for its monthly asset quantitative easing purchases with the new language implying those purchases could continue for longer than previously believed. Nevertheless, with officials still projecting that **inflation** will only get back to 2.0% in 2023, the vast majority expect the Fed funds rate to be still at near-zero until 2024 or later. Furthermore, officials think the balance of risks surrounding that median inflation forecast are firmly skewed to the downside. The key message is still that policy will remain unusually accommodative – with near-zero rates and asset purchases – continuing for several more years. This is likely to result in keeping Treasury yields low – which will also have an influence on gilt yields in this country.
- **EU.** In early December, the figures for Q3 GDP confirmed that the economy staged a rapid rebound from the first lockdowns. This provides grounds for optimism about growth prospects for next year. In Q2, GDP was 15% below its pre-pandemic level. But in Q3 the economy grew by 12.5% q/q leaving GDP down by “only” 4.4%. That was much better than had been expected earlier in the year. However, growth is likely to stagnate during Q4 and in Q1 of 2021, as a second wave of the virus has seriously affected many countries. The €750bn fiscal support package eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support, and quickly enough, to make an appreciable difference in the countries most affected by the first wave.
- With **inflation** expected to be unlikely to get much above 1% over the next two years, **the ECB** has been struggling to get inflation up to its 2% target. It is currently unlikely that it will cut its central rate even further into negative territory from -0.5%, although the ECB has stated that it retains this as a possible tool to use. The ECB's December meeting added a further €500bn to the PEPP scheme, (purchase of government and other bonds), and extended the duration of the programme to March 2022 and re-investing maturities for an additional year until December 2023. Three additional tranches of TLTRO, (cheap loans to banks), were approved, indicating that support will last beyond the impact of the pandemic, implying indirect yield curve control for government bonds for some time ahead. The Bank's forecast for a return to pre-virus activity levels was pushed back to the end of 2021, but stronger growth is projected in 2022. The total PEPP scheme of €1,850bn of QE which started in March 2020 is providing protection to the sovereign bond yields of weaker countries like Italy. There is therefore unlikely to be a euro crisis while the ECB is able to maintain this level of support. However, as in the UK and the US, the advent of highly effective vaccines will be a game changer, although growth will struggle before later in quarter 2 of 2021.
- **China.** After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and then into Q3 and Q4; this has enabled China to recover all of the contraction in Q1. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth. At the same time, China's economy has benefited from the shift towards online spending by consumers in developed markets. These factors help to explain its comparative outperformance compared to western economies. However, this was achieved by major central government funding of yet more infrastructure spending. After years of growth having been focused on this same area, any further spending in this

area is likely to lead to increasingly weaker economic returns in the longer term. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.

- **Japan.** A third round of fiscal stimulus in early December took total fresh fiscal spending this year in response to the virus close to 12% of pre-virus GDP. That's huge by past standards, and one of the largest national fiscal responses. The budget deficit is now likely to reach 16% of GDP this year. Coupled with Japan's relative success in containing the virus without draconian measures so far, and the likelihood of effective vaccines being available in the coming months, the government's latest fiscal effort should help ensure a strong recovery and to get back to pre-virus levels by Q3 2021 – around the same time as the US and much sooner than the Eurozone.
- **World growth.** World growth will have been in recession in 2020 and this is likely to continue into the first half of 2021 before recovery in the second half. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.
- Until recent years, world growth has been boosted by increasing **globalisation** i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high tech areas and production of rare earth minerals used in high tech products. It is achieving this by massive financial support, (i.e. subsidies), to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a **reversal of world globalisation and a decoupling of western countries** from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation.

## Summary

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

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

## INTEREST RATE FORECASTS

**Brexit.** The interest rate forecasts provided by Link in paragraph 3.3 were predicated on an assumption of a reasonable agreement being reached on trade negotiations between the UK and the EU by 31.12.20. There is therefore no need to revise these forecasts now that a trade deal has been agreed. Brexit may reduce the economy's potential growth rate in the long run. However, much of that drag is now likely to be offset by an acceleration of productivity growth triggered by the digital revolution brought about by the COVID crisis.

### The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is still subject to some uncertainty due to the virus and the effect of any mutations, and how quick vaccines are in enabling a relaxation of restrictions.
- There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, could impact gilt yields, (and so PWLB rates), in the UK.

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

- **UK government** takes too much action too quickly to raise taxation or introduce austerity measures that depress demand and the pace of recovery of the economy.
- **UK - Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis**. The ECB has taken monetary policy action to support the bonds of EU states, with the positive impact most likely for "weaker" countries. In addition, the EU agreed a €750bn fiscal support package. These actions will help shield weaker economic regions for the next two or three years. However, in the case of Italy, the cost of the virus crisis has added to its already huge debt mountain and its slow economic growth will leave it vulnerable to markets returning to taking the view that its level of debt is unsupportable. There remains a sharp divide between northern EU countries favouring low debt to GDP and annual balanced budgets and southern countries who want to see jointly issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU in time to come.
- Weak capitalisation of some **European banks**, which could be undermined further depending on extent of credit losses resultant of the pandemic.
- **German minority government & general election in 2021**. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. Angela Merkel has stepped down from being the CDU party leader but she will remain as Chancellor until the general election in 2021. This then leaves a major question mark over who will be the major guiding hand and driver of EU unity when she steps down.
- **Other minority EU governments**. Italy, Spain, Austria, Sweden, Portugal, Netherlands, Ireland and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- **Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU, and they had threatened to derail the 7 year EU budget until a compromise was thrashed out in late 2020. There has also been a rise in anti-immigration sentiment in Germany and France.
- **Geopolitical risks**, for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows.

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

- **UK** - a significant rise in inflationary pressures e.g. caused by a stronger than currently expected recovery in the UK economy after effective vaccines are administered quickly to the UK population, leading to a rapid resumption of normal life and return to full economic activity across all sectors of the economy.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a rapid series of increases in Bank Rate to stifle inflation.

**Appendix 4****TREASURY MANAGEMENT PRACTICE – CREDIT AND COUNTERPARTY RISK MANAGEMENT****SPECIFIED INVESTMENTS:**

(All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' rating criteria where applicable)

	Minimum 'High' Credit Criteria	Use
Debt Management Agency Deposit Facility	--	In-house
Term deposits – local authorities	--	In-house
Term deposits – banks and building societies	F1	In-house

**Term deposits with nationalised banks and banks and building societies**

	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
UK part nationalised banks	UK sovereign rating or Short-term F1, Sovereign rating AA-	In-house	50%	364 days
Banks part nationalised by high credit rated (sovereign rating) countries – non UK	Sovereign rating or Short-term F1, Sovereign rating AA-	In-house	50%	364 days

**Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -**

1. Money Market Funds	AAA rated	In-house
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**Accounting treatment of investments.** The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Authority. To ensure that the Authority is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

**NON-SPECIFIED INVESTMENTS:** The Authority will not make investments longer than 1 year

## **TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT**

The MHCLG issued Investment Guidance in 2018, and this forms the structure of the Authority's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for authorities to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Authority to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Authority adopted the Code on 15/02/2010 and will apply its principles to all investment activity. In accordance with the Code, the Executive Director of Corporate Services and S.151 Officer has produced its treasury management practices (TMPs). This part, TMP 1(1), covering investment counterparty policy requires approval each year.

**Annual investment strategy** - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments;
- The principles to be used to determine the maximum periods for which funds can be committed;
- Specified investments that the Authority will use. These are high security (i.e. high credit rating, although this is defined by the Authority, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year;
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Authority is:

**Strategy guidelines** – The main strategy guidelines are contained in the body of the treasury strategy statement.

**Specified investments** – These investments are sterling investments of not more than one-year maturity. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

1. The UK Government (such as the Debt Management Account deposit facility, UK treasury bills or a gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A local authority, housing association, parish council or community council.
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. For category 4 this covers pooled investment vehicles, such as money market funds, rated AAA by Standard and Poor's, Moody's and / or Fitch rating agencies.
5. A body that is considered of a high credit quality (such as a bank or building society For category 5 this covers bodies with a minimum Short Term rating of F1 (or the equivalent) as rated by Standard and Poor's, Moody's and / or Fitch rating agencies .



Within these bodies, and in accordance with the Code, the Authority has set additional criteria to set the time and amount of monies which will be invested in these bodies.

**Non-specified investments** –are any other type of investment (i.e. not defined as specified above). The Authority will not use these types of investments.

**The monitoring of investment counterparties** - The credit rating of counterparties will be monitored regularly. The Authority receives credit rating information (changes, rating watches and rating outlooks) from Link Asset Services as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Executive Director of Corporate Services & S.151 Officer, and if required new counterparties which meet the criteria will be added to the list.

## **Appendix 5**

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link credit worthiness service.

### ***Based on lowest available rating***

#### AAA

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

#### AA+

- Canada
- Finland
- U.S.A.

#### AA

- Abu Dhabi (UAE)
- France

#### AA-

- Belgium
- Hong Kong
- Qatar
- U.K.

## **Appendix 6**

### **TREASURY MANAGEMENT SCHEME OF DELEGATION**

#### **Fire Authority**

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy;
- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment;
- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

## THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

### The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers;
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe;
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money;
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority;
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing;
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources;
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities;
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees;
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority;
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above;
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following:-
  - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*

## CAPITAL STRATEGY

### 1. Introduction

- 1.1 There is a new requirement on local authorities (including fire authorities) to prepare a capital strategy each year, which sets out our approach to capital expenditure and financing at a high level. The requirement to prepare a strategy arises from Government concerns about a small number of authorities borrowing substantial sums (relative to their budget) to invest in commercial property, often outside the area of the authority concerned.
- 1.2 There is also a new requirement on local authorities to prepare an investment strategy, which specifies our approach to making investments other than day to day treasury management investments (the latter is included in our treasury management strategy, as in previous years). Given that HFA makes no such investments, a strategy has not been prepared.
- 1.3 This Appendix sets out the proposed capital strategy for approval.

### 2. Capital Expenditure

- 2.1 The Authority's capital expenditure plans are approved by the HFA, as part of the budget report each year.
- 2.2 The capital programme is usually restricted to:-
  - (a) Investment in operational buildings – e.g. fire stations and administrative offices;
  - (b) Renewal of operational fleet;
  - (c) New and replacement firefighting equipment;
  - (d) Investment in ICT.
- 2.3 The Authority's Constitution sets out the delegations to the Chief Fire Officer & Chief Executive on the delivery of the capital programme.
- 2.4 Capital expenditure on **buildings**, where funded from the capital programme, is principally directed to maintaining the fitness of the operational estate. Major property investments are considered as part of the overall estates strategy and are approved annually at the December HFA meeting.
- 2.5 Expenditure on the **renewal of the operational fleet** is directed by the replacement programme approved by the HFA. This is considered and approved each year at the December HFA meeting.
- 2.6 Capital expenditure on **firefighting equipment** ensures equipment is replaced when it has reached the end of its useful life or has become technologically obsolescent. It also enables the Service to invest in new technology.
- 2.7 Capital expenditure on **ICT** is determined by the ICT replacement programme which is approved annually at the December HFA meeting.
- 2.8 Monitoring of capital expenditure is carried out by the Strategic Leadership Team; Governance, Audit and Scrutiny Committee and the HFA. Reports are presented on four occasions during the year and at outturn.
- 2.9 HFA does not capitalise expenditure, except where it can do so in compliance with proper practices: it does not apply for directions to capitalise revenue expenditure.

## 2.10 Forecast capital expenditure is:-

<b>End of:</b>	<b>£000</b>
20/21	3,423
21/22	6,647
22/23	1,487
23/24	2,750
24/25	2,593

**3. Financing of Capital Expenditure**

- 3.1 HFA funds capital expenditure from the revenue budget, capital receipts and prudential borrowing.
- 3.2 Prudential borrowing is used to fund capital expenditure, within the limits prescribed within the Annual Treasury Management Strategy Statement. This is reviewed annually for affordability.
- 3.3 HFA measures its capital financial requirement, which shows our underlying need to borrow for a capital purpose. This is shown in the table below:-

<b>End of:</b>	<b>Underlying CFR</b>	<b>Other LTL</b>	<b>Total CFR</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
21/22	22,843	936	23,779
22/23	21,639	919	22,558
23/24	21,637	900	22,537
24/25	21,351	880	22,231

- 3.4 Projections of actual debt are part of the treasury management indicators in the Annual Treasury Management Strategy Statement.

**4. Debt Repayment**

- 4.1 HFA makes charges to the budget each year to repay debt incurred for previous years' capital spending. This is known as "Minimum Revenue Provision" (MRP). The general principle is that HFA seeks to repay debt over the period for which taxpayers enjoy the benefit of the spending it financed. MRP is calculated as:

- a) 4% of the CFR at the end of the preceding financial year; and
- b) Based on the useful asset life using the annuity method

**5. Commercial Activity**

- 5.1 Government guidance now requires us to specify our policy towards non-financial investments.
- 5.2 HFA makes no such investments.

## **PAY POLICY STATEMENT 2021-22**

### **SUMMARY**

1. This report provides a proposed Pay Policy Statement for Humberside Fire Authority for 2021/22, as required by the Localism Act 2011, for approval by the Fire Authority.
2. The Act introduced senior staff pay transparency into local authorities with a requirement that authorities prepare a Pay Policy Statement for each financial year. A statement for Humberside Fire Authority was first produced for 2012/13 and approved by the Fire Authority at its meeting on 17 April 2012 (Minute 3839 refers).
3. The Authority agreed at that time that the Pay Policy Statement should be reviewed annually by officers and that any proposed amendments would be brought before the full Authority for consideration.
4. The proposed statement for 2021/22 reflects the pay details for the current Strategic Leadership Team (SLT) posts. Should HFA approve any subsequent amendments to the SLT structure an updated Pay Policy Statement will be brought back to the full authority for consideration as per recommendation 5(c).

### **RECOMMENDATIONS**

5. GAS members take assurance that the Service is complying with its responsibilities under the Localism Act 2011.

### **BACKGROUND**

6. The Localism Act 2011 introduced senior staff pay transparency into local authorities. In this regard, Humberside Fire Authority must prepare a Pay Policy Statement for each financial year. The first statement was required and produced for 2012/13.
7. The Secretary of State is permitted to issue guidance to which the Authority must have regard when drawing up its Statement. The current guidance was published by the Department for Communities and Local Government in March 2015. This states that Statements must be approved by Full Council or a meeting of Members in the case of a Fire Authority and cannot be delegated to a sub-committee. The Authority may, by resolution, amend the Statement at any time. As soon as reasonably practicable after approving or amending the Statement, the Authority must publish the Statement or amended Statement in such manner as it sees fit (which must include publication on its website).
8. The Act requires that, amongst other things, the Statement sets out an Authority's policy on the remuneration of its Chief Officers. The definition of 'Chief Officers' in local authorities is not limited to Heads of Paid Service or statutory Chief Officers. It also includes those who report directly to them (non-statutory Chief Officers), to their direct reports (Deputy Chief Officers) and, in the case of a Fire Authority, a Deputy Chief Fire Officer.
9. In addition, the guidance suggests that authorities consider whether, in the light of their own context and reward structure, it is appropriate to extend the scope of the Pay

Policy Statement to include highly paid staff who would not come within the definition of 'Chief Officers'.

## **CONTENT OF PAY POLICY STATEMENT**

10. Under Section 38 of the Act, the Statement must set out the Authority's policies for the financial year relating to:
  - (a) the remuneration of its highest paid staff;
  - (b) the remuneration of its lowest-paid employees; and
  - (c) the relationship between:-
    - (i) the remuneration of its Chief Officers, and
    - (ii) the remuneration of its employees who are not Chief Officers.
11. The statement must also state:-
  - (a) the definition of "lowest-paid employees" adopted by the Authority for the purposes of the Statement; and
  - (b) the Authority's reasons for adopting that definition.
12. In addition, the Statement must include the Authority's policies relating to
  - (a) the level and elements of remuneration for each Chief Officer;
  - (b) remuneration of Chief Officers on recruitment;
  - (c) increases and additions to remuneration for each Chief Officer;
  - (d) the use of performance-related pay for Chief Officers;
  - (e) the use of bonuses for Chief Officers;
  - (f) the approach to the payment of Chief Officers on their ceasing to hold office or to be employed by the Authority; and
  - (g) the publication of and access to information relating to remuneration of Chief Officers
13. The Authority may also include within the Statement, its policies for the financial year relating to other terms and conditions applying to its Chief Officers.
14. The guidance states that authorities should include the organisation's pay multiple – the ratio between the highest paid employee and the median average earnings across the organisation.
15. Other aspects of the Statement referred to in the guidance but not explicitly covered in the Act include an authority's policy regarding reward for Chief Officers previously employed by the Authority who are re-engaged following receipt of a severance or redundancy payment.



## **HUMBERSIDE FIRE AUTHORITY PAY POLICY STATEMENT**

16. A draft Pay Policy Statement for 2021/22 has been produced in compliance with the legislative requirements and having regard to the DCLG guidance. The Statement can be found at Appendix 1.
17. The proposed Statement complies with the legislative requirements and reflects the revised structure of the Strategic Leadership Team (SLT) as agreed by the Humberside Fire Authority on 16<sup>th</sup> February 2015.
18. Should HFA approve any subsequent amendments to the SLT structure an updated Pay Policy Statement will be brought back to the full authority for consideration as per recommendation 5(c).

### **STRATEGIC PLAN COMPATIBILITY**

19. Not directly applicable although the Pay Policy Statement can contribute in demonstrating achievement against the Strategic Plan objectives 'Make appropriate use of public money' and 'Maintain sound financial control and resilience'.

### **FINANCIAL/RESOURCES/VALUE FOR MONEY IMPLICATIONS**

20. None arising directly. The Pay Policy Statement will provide transparency in senior staff remuneration.

### **LEGAL IMPLICATIONS**

21. Production and publication of the Statement will fulfil the Authority's relevant statutory obligations under the Localism Act 2011.

### **EQUALITY IMPACT ASSESSMENT/HR IMPLICATIONS**

22. None arising directly.

### **CORPORATE RISK MANAGEMENT IMPLICATIONS**

23. None arising directly.

### **HEALTH AND SAFETY IMPLICATIONS**

24. None arising.

### **COMMUNICATION ACTIONS ARISING**

25. The Pay Policy will be published on the Service's website.

### **DETAILS OF CONSULTATION**

26. Not applicable.

### **BACKGROUND PAPERS AVAILABLE FOR ACCESS**

27. None.

### **RECOMMENDATIONS RESTATED**

28. GAS members take assurance that the Service is complying with its responsibilities under the Localism Act 2011.

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JK/MAS  
08 February 2021

## **HUMBERSIDE FIRE AUTHORITY PAY POLICY STATEMENT 2021/22**

### **INTRODUCTION**

1. This Statement has been produced with due regard to the Guidance issued by the Secretary of State under Section 40 of the Localism Act 2011.
2. This Statement extends to all members of the Strategic Leadership Team (SLT) whether or not they meet the definition of a 'Chief Officer' as set out in the Act.
3. SLT comprises the Chief Fire Officer/Chief Executive, the Deputy Chief Fire Officer/Executive Director of Service Delivery, Executive Director of Corporate Services/S.151 Officer and four Directors.
4. All SLT members are employed by the Authority and not retained under a contract for services.

### **REMUNERATION OF: CHIEF FIRE OFFICER AND CHIEF EXECUTIVE (CFO), DEPUTY CHIEF FIRE OFFICER/EXECUTIVE DIRECTOR OF SERVICE DELIVERY (DCFO), DIRECTORS (OPERATIONAL X 3)**

5. The CFO, DCFO and the three Directors are employed under contracts of employment on the terms and conditions as set out in the National Joint Council for Brigade Manager of Local Authority Fire and Rescue Services Constitution and Scheme of Conditions of Employment (Gold Book), as supplemented by the Authority's local terms and conditions as amended from time to time.
6. The process for determining the pay of the CFO is set out in the Gold Book as follows:

*The NJC will publish annually recommended minimum levels of salary applicable to chief fire officers/chief executives employed by local authority fire and rescue authorities.*

*There is a two-track approach for determining levels of pay for Brigade Manager roles. At national level, the NJC shall review annually the level of pay increase applicable to all those covered by this agreement. In doing so, the NJC will consider affordability, other relevant pay deals and the rate of inflation at the appropriate date. Any increase agreed by the NJC will be communicated to fire authorities by circular.*

*All other decisions about the level of pay and remuneration to be awarded to individual Brigade Manager roles will be taken by the local Fire and Rescue Authority, who will annually review these salary levels.*

7. The CFO's salary as at 1 April 2021 is £149,548.
8. The DCO's salary is determined by Humberside Fire Authority as 85% of the CFO's salary and is £127,118 as at 1 April 2021.
9. The Directors' salary is determined by Humberside Fire Authority as 55% of the CFO's salary and is £82,252 as at 1 April 2021.

10. Each officer is provided with a motor vehicle for the performance of their duties.
11. No bonuses are paid.
12. Appropriate professional fees and subscriptions are paid.
13. There is no performance related pay scheme
14. A restricted range of legitimate and evidenced expenses may be claimed. Wherever possible, the Service will centrally procure travel and accommodation, e.g. rail tickets and hotel accommodation, to achieve best value.

#### **REMUNERATION OF: - EXECUTIVE DIRECTOR OF CORPORATE SERVICES/S151 OFFICER, DIRECTOR (NON-OPERATIONAL x 1)**

15. The post-holders are employed under a contract of employment on the terms and conditions set out in National Joint Council for Local Government Services National Agreement as supplemented by the Authority's local terms and conditions as amended from time to time.
16. The Executive Director of Corporate Services/S151 Officer's salary is determined by Humberside Fire Authority as 70% of the CFO's salary and is £104,684 as at 1 April 2021.
17. The non-operational Director's salary is determined by Humberside Fire Authority as 48% of the CFO's salary and is £71,784 as at 1 April 2021.
18. No bonuses are paid.
19. Appropriate professional fees and subscriptions are paid.
20. There is no performance related pay scheme.
21. A restricted range of legitimate and evidenced expenses may be claimed. Wherever possible, the Service will centrally procure travel and accommodation, e.g. rail tickets and hotel accommodation, to achieve best value.

#### **REMUNERATION OF ALL OTHER EMPLOYEES**

22. All other employees are paid in accordance with nationally agreed rates under relevant national schemes of conditions of service and the Authority's grading structures.
23. For the purposes of this Policy Statement, "lowest-paid" employees are defined by reference to the lowest graded posts on the support staff salary pay scale as these are the posts with the lowest level of remuneration. The lowest-paid post attracts a starting salary of £17,842. The CFO is paid 8.38 times more than the lowest paid employee.
24. The median average pay in the Service is £34,930. The CFO is paid 4.28 times more than the median average pay.

#### **TERMINATION PAYMENTS**

25. In cases of redundancy, payment is calculated based on actual weeks' pay for employees in positions where the Local Government Scheme applies and, for employees in positions where the Firefighters / New Firefighters Pension Schemes apply, subject to necessary changes in those schemes to enable payment on this basis. There are discretionary payments on early retirement available to posts to which the

Local Government Pension Scheme applies which the Authority would consider on a case by case basis based on its policy regarding such payments as at 1 April 2014.

#### **RE-EMPLOYMENT FOLLOWING TERMINATION**

26. There is no prohibition on employees who have left employment and are in receipt of pension, redundancy/early retirement payments from being re-employed subsequently.
27. In the case of an employee who is a member of the Local Government Pension Scheme and who is re-employed to a position to which that Scheme applies, the pension scheme rules provide discretion to the administering authority regarding abatement of pension. As the relevant administering authority, the East Riding Pension Fund has decided that, where the re-employment starts after 31st March 2007, there will be no abatement of the retirement pension.
28. In the case of an employee who is a member of the Firefighters Pension Scheme or New Firefighters Pension Scheme and who is re-employed by the Authority to a position to which these schemes apply, the Authority exercises its discretion within the schemes to abate the retirement pension. Abatement is not applied in any other circumstances.

#### **REVIEW**

29. This Statement will be reviewed annually by the Fire Authority and at other times if necessary.

#### **PUBLICATION**

30. This Statement will be published on the Humberside Fire and Rescue Service website ([www.humbersidefire.gov.uk](http://www.humbersidefire.gov.uk)).



<p><b>Governance, Audit and Scrutiny Committee</b>  <b>22 February 2021</b></p>	<p><b>Report by the Monitoring Officer/Secretary</b></p>
<p style="text-align: center;"><b>GAS COMMITTEE SCRUTINY PROGRAMME 2020/21</b></p> <p style="text-align: center;">REPORT EXECUTIVE SUMMARY</p> <p>This paper summarises the Governance, Audit and Scrutiny Committee's Scrutiny Programme 2020/21. Each year, the Committee will programme four specific, defined scrutiny items complete with scopes in order that relevant officers can focus their reports. Appendix 1 to this report will serve as a point of reference for report-writers and as a 'living document' during the year for the Committee as it considers the scopes for its scrutiny items.</p>	

## RECOMMENDATIONS

1. That Members consider and approve the Scrutiny Programme 2020/21.

## PUBLIC SCRUTINY PROCESS

2. Public scrutiny is a corporate process undertaken by the GAS Committee, appointed by the Fire Authority for its breadth of professional experience.
3. Four areas for scrutiny were identified by the Committee for its 2020/21 programme:
  - Effectiveness of the protection Risk-Based Targeting Strategy
  - Development and Delivery Plans to Support the Health and Wellbeing of Staff
  - Safety Protection - Engagement with the Commercial/Business Community
  - Diversity and Recruitment - Progress and Plans

## STRATEGIC PLAN COMPATIBILITY

6. This paper supports the achievement of Strategic Plan 2018/21 through the provision of independent scrutiny of activity.

## FINANCIAL/RESOURCES/VALUE FOR MONEY IMPLICATIONS

7. Independent scrutiny contributes towards efficiency review activity.

## LEGAL IMPLICATIONS

8. None directly arising.

## EQUALITY IMPACT ASSESSMENT/HR IMPLICATIONS

9. None directly arising.

## CORPORATE RISK MANAGEMENT IMPLICATIONS

10. Scrutiny of performance provides an assurance that arising risks are being mitigated.

## HEALTH AND SAFETY IMPLICATIONS

11. None directly arising.

## COMMUNICATION ACTIONS ARISING

12. GAS Committee papers are publicly available via the HFRS Website.

## DETAILS OF CONSULTATION AND/OR COLLABORATION


13. SLT regarding scrutiny topics.

## RECOMMENDATIONS RESTATED

14. That Members consider and approve the Scrutiny Programme 2020/21.

**S CAMPBELL  
M BUCKLEY**

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July 2020



<b>GAS Committee Scrutiny Programme 2020/21</b>			
<b>Meeting Date</b>	<b>Responsible Officer</b>	<b>Item and Scope</b>	<b>Follow-up</b>
7 September 2020	<b>Director of Service Delivery Support</b>	<b>Effectiveness of the Protection Risk-Based Targeting Strategy.</b> <ul style="list-style-type: none"> <li>• How is public protection activity targeted according to risk and intelligence?</li> <li>• What systems does the Service use to undertake its risk-based targeting activities?</li> <li>• How does the Service gather the intelligence necessary to target intervention effectively?</li> <li>• How does the Service respond to referrals for intervention that would not necessarily result in action according to the Risk-Based Targeting Strategy?</li> <li>• What impact has COVID-19 had on the Risk-Based Targeting Strategy?</li> </ul>	
16 November 2020	<b>Director of People and Development</b>	<b>Development and Delivery Plans to Support the Health and Wellbeing of Staff</b> <ul style="list-style-type: none"> <li>• How have matters improved since the Service's previous HMICFRS inspection?</li> <li>• What support has the Service put in place for staff in the light of the significant challenges posed by COVID-19?</li> <li>• What has the Service learned from the health and wellbeing initiatives in other areas?</li> <li>• What have been the main challenges to supporting the health and wellbeing of staff?</li> </ul>	
25 January 2021	<b>Director of Service Delivery Support</b>	<b>Safety Protection - Engagement with the Commercial/Business Community</b> <ul style="list-style-type: none"> <li>• What has the Service changed about the way it prioritises its engagement with the commercial/business sector in the light of the previous HMICFRS</li> </ul>	

		inspection? <ul style="list-style-type: none"> <li>• How has the Grenfell Tower Inquiry affected the Service's business safety work?</li> <li>• What have been the main challenges in relation to engaging the commercial and business communities?</li> </ul>	
12 April 2021	<b>Director of People and Development</b>	<b>Diversity and Recruitment - Progress and Plans</b>  <ul style="list-style-type: none"> <li>• Workforce Plan to be shared with the Committee.</li> <li>• How diverse is the Service's workforce currently?</li> <li>• Does this reflect the level of diversity in the local population?</li> <li>• How does the level of diversity compare at different levels within the organisation?</li> <li>• How can the Service increase the diversity of its workforce?</li> <li>• Update on training, promotion and development (Minute 62/19 refers).</li> <li>• What have been the main challenges to increasing diversity in the organisation?</li> </ul>	