Tyne and Wear Fire and Rescue Authority
Creating the Safest Community
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GOVERNANCE COMMITTEE

Meeting of the GOVERNANCE COMMITTEE to be held in the Fire Authority Rooms at the Fire and Rescue Service Headquarters, Nissan Way, Barmston Mere, Sunderland on **MONDAY 31 OCTOBER 2022** at **10.30am**

A G E N D A

7. **Audit Letter 2021/2022** 41

Joint report of the Chief Fire Officer/Chief Executive (Clerk to the Authority) and the Finance Director (copy attached).

Local Government (Access to Information) (Variation) Order 2006

The following is not for publication as the Committee is likely to exclude the public during consideration thereof as it contains information relating to the financial or business affairs of any particular person (including the Authority holding that information). (Local Government Act 1972, Schedule 12A, Part I, Paragraph 3).

PART II

8. **Minutes** 45

Minutes of the last meeting of the Committee held on 29 July 2022, Part II (copy attached).

CHRIS LOWTHER
Chief Fire Officer/Chief Executive (Clerk to the Authority)

19 October 2022

Item No. 3

Tyne and Wear Fire and Rescue Authority
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GOVERNANCE COMMITTEE held in the Fire and Rescue Service Headquarters, Barmston Mere on Friday 29 July 2022 at 10.30am.

Present:

Mr G N Cook in the Chair

Councillors Bell, Flynn and Keegan together with Miss G Goodwill.

In Attendance:

Joanne Greener (Mazars)

Apologies for Absence

Apologies for absence were submitted to the meeting on behalf of Councillors Ord together with Mr Knowles .

Declarations of Interest

There were no declarations of interest.

Minutes

1. RESOLVED that the minutes of the meeting of the Governance Committee held on 27 May 2022 were agreed as a correct record.

Compliments and Complaints Annual Report 2021/2022

The Chief Fire Officer/Chief Executive (the Clerk to the Authority), the Finance Director and the Personnel Advisor to the Authority submitted a joint report providing the Committee with an overview of the compliments and complaints received by the Tyne and Wear Fire and Rescue Service from 1 April 2021 to 31 March 2022.

DCFO Heath presented the report and in doing so clarified that during 2021/2022, 86 compliments had been received rather than 41 as stated in the printed report. There had been 27 complaints during the period and the volume of both complaints and compliments was minor in comparison with the 63,848 official interactions recorded with the public in this period.

DCFO Heath highlighted that every complaint was an opportunity to learn and to improve the quality of service provided and staff had been positively promoting feedback in all forms. Staff awareness of the reporting process had been increased through internal promotional activities and over 50 managers and the Executive Leadership Team had attended effective complaint handling training provided by the Local Government and Social Care Ombudsman.

There had been a 48% increase in compliments, rising from 41 in 2020/2021 to 86 in 2021/2022 and there was an analysis of these within the body of the report. All complaints were taken very seriously and of the 27 received, 35% were upheld following investigation which was a reduction of 13% on 2020/2021.

Miss Goodwill commented that it was impressive that the Service received compliments even in relation to situations where someone had sadly lost their life. Councillor Keegan reflected that, not only did staff fulfil their core role, but also became social workers when looking at the range of things which the Service had been complimented for. The Chair also noted that the number of complaints were very small in comparison to what the Service did.

Councillor Bell referred to the Complaints and Compliments procedure and asked if staff were actively encouraged to pass all of them on as some would be verbal and others may be sent to individual stations.

DCFO Heath explained that the Service had appointed someone to coordinate this area and there was a campaign to encourage all staff to pass on complaints and compliments and to ensure that feedback was captured. In relation to verbal feedback, it was very difficult to capture the evidence of this so that it could be reported to the Committee and the public.

Councillor Flynn commented that one of the upheld complaints regarding a fire appliance and another vehicle coming together and he would have expected that a vehicle would back away to allow the appliance access. DCFO Heath provided some more detail on the incident and the reasons for upholding the complaint and stated that generally the Fire and Rescue Service was very well supported by the public.

Having considered the report it was: -

2. RESOLVED that: -

(i) the contents of the report be endorsed; and

(ii) further reports be received as appropriate.

Statement of Accounts 2021/2022 (Subject to Audit)

The Finance Director submitted a report providing Members with an opportunity to review and question the draft Authority Statement of Accounts for 2021/2022 (Subject to Audit), along with the Finance Officer's Narrative Statement and the Annual Governance Statement which were required to be published separately to the Accounts in accordance with the Accounts and Audit Regulations 2015 and as amended in 2021.

The Finance Director tabled some amendments to the Narrative Statement which updated the sections on Firefighter Pension 'Immediate Detriment' and the HMICFRS inspection outcome. DCFO Heath advised that he had provided a verbal update at the recent Fire Authority meeting and the full HMICFRS report was now available for all Members. The bar had been raised for this inspection and the Service had risen to the challenge with improvements being noted for every metric. For Tyne and Wear to achieve three 'Goods' was significant and a testament to the hard work and dedication of all staff.

The Finance Director highlighted that the Statement of Accounts were at Appendix B to the report and had been prepared in accordance with regulations and statutory timescales and would be passed to Mazars and published on the website later in the day. Appendix A explained the process and revised timescales for the Accounts which had to be completed by 31 July and audited by 30 September, however Mazars had already indicated that many audits would be pushed back and the revised completion date would be 30 November. This was beyond the control of the Fire and Rescue Service and was recognised by the Government and furthermore that they were aware of Government's intention to make 30 November the revised statutory date for completion of the audited accounts. This has since been confirmed.

The Narrative Statement within the Statement of Accounts provided a summary of the financial year and also of the Authority's status as a going concern. This showed a negative net worth for the Authority but this related to the need to disclose the pension deficiency.

Members were also provided with the Letters of Assurance which were required by the external auditor and would be asked to approve the content of the Letter from those charged with Governance and to note the Letter from those charged with discharging management processes and responsibilities. The public rights inspection period would begin on 29 July and end on 19 September.

Councillor Bell commended the report and the huge amount of work which went into it and complimented all who were involved. The Finance Director said that he would pass that on to the staff as it was very much a team effort.

Upon consideration of the report it was: -

3. RESOLVED that: -

(i) the draft and unsigned Statement of Accounts 2021/2022 (subject to audit) and the separate Statements set out in Appendices B to D be noted;

(ii) the contents of the Letter of Assurance from those charged with Governance (Appendix F) be approved; and

(iii) the Letter of Assurance from those charged with discharging management processes and responsibilities (Appendix G) be noted.

Statement of Assurance 2021/2022

The Chief Fire Officer/Chief Executive (Clerk to the Authority) and the Finance Director submitted a joint report presenting the Statement of Assurance 2021/2022 to the Committee for consideration, endorsement and progression to the full Fire Authority for agreement to publish.

The Tyne and Wear Fire and Rescue Authority was required to prepare an annual Statement of Assurance in accordance with the Fire and Rescue National Framework for England 2018. The Statement of Assurance was attached at Appendix A to the report and set out how the Authority met the requirements of the National Framework and detailed evidence which supported this compliance.

The Statement of Assurance was used by the Secretary of State in their biennial report to Parliament and provided information to the communities of Tyne and Wear, the Government, local authorities and partners which would allow them to make a valid assessment of the Authority's performance during 2021/2022.

DCFO Heath highlighted that section 2 of the Statement referred to Equality, Diversity and Inclusion and the commitment to this work was very much at the forefront of the document.

Accordingly the Committee: -

4. RESOLVED that: -

(i) the contents of the Statement of Assurance be noted;

(ii) the Committee agree that they are satisfied that the Statement of Assurance properly and accurately reflects the risk environment and that good governance arrangements for the fire and rescue service are in place; and

(iii) the Statement of Assurance be progressed to the full Fire Authority for their approval in its current form.

Local Government (Access to Information) (Variation Order) 2006

5. RESOLVED that in accordance with the Local Government (Access to Information) (Variation) Order 2006 the public be excluded during consideration of the remaining business as it contains information relating to the financial or business affairs of any particular person (including the Authority holding that information). (Local Government Act 1972, Schedule 12A, Part I, Paragraph 3).

(Signed) G N COOK
Chair

TYNE AND WEAR FIRE AND RESCUE AUTHORITY **Item No. 4**

MEETING: GOVERNANCE COMMITTEE 31ST OCTOBER 2022

SUBJECT: INTERNAL AUDIT PROGRESS REPORT – 2022/2023

REPORT OF THE HEAD OF INTERNAL AUDIT

1. Purpose of Report

1.1 This report sets out the performance of Internal Audit up to October 2022, areas of work undertaken, and the internal audit opinion regarding the adequacy of the overall system of internal control within the Authority.

2. Key Performance Indicators

2.1 Performance against the agreed KPIs to date is shown in Appendix 1. KPI's are currently on target in all areas.

3. Summary of Internal Audit Work

3.1 Six audit areas are included in the 2022/23 plan.

3.2 To date one audit has been completed, this audit is in relation to Business Continuity Arrangements. Two further audits relating to Partnership Arrangements and Financial Management (counter fraud/transaction testing) are currently underway.

3.3 The remaining planned audits are scheduled to be completed by the end of the financial year, as follows:

- Service/Business Planning – Use of Emergency Vehicles;
- IRMP – Fire Safety;
- Information Governance – Compliance with General Data Protection Regulation.

3.4 The current overall opinion against each risk area, based on the last three years' audit work is shown in Appendix 2. As can be seen the position remains very positive.

3.5 It is anticipated that the agreed plan will be delivered in full by the year end.

4. Conclusions

4.1 This report provides information regarding progress against the planned audit work for the year and performance targets.

4.2 It remains the opinion of Internal Audit that, overall, throughout the Authority, there continues to be an adequate system of internal control.

5. Recommendations

5.1 Members are asked to consider the report.

Background Papers
Internal Audit Operational Plan for 2022/2023
Governance Committee, 7th March 2022

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Appendix 1

Internal Audit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2022/23			
Efficiency and Effectiveness			
Objectives	**KPI's**	**Targets**	**Progress**
1) To ensure the service provided is effective and efficient.	1) Complete sufficient audit work to provide an opinion on the key risk areas identified. 2) Percentage of draft reports issued within 15 days of the end of fieldwork. 3) Percentage of audits completed by the target date (from scoping meeting to issue of draft report).	1) All key risk areas covered over a 3 year period 2) 90% 3) 85%	1) Achieved 2) Achieved (100%) 3) Achieved (100%)
Quality			
Objectives	**KPI's**	**Targets**	**Progress**
1) To maintain an effective system of Quality Assurance. 2) To ensure recommendations made by the service are agreed and implemented.	1) Opinion of External Auditor 2) Percentage of agreed high, significant and medium risk internal audit recommendations which are implemented.	1) Satisfactory opinion 2) 100% for high and significant. 90% for medium risk	1) Achieved 2) High and significant – Achieved (100%) Medium – Achieved (96%)
Client Satisfaction			
Objectives	**KPI's**	**Targets**	**Progress**
1) To ensure that clients are satisfied with the service and consider it to be good quality.	1) Results of Post Audit Questionnaires 2) Results of other Questionnaires 3) Number of Complaints / Compliments	1) Overall average score of better than 1.5 (where 1=Good and 4=Poor) 2) Results classed as 'Good' 3) No target – actual numbers will be reported	1) Achieved (Average score for last 12 months is 1.0) 2) None undertaken 3) No compliments or complaints received

Internal Audit Coverage

Key Risk Area	2019/20 Audit Opinion / Assurance	2020/21 Audit Opinion / Assurance	2021/22 Audit Opinion / Assurance	2022/23 Audit Opinion / Assurance	Scope of planned audits 2022/23	Overall Opinion from Previous 3 years work
Corporate Governance	Procurement - Substantial		Corporate Governance Arrangements - Substantial			Substantial
Service / Business Planning, IRMP	IRMP - Substantial			Use of Emergency Vehicles	A review of the arrangements in place to provide both the required mandatory driver training and vehicle maintenance.	Substantial
Financial Management	Financial Transactions Testing on Payroll and Accounts Payable - Substantial	Financial Transaction Testing – Payroll and Accounts Payable - Substantial Business Development/Income Generation - Substantial	Financial Transaction Testing – Payroll and Accounts Payable - Substantial Reserves Strategy - Substantial	Financial Transaction Testing – Payroll and Accounts Payable	Financial transaction testing on payroll and accounts payable.	Substantial
Risk Management	IRMP - Substantial			Use of Emergency Vehicles Fire Safety	A review of the arrangements in place to provide both the required mandatory driver training and vehicle maintenance. A review of the arrangements in place to ensure the new legislative requirements regarding fire safety are met by the Service and are appropriately reflected within the IRMP.	Substantial

Key Risk Area	2019/20 Audit Opinion / Assurance	2020/21 Audit Opinion / Assurance	2021/22 Audit Opinion / Assurance	2022/23 Audit Opinion / Assurance	Scope of planned audits 2022/23	Overall Opinion from Previous 3 years work
Procurement and Contract Management	Review of the contract management arrangements for a sample of key contracts – Substantial Procurement – Substantial	Contract Management Arrangements - Moderate				Substantial
Human Resource Management	Managerial Assessment Programme - Substantial	Workforce Planning - Substantial				Substantial
Asset Management	Asset Management - Substantial	Contract Management Arrangements - Moderate				Substantial
ICT		ICT Systems Developments - Substantial				Substantial
Fraud and Corruption	Financial Transactions Testing on Payroll and Accounts Payable - Substantial	Financial Transactions Testing on Payroll and Accounts Payable – Substantial	Financial Transactions Testing on Payroll and Accounts Payable – Substantial	Financial Transactions Testing on Payroll and Accounts Payable	Financial transaction testing on payroll and accounts payable.	Substantial
Information Governance	Compliance with General Data	Compliance with General Data	Compliance with General Data	Compliance with General Data	Review the results of the Service's Data Protection Officer's assurance work.	Substantial

Appendix 2

Key Risk Area	2019/20 Audit Opinion / Assurance	2020/21 Audit Opinion / Assurance	2021/22 Audit Opinion / Assurance	2022/23 Audit Opinion / Assurance	Scope of planned audits 2022/23	Overall Opinion from Previous 3 years work
	Protection Regulation - Substantial	Protection Regulation - Substantial	Protection Regulation - Moderate	Protection Regulation		
Business Continuity & Contingency Planning	Business Continuity Planning - Substantial			Business Continuity Arrangements - Substantial	Review of the Business Continuity Arrangements in place within the Service specifically in relation to the event of a loss of ICT provision, including service operational vehicles.	Substantial
Performance Management			Performance management arrangements - Substantial			Substantial
Payroll	Financial Transactions Testing on Payroll - Substantial	Transaction Testing – Payroll - Substantial	Transaction Testing – Payroll - Substantial	Transaction Testing – Payroll	Financial transaction testing on payroll	Substantial
Partnership Working	Review of the contract management arrangements for a sample of key contracts – Substantial			Partnership Arrangements	A review of the arrangements in place to manage partnership working within the service.	Substantial
Project Management			Project Management Arrangements - Moderate			Moderate

TYNE AND WEAR FIRE AND RESCUE AUTHORITY — Item No. 5

MEETING: GOVERNANCE COMMITTEE 31ST OCTOBER 2022

TREASURY MANAGEMENT – ANNUAL REVIEW OF PERFORMANCE 2021/2022

REPORT OF THE FINANCE DIRECTOR

1. Purpose of the Report

1.1 To report on the Treasury Management performance of the Authority for 2021/2022 in line with best practice as prescribed by the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (2011).

2. Introduction

2.1 Sunderland City Council, as lead authority, performs the treasury management function on behalf of the Authority.

2.2 This report sets out the annual borrowing and investment performance for the financial year 2021/2022 in accordance with the requirements of the Treasury Management Policy Statement and Treasury Management Strategy approved by the Authority on 15th March 2021. The Treasury Management Strategy comprises a Borrowing and Investment Strategy which set out the Authority's strategy for borrowing and its policies for managing its investments (which gave priority to the security and liquidity of funds over yield of those investments).

2.3 The Treasury Management Policy Statement and Strategy complies with best practice, including the Ministry of Housing, Communities and Local Government's 'Statutory Guidance on Local Government Investments' updated in February 2018 and also incorporates the recommendations included in the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management, updated in December 2017.

3. Review of Performance 2021/2022 – Summary

3.1 Cost of Borrowing

The performance of the Authority's Treasury Management function continues to contribute financial savings that are used to provide funding to support future years' capital programmes and help to support the Authority's revenue budget. The average rate of the lead authority's borrowing at 2.55% compares favourably when benchmarked against other authorities and has helped to keep the revenue cost of the Authority's borrowing low in comparison. Section 4 of the report sets out more details of the Authority's Borrowing Strategy, for members information.

Covid-19 has had a significant impact on financial markets and economic forecasting throughout 2021/2022 and any respite to the uncertainty from the successful rollout of vaccines has been replaced by the global fallout of Russia's invasion of Ukraine in February 2022. Concerns over Europe's reliance on Russia for its oil and gas supplies has sent wholesale energy prices soaring, despite the UK's exposure being less than its European neighbours. Serious supply-side shocks have fed through to higher energy and food bills placing unprecedented pressure on household incomes with little prospect of this abating in 2022.

3.2 **Rate of Return on Investments**

The Authority has benefitted from the fact that its investment income has been matched to the benchmark rate of 0.14% instead of the average Money Market Fund return that has been used in previous years but which has been adversely impacted by the Covid pandemic. The investment policy continues to reflect the priority to 'protect' the funds of the Authority first and foremost. More details are set out in Section 6 of this report in respect of the Authority's Investment Strategy and Performance.

3.3 **Treasury Management Prudential Indicators**

The Authority has not exceeded any of its Treasury Management Prudential Indicators during 2021/2022. These indicators help to control the day to day Treasury Management activity which is closely monitored to ensure limits set each year by the Authority are not exceeded and which means capital expenditure can be appropriately financed and is affordable within the constraints of the revenue budget.

It is also very important that the Authorised Borrowing Limit for External Debt for the Authority, which is a statutory limit which must be set each year under section 3(1) of the Local Government Act 2003, is not exceeded. This limit was set at £50.272m for 2021/2022 and the highest level reached by the Authority of £35.423m during the year was below this limit. More details of all of the Prudential Indicators are set out in Section 5.

4. **Borrowing Strategy and Performance – 2021/2022**

4.1 The basis of the agreed Borrowing Strategy was to:

- continuously monitor prevailing interest rates and forecasts;
- secure long-term funds to meet the Authority's future borrowing requirement when market conditions were favourable;
- use a benchmark financing rate of 2.60% for long-term borrowing (i.e. all borrowing for a period of one year or more);
- take advantage of debt rescheduling opportunities as appropriate.

4.2 The Borrowing Strategy has been regularly reviewed by this Committee throughout the year and was updated where necessary to reflect changing circumstances. The Borrowing Strategy for 2021/2022 was based upon the views of the Lead Authority's Finance Officer, supplemented with market data, market information and leading economic forecasts provided by the Authority's treasury management adviser, Link Asset Services.

4.3 The strategy for 2021/2022 was to adopt a pragmatic approach in identifying the low points in the interest rate cycle at which to borrow, and to respond to any changing circumstances to seek to secure benefit for the Authority. A benchmark financing rate of 2.60% for long-term borrowing was set for 2021/2022 in light of the views prevalent at the time the Treasury Management policy was set in March 2021.

4.4 The BoE Monetary Policy Committee (MPC) voted at its meeting on 16th December 2021 to increase the Base Rate by 0.15% to 0.25%, the first increase in the Base Rate since the historic low of 0.10% announced on 19th March 2020. This was followed by two further increases of 0.25% at its meetings on 3rd February and 17th March 2022 respectively, taking the Base Rate to the pre-virus and post-Global Financial Crisis high of 0.75% with more to come if the MPC switches focus to combating inflation than protecting economic growth.

4.5 The continued surge in Consumer Price Index (CPI) inflation to a new 30-year high of 7.0% in March 2022, is more than three times the BoE target of 2% and despite measures announced by the Chancellor in his Spring Fiscal Statement, we are seeing the biggest squeeze on households' living standards for over 50 years.

4.6 There have been high levels of volatility in the financial markets during 2021/2022. The war in Ukraine has contributed to financial conditions being as tight as after the Brexit vote in 2016. Whilst the economy has proven resilient to the effects of the war in its early stages, this position is likely to change if it becomes a long and protracted conflict. 50-year PWLB interest rates started the financial year in April 2021 at 2.03% (inclusive of the 0.20% discount available to Local Authorities), dropping to 1.49% in August 2021 before reaching a peak of 2.17% on 11th October 2021. From then rates gradually fell to a low of 1.25% on 9th December 2021 before steadily rising to end the financial year at 2.39%

4.7 The table below shows the average PWLB borrowing rates for each quarter in 2021/2022.

2021/2022	Qtr 1 (Apr - June) %	Qtr 2 (July – Sept) %	Qtr 3 (Oct – Dec) %	Qtr 4 (Jan – Mar) %
SONIA Overnight Rate	0.05	0.05	0.07	0.39
1 year	0.81*	0.87*	1.11*	1.71*
5 year	1.18*	1.15*	1.47*	2.01*
10 year	1.68*	1.52*	1.75*	2.19*
25 year	2.14*	1.90*	1.99*	2.38*
50 year	1.94*	1.68*	1.68*	2.09*

* Rates take account of the 0.2% discount to PWLB rates available to eligible authorities from 1st November 2012.

4.8 In line with discussions with the Authority's Treasury Management adviser, Sunderland City Council took advantage of low borrowing rate troughs that have occurred and which will benefit the revenue budget over the longer term. £100 million of new borrowing was taken out during the financial year as the rate was considered opportune. The new borrowing is summarised in the following table:

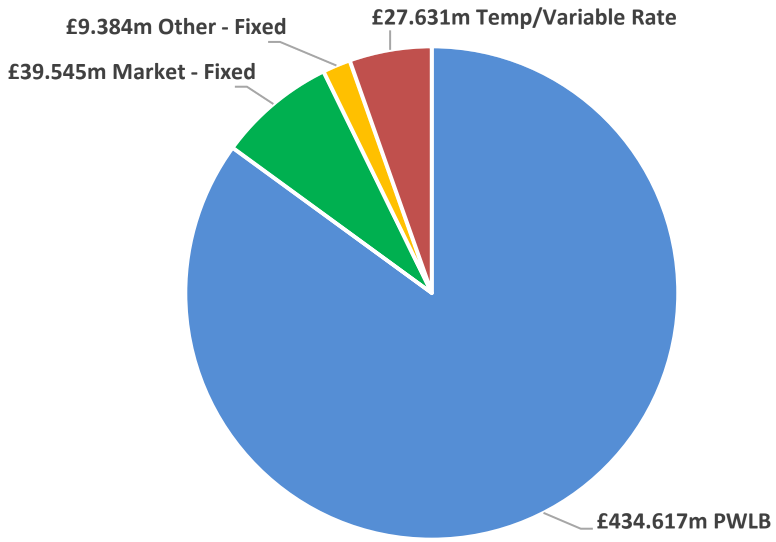
Duration	Date of the transaction	Start	Matures	Rate %	Loan Amount £m
50 years	30/11/2021	07/12/2021	07/12/2071	1.40*	100.0

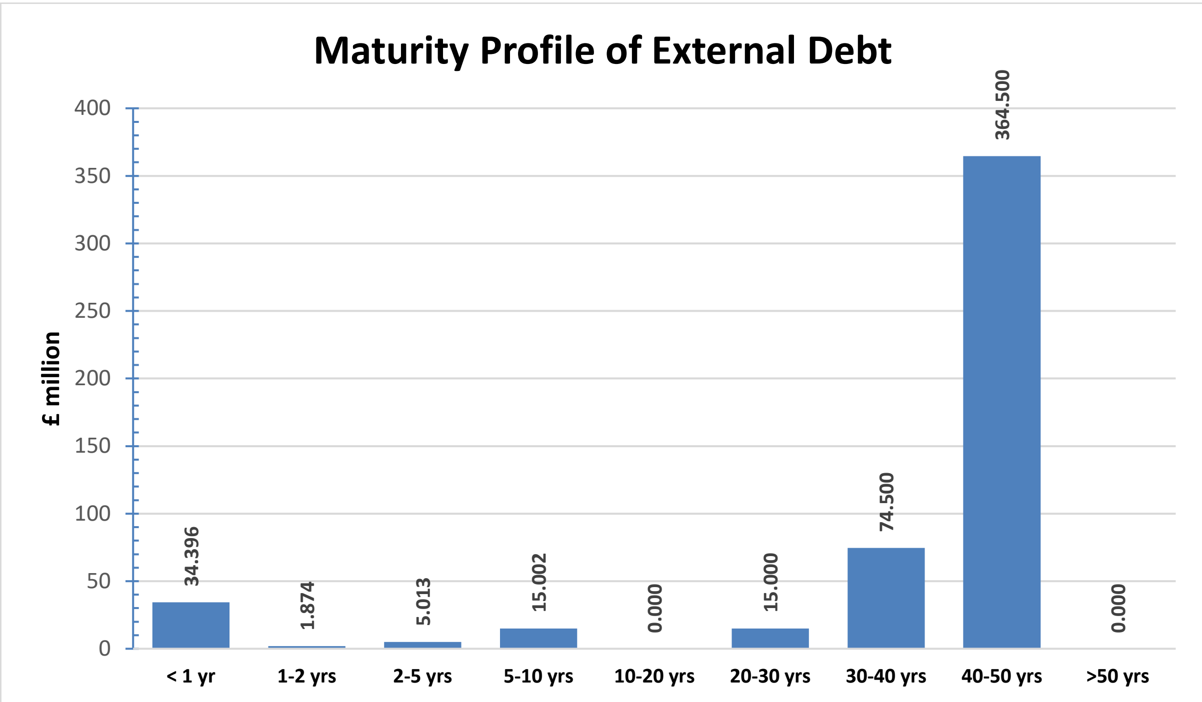
*rate takes account of the 0.20% discount to PWLB rates available to the Council.

4.9 The Treasury Management Strategy for 2021/2022 included provision for debt rescheduling but also stated that because of the proactive approach taken by the Authority in recent years, and because of the very low underlying rate of the total long-term debt, it would be difficult to refinance long-term loans at interest rates lower than those already in place.

4.10 The Lead Authority's borrowing portfolio position (of which £10.346m belongs to the Fire Service) as at 31st March 2022 is set out below:

Borrowing Summary at:	**31 March 2022**	
	Principal	**Ave rate %**
Fixed		
PWLB	434,616,667	2.59
Market - Fixed	39,545,000	4.41
Other - Fixed	9,383,570	0.00
	483,545,237	2.69
Variable		
Temporary/Other - Variable	27,631,243	0.14
	27,631,243	0.14
TOTAL BORROWING:	**511,176,480**	**2.55**





5. Prudential Indicators – 2021/2022

5.1 All external borrowing and investments undertaken in 2021/2022 have been subject to the monitoring requirements of the Prudential Code. Under the Code, Authorities must set borrowing limits (Authorised Borrowing Limit for External Debt and Operational Boundary for External Debt) and must also report on the Authority's performance for all of the other Prudential Indicators as follows.

5.2 The statutory limit under section 3(1) of the Local Government Act 2003 (known as the Authorised Borrowing Limit for External Debt) was set by the Authority for 2021/2022 in total as £50.272m which is detailed as follows:

	£m
Borrowing	34.454
Other Long-Term Liabilities	15.818
Total	**50.272**

The Operational Boundary for External Debt for 2021/2022 was set at £45.272m as follows:

	£m
Borrowing	29.454
Other Long-Term Liabilities	15.818
Total	**45.272**

5.3 Both the Authorised Limit and the Operational Limit include an element for long-term liabilities relating to PFI schemes and finance leases. These have been brought onto the Authority's Balance Sheet in compliance with International Financial Reporting Standards (IFRS).

5.4 The Authority's maximum external debt in 2021/2022 was £35.306 million and is within the borrowing limits set by both of these indicators.

5.5 The table below shows that all other Treasury Management Prudential Indicators for the lead authority have been complied with during 2021/2022.

	Prudential Indicators	**2021/2022**	
		Limit	**Actual (max)**
P9	**Maturity Pattern**	Upper Limit	
	Under 12 months	50%	8.89%
	12 months and within 24 months	60%	1.80%
	24 months and within 5 years	80%	1.34%
	5 years plus	100%	91.93%
	A lower limit of 0% for all periods		
P10	**Upper limit for total principal sums invested for over 365 days**	£75m	0

5.6 The Lead Authority is currently within the limits set for all of its TM Prudential Indicators.

6. Investment Strategy and Performance – 2021/2022

6.1 The general policy objective for the Authority is the prudent investment of its treasury balances. The Authority's investment priorities in order of importance are:

a) The **security** of capital;
b) The **liquidity** of its investments and then;
c) The Authority aims to achieve the **optimum yield** on its investments but this is commensurate with the proper levels of security and liquidity.

6.2 The Annual Investment Strategy has been fully complied with in 2021/2022.

6.3 At 31st March 2022 the Authority had outstanding investments of £27.514 million. The table below shows the return received on these investments compared with the benchmark SONIA (Sterling Overnight Index Average) rate, which the Authority uses to assess its performance. The 7-Day LIBID (London Interbank Bid) rate previously used by the Authority ceased being published at the end of December 2021 and the SONIA rate is the closest comparable rate.

	2021/2022 Return %	2021/2022 Benchmark %
In-house Managed Funds	**0.14**	**0.14**

6.4 All investments placed in 2021/2022 have been made in accordance with the approved Investment Strategy and comply with the Criteria and the Approved Lending List set by the Authority on 15th March 2021.

6.5 The investment policy is regularly monitored and reviewed to ensure it has flexibility to take full advantage of any changes in market conditions to the benefit of the Authority. As reported during the year, the rate of return available on investments has remained at very low levels.

6.6 Due to the continuing high volatility within the financial markets, particularly in the Eurozone, advice from our Treasury Management adviser is to continue to restrict investments to shorter term periods.

6.7 As Members will be aware, the regular updating of the Authority's Authorised Lending List and Criteria is required in the light of financial institution mergers and changes in institutions' credit ratings. The Lead Authority Finance Officer has the delegated authority to vary the Lending List Criteria and Lending List itself should circumstances dictate, on the basis that changes be reported via the Finance Director to the Authority and the Governance Committee retrospectively, in accordance with normal Treasury Management reporting procedures. Changes made during 2021/2022 have been reported to Members previously.

7. Reasons for Decision

7.1 To note the Treasury Management performance for 2021/2022 in accordance with agreed protocols within the CIPFA Code of Practice on Treasury Management.

8. Alternative Options

8.1 No alternatives are submitted for Members consideration.

9. Recommendation

9.1 The Committee is requested to note and comment upon the Treasury Management performance of the Authority for 2021/2022.

TYNE & WEAR FIRE AND RESCUE AUTHORITY **Item No. 6**

MEETING: GOVERNANCE COMMITTEE 31ST OCTOBER 2022

TREASURY MANAGEMENT – HALF YEARLY REVIEW 2022/2023

REPORT OF THE FINANCE DIRECTOR

1. Purpose of Report

1.1 To report on the Treasury Management performance for the half year of 2022/2023.

2. Introduction

2.1 Sunderland City Council performs the treasury management function on behalf of the Authority.

2.2 This report sets out the Treasury Management performance for the half year of the financial year 2022/2023, in accordance with the requirements of the Treasury Management Policy and Strategy agreed by Authority. This information is based on the data for the Lead Authority (Sunderland City Council), which also incorporates the investment and borrowing figures for this Authority.

3. Summary of Treasury Management Performance for 2022/2023 – Quarter 2

3.1 The Authority's Treasury Management function continues to look at ways to maximise financial savings and increase investment returns to the revenue budget, whilst maintaining a balanced risk position. Public Works Loan Board (PWLB) rates have gradually risen since the start of the financial year but continue to be extremely volatile. In line with discussions with Link Asset Services, the Lead Authority has acquired £50 million of new borrowing during the financial year to support the financing requirements of the Capital Programme. These rates were considered opportune at the time and will benefit the revenue budget over the longer term.

3.2 No refinancing of debt has been carried out in 2022/2023 as rates have not been considered sufficiently favourable. The Authority's average interest rate on borrowing is low, currently 2.52%, and as such the Authority already benefits from this low cost of borrowing and from the ongoing savings from past debt rescheduling exercises. Based on advice from the Authority's treasury management advisor, performance continues to see the Authority's average borrowing rate compare favourably to other authorities.

3.3 Treasury Management Prudential Indicators are regularly reviewed and the Authority is within the limits set for all its Treasury Management Prudential Indicators for 2022/2023. The statutory limit under section 3 (1) of the Local Government Act 2003, which is required to be reported separately, (also known as the Authorised Borrowing Limit for External Debt) was set at £52.816m for 2022/2023. The Authority's maximum external debt during the financial year to 30th September 2022 was £33.235m and is within this limit. More details of all of the Treasury Management Prudential Indicators are set out in Section 2 of Appendix A for information.

3.4 The Authority's investment policy is regularly monitored and reviewed to ensure it has flexibility to take full advantage of any changes in market conditions which will benefit the Authority.

3.5 The Authority has benefitted from the fact that its investment income has been matched to the benchmark rate of 1.22% instead of the average Money Market Fund (MMF) return. Whilst used in previous years, the MMF rate has been adversely impacted by market volatility linked to Covid and now the continuing conflict in Ukraine. The investment policy continues to reflect the priority to 'protect' the funds of the Authority first and foremost. More details are set out in Section A3 of this report in respect of the Authority's Investment Strategy and Performance.

3.6 More detailed Treasury Management information is included in Appendix A for information.

3.7 The regular updating of the Authority's Authorised Lending List is required to take into account financial institution mergers and changes in institutions' credit ratings since the last report. The updated Approved Lending List is shown in Appendix C for information.

4. Recommendation

4.1 The Committee is requested to note the Treasury Management performance during for the half year of 2022/2023.

4.2 Members are requested to note the Lending List Criteria at Appendix B, the Approved Lending List at Appendix C and the Risk Management Review of Treasury Management at Appendix D.

Appendix A

Detailed Treasury Management Performance – Half Year 2022/2023

A1 Borrowing Strategy and Performance – 2022/2023

A1.1 The Borrowing Strategy for 2022/2023 was approved by the Authority on 14th March 2022.

A1.2 The Borrowing Strategy is based upon interest rate forecasts from a wide cross section of City institutions. The view at the time of drafting the Treasury Management Policy and Strategy was that the 0.25% Bank of England (BoE) Base Rate would rise in 0.25% increments in June 2022, March 2023, March 2024 and March 2025 by which time it would stand at 1.25% within the forecast timeframe. PWLB borrowing rates were expected to rise, albeit gently, during 2022/2023 across all periods but could be subject to levels of volatility.

A1.3 The Bank of England's (BoE) Monetary Policy Committee (MPC) voted to raise the Base Rate for a seventh consecutive meeting on 22nd September 2022, taking it to 2.25%, the highest level since December 2008. This reflects their commitment to combat inflationary pressures, even at the risk hampering growth, to ensure headline CPI inflation drops back to its 2% target over a three-year timeframe.

A1.4 Year on year CPI inflation eased from 10.1% in July to 9.9% in August, but domestic price pressures show little sign of abating in the short term and inflation has not yet peaked. Utility price inflation is expected to add 0.7% to CPI in October when the Ofgem unit price cap takes effect and will be reflected when the official figure is released on 18th October 2022.

A1.5 Following increases in the BoE Base Rate, investment rates of return have increased significantly compared to previous years with returns in excess of 5% now available. However long-term borrowing rates are also currently high, and above our benchmark borrowing rate, therefore investment balances will be temporarily used where necessary pending borrowing rates reducing.

A1.6 Link Asset Services, the Authority's treasury advisors, reviewed their interest rate forecasts in September 2022 in light of continued volatility in the financial markets and now expect the Base Rate to rise faster and further than previously forecast. They forecast the BoE Base Rate will rise to 3.25% in November 2022, 4.00% in December 2022 and peak at 5.00% in March 2023, before gradually falling to 2.50% by the end of the forecast timeframe in September 2025. These forecasts, and MPC decisions, will be liable to further amendment as updated economic data becomes available and emerging developments in the financial markets. The current turbulence in economic markets linked to government policy announcements is unprecedented, meaning forecasts are changing on a regular basis.

A1.7 The following table shows the average PWLB rates for Quarter 1 and 2 compared to the SONIA Overnight Rate used to benchmark investment returns.

2022/2023	**Qtr 1* (Apr - Jun) %**	**Qtr 2* (Jul - Sep) %**
SONIA Overnight Rate	0.89	1.55
1 year	2.32*	3.27*
5 years	2.58*	3.25*
10 years	2.84*	3.41*
25 years	3.08*	3.79*
50 years	2.81*	3.52*

*rates take account of the 0.2% discount to PWLB rates available to eligible authorities.

A1.8 In line with discussions with the Authority's Treasury Management adviser, Sunderland City Council has taken out £50 million of new borrowing to meet its capital financing requirement. The rate was considered opportune but PWLB rates continue to be monitored closely in line with future capital programme requirements. The new borrowing is summarised in the following table:

Duration	**Date of the transaction**	**Start**	**Matures**	**Rate %**	**Loan Amount £m**
48 years	02/08/2022	09/08/2022	09/08/2070	2.79*	50.0

*rate takes account of the 0.20% discount to PWLB rates available to the Council.

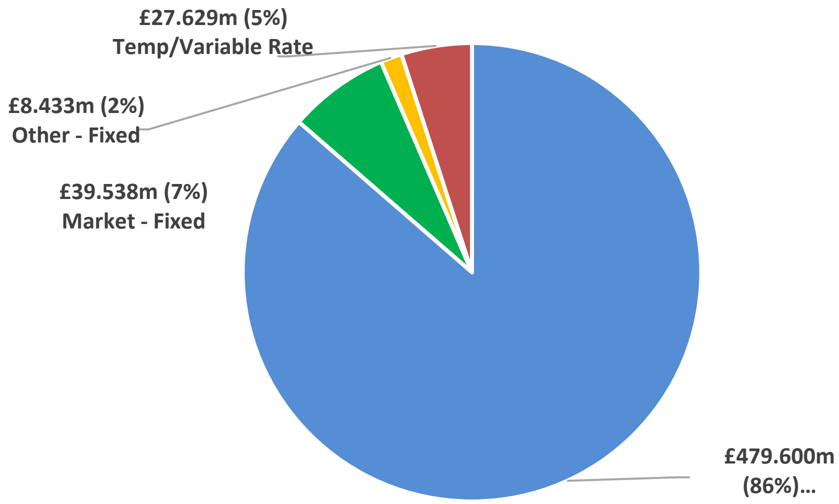
A1.9 High levels of volatility in the financial markets previously caused by Covid have been added to in 2022/2023 by the on-going conflict between Russia and Ukraine and uncertainty over how the West will respond through additional sanctions or other interventions. This has been exacerbated by the government's huge fiscal loosening plans announced by the Chancellor in September. The lack of independent scrutiny of the various projections, ideally by the Office for Budget Responsibility (OBR), and the increase in borrowing to fund the significant cost of the proposals unsettled the markets and forced the BoE to step in to buy long-term gilts to restore financial stability.

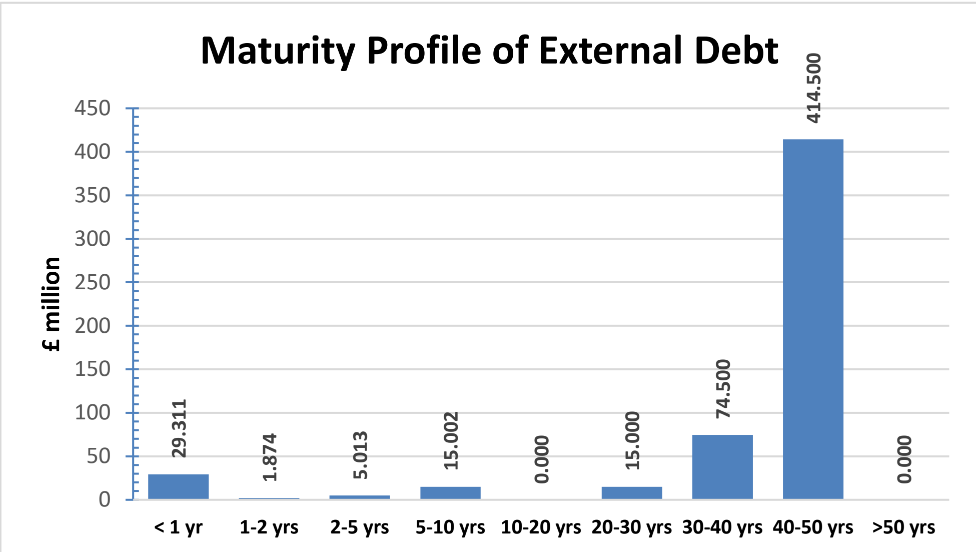
A1.10 There is expected to be a gradual upward movement in PWLB rates to the end of 2022, after which rates are anticipated to gradually fall. Link Asset Services predict PWLB rates standing at 4.90%, 4.70%, 4.90% and 4.60% for 5, 10, 25 and 50-year durations respectively by 31st March 2023 before falling to around 3.30% for all durations by March 2025. With so many external influences weighing on the UK economy, interest rate forecasting remains very difficult. From time to time, gilt yields, and consequently PWLB rates, can be subject to exceptional levels of volatility which could occur at any time during the forecast period.

A1.11 The strategy for 2022/2023 is to adopt a pragmatic and flexible approach in identifying the low points in the interest rate cycle at which to borrow, and to respond to any changing circumstances to seek to secure benefit for the Authority. A benchmark financing rate of 3.00% for long-term borrowing was set for 2022/2023 in light of the views prevalent at the time the Treasury Management policy was set in March 2022.

A1.12 The Council's treasury portfolio position at 30th September 2022 is set out below (which includes Fire Service debt totalling £10.346m):

Borrowing Summary at:	30 September 2022	
	Principal	**Ave rate %**
Fixed		
PWLB	479,600,000	2.46
Market - Fixed	39,538,123	4.40
Other - Fixed	8,432,690	0.00
	527,570,813	2.56
Variable		
Temporary/Other - Variable	27,628,762	1.71
	27,629,762	1.71
TOTAL:	**555,199,575**	**2.52**





A2 Treasury Management Prudential Indicators – 2022/2023

A2.1 All external borrowing and investments undertaken in 2022/2023 have been subject to the monitoring requirements of the Prudential Code. Under the Code, Authorities must set borrowing limits (Authorised Borrowing Limit for External Debt and Operational Boundary for External Debt) and must also report on the Authority's performance for all of the other Treasury Management Prudential Indicators.

A2.2 The statutory limit under section 3(1) of the Local Government Act 2003 (which is also known as the Authorised Borrowing Limit for External Debt) was set by the Authority for 2022/2023 as follows:

	£m
Borrowing	38.359
Other Long-Term Liabilities	14.457
Total	**52.816**

The Operational Boundary for External Debt was set as shown below:-

	£m
Borrowing	33,359
Other Long-Term Liabilities	14.457
Total	**47.816**

A2.3 Both the Authorised Limit and the Operational Limit include an element for long-term liabilities relating to PFI schemes and finance leases. These have been brought onto the Authority's Balance Sheet in compliance with International Financial Reporting Standards (IFRS).

A2.4 The Authority's maximum external debt in respect of 2022/2023 (to 30th September 2022) was £33.235 million and is within the limits set by both of these indicators.

A2.5 The table below shows that all other Treasury Management Prudential Indicators set by Sunderland City Council (which includes the Authority's data) have been complied with:

Prudential Indicators		**2022/2023 (max at 30th Sept 2022)**	
		Limit	**Actual**
P9	**Maturity Pattern**	Upper Limit	
	Under 12 months	50%	6.74%
	12 months and within 24 months	60%	0.37%
	24 months and within 5 years	80%	0.99%
	5 years plus	100%	93.48%
	A lower limit of 0% for all periods		
P10	**Upper limit for total principal sums invested for over 365 days**	£75m	0

A3 Investment Strategy – 2022/2023

A3.1 The Investment Strategy for 2022/2023 was approved by the Authority on 14th March 2022. The general policy objective for the Authority is the prudent investment of its treasury balances. The Authority's investment priorities in order of importance are:

a) The **security** of capital;
b) The **liquidity** of its investments and then;

c) The Authority aims to achieve the **optimum yield** on its investments, but this is commensurate with the proper levels of security and liquidity.

A3.2 As at 30th September 2022, funds managed by Sunderland City Council's in-house team on behalf of the Authority amounted to £27.514 million and all investments complied with the approved Annual Investment Strategy.

A3.3 The table below shows the return received on these investments compared with the benchmark SONIA (Sterling Overnight Index Average) rate, which the Authority uses to assess its performance.

	2022/2023 Actual to 30/09/22 %	**2022/2023 Benchmark to 30/09/22 %**
Return on investments	1.22	1.22*

A3.4 Investments placed in 2022/2023 have been made in accordance with the approved Investment Strategy and comply with the Counterparty Criteria in place, shown in Appendix B, which is used to identify organisations on the Approved Lending List.

A3.5 Investment rates available in the market have started to rise following a series of Base Rate increases announced by the Bank of England's Monetary Policy Committee (MPC). In the 9 months since the MPC voted to raise the Base Rate by 0.15% to 0.25% at its meeting on 16th December 2021, there have been six subsequent rises. The Base Rate currently stands at 2.25% with further increases expected.

Effective Date	**BoE Base Rate %**
19 Mar 2021	0.10
16 Dec 2021	0.25
3 Feb 2022	0.50
17 Mar 2022	0.75
5 May 2022	1.00
16 Jun 2022	1.25
4 Aug 2022	1.75
22 Sep 2022	2.25

A3.6 Whilst investment rates have improved recently, the Authority continues to follow a risk averse strategy when placing funds, prioritising security of capital whilst seeking to achieve the optimum return commensurate with risk. The Authority continues to follow advice from our Treasury Management advisors by placing funds in shorter dated liquid investments than previously.

A3.7 Advice also continues that the above guidance is not applicable to institutions considered to be very low risk, mainly where the government holds shares in these organisations (i.e. RBS) and therefore have the UK Government rating applied to them, or separately in respect of Money Market Funds which are AAA rated.

A3.8 The regular updating of the Authorised Lending List is required to take into account financial institution mergers and changes in institutions' credit ratings. Any changes since the last Treasury Management report are indicated in bold on the Approved Lending List is shown in Appendix C.

Lending List Criteria **Appendix B**

Counterparty Criteria

The Council takes into account not only the individual institution's credit ratings issued by all three credit rating agencies (Fitch, Moody's and Standard & Poor's), but also all available market data and intelligence, the level of government support and advice from its Treasury Management advisers.

Set out below are the criteria to be used in determining the level of funds that can be invested with each institution. Where an institution is rated differently by the rating agencies, the lowest rating will determine the level of investment.

Fitch Long-Term Rating	Fitch Short-Term Rating	Moody's Long-Term Rating	Moody's Short-Term Rating	S&P's Long-Term Rating	S&P's Short-Term Rating	Maximum Deposit £m	Maximum Duration
AAA	F1+	Aaa	P-1	AAA	A-1+	120	2 Years
AA+	F1+	Aa1	P-1	AA+	A-1+	100	2 Years
AA	F1+	Aa2	P-1	AA	A-1+	80	2 Years
AA-	F1+	Aa3	P-1	AA-	A-1+	75	2 Years
A+	F1+	A1	P-1	A+	A-1	70	365 days
A+	F1	A1	P-1	A+	A-1	70	365 days
A	F1	A2	P-1	A	A-1	65	365 days
A-	F1	A3	P-1	A-	A-1	50	365 days
A-	F2	A3	P-2	A-	A-2	50	365 days
Local Authorities (limit for each local authority)						30	2 years
UK Government (including debt management office, gilts and treasury bills)						300	2 years
Money Market Funds (CNAV, LVNAV and VNAV) Maximum amount to be invested in Money Market Funds is £250m with a maximum of £50m in any one fund.						250	Liquid Deposits
Local Authority controlled companies						40	20 years

Where the UK Government holds a shareholding in an institution the UK Government's credit rating of AA- will be applied to that institution to determine the amount the Council can place with that institution for a maximum period of 2 years.

The Code of Practice for Treasury Management in the Public Services recommends that consideration should also be given to country, sector, and group limits in addition to the individual limits set out above; these new limits are as follows:

Country Limit
It is proposed that only non-UK countries with a minimum sovereign credit rating of AA+ by all three rating agencies will be considered for inclusion on the Approved Lending List.

It is also proposed to set a total limit of £50m which can be invested in other countries provided they meet the above criteria. A separate limit of £300m will be applied to the United Kingdom and is based on the fact that the government has done and is willing to take action to protect the UK banking system.

Country	**Limit £m**
UK	300
Non-UK	50

Sector Limit
The Code recommends a limit be set for each sector in which the Council can place investments. These limits are set out below:

Sector	**Limit £m**
Central Government	300
Local Government	300
UK Banks	300
Money Market Funds	250
UK Building Societies	100
Foreign Banks	50

Group Limit
Where institutions are part of a group of companies e.g. Lloyds Banking Group, Santander and RBS, the total limit of investments that can be placed with that group of companies will be determined by the highest credit rating of a counterparty within that group, unless the government rating has been applied. This will apply provided that:

- the UK continues to have a sovereign credit rating of AA-; and
- that market intelligence and professional advice is taken into account.

Proposed group limits are set out in Appendix C.

Approved Lending List **Appendix C**

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
UK	AA-		Aa3		AA		300	
Lloyds Banking Group							Group Limit 70	
Lloyds Bank Plc (RFB)	A+	F1	A1	P-1	A+	A-1	70	365 days
Lloyds Bank Corporate Markets plc (NRFB)	A+	F1	A1	P-1	A	A-1	65	365 days
Bank of Scotland Plc (RFB)	A+	F1	A1	P-1	A+	A-1	70	365 days
Royal Bank of Scotland Group (See Note 1)							Group Limit 75	
The Royal Bank of Scotland Plc (RFB)	A+	F1	A1	P-1	A	A-1	75	2 years
National Westminster Bank Plc (RFB)	A+	F1	A1	P-1	A	A-1	75	2 years
NatWest Markets plc (NRFB)	A+	F1	A1	P-1	**A**	**A-2**	75	2 years
Santander UK plc	A+	F1	A1	P-1	A	A-1	65	365 days
Barclays Bank plc (NRFB)	A+	F1	A1	P-1	A	A-1	65	365 days
Barclays Bank plc (RFB)	A+	F1	A1	P-1	A	A-1	65	365 days
Clydesdale Bank */**	A-	F2	A3	P-2	A-	A-2	50	365 days
Co-Operative Bank Plc **	B+	B	**Ba2**	NP	-	-	0	
Goldman Sachs International Bank	A+	F1	A1	P-1	A+	A-1	70	365 days
HSBC Bank plc (NRFB)	AA-	F1+	A1	P-1	A+	A-1	70	365 days
HSBC UK Bank plc (RFB)	AA-	F1+	A1	P-1	A+	A-1	70	365 days
Nationwide BS	A	F1	A1	P-1	A+	A-1	65	365 days
Standard Chartered Bank	A+	F1	A1	P-1	A+	A-1	70	365 days
Close Brothers Ltd	A-	F2	Aa3	P-1	-	-	50	365 days
SMBC Bank International Ltd	A	F1	A1	P-1	A	A-1	65	365 days
Top Building Societies (by asset value)								

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
Nationwide BS (see above)								
Coventry BS	A-	F1	**A2**	P-1			50	365 days
Leeds BS	A-	F1	A3	P-2	-	-	50	365 days
Principality BS **	BBB+	F2	Baa2	P-2	-	-	0	
Skipton BS	A-	F1	A2	P-1	-	-	50	365 days
West Bromwich BS **			Ba3	NP	-	-	0	
Yorkshire BS	A-	F1	A3	P-2	-	-	50	365 days
Money Market Funds							250	Liquid
Prime Rate Stirling Liquidity	AAA		AAA		AAA		50	Liquid
Insight Liquidity Fund	AAA		-		AAA		50	Liquid
Aberdeen Liquidity Fund (Lux)	AAA				AAA		50	Liquid
Deutsche Managed Sterling Fund			Aaa		AAA		50	Liquid
Foreign Banks have a combined total limit of £50m								
Australia	AAA		Aaa		AAA		50	
Australia and New Zealand Banking Group Ltd	A+	F1	Aa3	P-1	AA-	A-1+	50	365 days
Commonwealth Bank of Australia	A+	F1	Aa3	P-1	AA-	A-1+	50	365 days
National Australia Bank	A+	F1	Aa3	P-1	AA-	A-1+	50	365 days
Westpac Banking Corporation	A+	F1	Aa3	P-1	AA-	A-1+	50	365 days
Canada	AA+		Aaa		AAA		50	
Bank of Nova Scotia	AA-	F1+	Aa2	P-1	A+	A-1	50	365 days
Royal Bank of Canada	AA-	F1+	**Aa1**	P-1	AA-	A-1+	50	2 years
Toronto Dominion Bank	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
Denmark	AAA		Aaa		AAA		50	
Danske A/S	A	F1	A2	P-1	A+	A-1	50	365 days
Finland	AA+		Aa1		AA+		50	
OP Corporate Bank plc	WD	WD	Aa3	P-1	AA-	A-1+	50	2 years
Germany	AAA		Aaa		AAA		50	
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	AA-	F1+	Aa2	P-1	A+	A-1	50	365 days
Landwirtschaftliche Rentenbank	AAA	F1+	Aaa	P-1	AAA	A-1+	50	2 years

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
NRW Bank	AAA	F1+	Aa1	P-1	AA	A-1+	50	2 years
Netherlands	AAA		Aaa		AAA		50	
Bank Nederlandse Gemeenten	AAA	F1+	Aaa	P-1	AAA	A-1+	50	2 years
Cooperatieve Rabobank U.A.	A+	F1	Aa2	P-1	A+	A-1	50	365 days
Nederlandse Waterschapsbank NV			Aaa	P-1	AAA	A-1+	50	2 years
Singapore	AAA		Aaa		AAA		50	
DBS Bank Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
Oversea Chinese Banking Corporation Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
United Overseas Bank Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
Sweden	AAA		Aaa		AAA		50	
Svenska Handelsbanken AB	AA	F1+	Aa2	P-1	AA-	A-1+	50	2 years
Switzerland	AAA		Aaa		AAA		50	
Credit Suisse AG	**BBB+**	**F2**	**A2**	P-1	**A**	A-1	**0**	
UBS AG	AA-	F1+	Aa2	P-1	A+	A-1	50	365 days
USA	AAA		Aaa		AA+		50	
Bank of New York Mellon	AA	F1+	Aa1	P-1	AA-	A-1+	50	2 years
JP Morgan Chase Bank NA	AA	F1+	Aa1	P-1	A+	A-1	50	365 days
Wells Fargo Bank NA	AA-	F1+	Aa1	P-1	A+	A-1	50	365 days

Note 1 **Nationalised / Part Nationalised**
The counterparties in this section will have the UK Government's AA- rating applied to them thus giving them a credit limit of £75m.

*/** The Clydesdale Bank (under the UK section) is owned by National Australia Bank

** These will be revisited and used only if they meet the minimum criteria (ratings of A- and above)

Any bank which is incorporated in the United Kingdom and controlled by the Prudential Regulation Authority (PRA) is classed as a UK bank for the purposes of the Approved Lending List.

Appendix D

Risk Management Review of Treasury Management

Set out below are the risks the Authority faces as a result of carrying out their Treasury Management functions and the controls that are in place to mitigate those risks:

Risk	Controls
1. Strategic Risk The Authority's strategic objectives could be put at risk if borrowing costs escalated, or investment income was reduced, or there was a combination of the two. This could result in a negative impact on the Authority's budget and could ultimately lead to a reduction in resources for front line services.	This risk is mitigated by the adoption of a Treasury Management Strategy approved by the Authority in March each year for the next financial year, in accordance with the CIPFA Code of Practice on Treasury Management. The Treasury Management Strategy sets out a borrowing strategy and investment strategy for the year ahead. The strategy is based on the view of the Lead Authority's Finance Section on the outlook for interest rates, supplemented by the views of leading market forecasters provided by the treasury advisor (currently Link Asset Services). The strategy also sets the Authorised Borrowing Limit (setting the maximum amount that the Authority may borrow) and various prudential indicators to ensure the Treasury Management function is monitored and properly managed and controlled.
2. Interest Rate Risk The risk of fluctuations in interest rates affects both borrowing costs and investment income and could adversely impact on the Authority's finances and budget for the year.	The Authority manages its exposure to fluctuations in interest rates with a view to minimising its borrowing costs and securing the best rate of return on its investments, having regard to the security of capital, in accordance with its approved Treasury Management Strategy. The risk is mitigated due to the prudent view taken on interest rates adopted in the budget after taking into account the Lead Authority Finance Section's view of the financial markets, specialist expert advice, other information from the internet, other domestic and international economic data, published guidance and Government fiscal policy. A pro-active approach is taken by the Treasury Management team, which closely monitors interest rates on a daily basis and takes necessary actions to help mitigate the impact of interest rate changes over the short, medium and longer term as appropriate.

	Risk	Controls
3.	**Exchange Rate Risk** As a result of the nature of the Authority's business, the Authority may have an exposure to exchange rate risk from time to time. This will mainly arise from the receipt of income or the incurring of expenditure in a currency other than sterling.	All borrowings and investments are made in sterling and are therefore not subject to exchange rate risk. This risk is minimal as all other foreign exchange transactions are automatically converted into GBP sterling by the Authority's bankers on the day of the transaction.
4.	**Inflation Risk** There is a risk that the rate of inflation will impact on interest rates as a direct result of the intervention of the Bank of England to control inflation through the use of interest rates, where inflation rates have exceeded or are projected to exceed the target rates agreed between the Bank of England and Government.	Economic data such as pay, commodities, housing and other prices are monitored by the treasury advisors. These are considered as part of an overall view on the influences on inflation rates, which in turn inform the Authority's view on interest rate forecasts when drafting annual budgets and reviewing treasury management performance. Regular meetings are held with treasury advisors to provide updates on economic data to monitor any changes in inflation rates that may influence interest rates so that the Treasury Management Strategy can be revised and updated as necessary and any remedial action taken.
5.	**Counterparty Risk** The Economic Downturn and problems encountered by some authorities with Icelandic Banks has demonstrated that there is a risk of losing funds/investments deposited with counterparties when carrying out its investment strategy activities.	The prime objective of the treasury management activity in this area is the security of the capital sums it invests. Accordingly, counterparty lists and limits reflect a prudent view of the financial strength of the institutions where funds are deposited. The Authority also only uses instruments set out in its investment policy and places limits upon the level of investment with the Counterparties approved within the Authority's Treasury Management Policy and Strategy Statement. The Lead Authority Finance Officer has delegated authority to amend both the Lending Criteria and the Approved Lending List in response to changes in the financial markets should the need arise and these changes are reported to the relevant Committee at the next available opportunity. The Treasury Management team continually monitor information regarding counterparties using credit ratings, news articles, the internet, Credit Default

	Risk	Controls
		Swap prices, professional advice and other appropriate sources to formulate its own view to keep the approved lending list up to date and fully informed, using the latest available information.
6.	**Capital Financing and Refinancing Risk** There is a risk that opportunities for rescheduling of the Authority's debt portfolio are constrained.	The risk is currently mitigated as the Council has access to the funds of the Public Works Loan Board (PWLB). PWLB funding could come under pressure in future years because of Government targets to reduce the level of public debt which could see a return to the operation of the PWLB quota system as operated in previous years where Government funding was restricted. However, the Government has not indicated that this is an option that they are currently considering.
7.	**Statutory and Regulatory Risk** There is a risk that regulations covering Treasury Management will change and the Authority fails to respond to those changes.	The Authority ensures full compliance with the current legislative requirements under the Local Government Act 2003 and the Prudential Code, which also requires full compliance with the latest CIPFA Treasury Management Code of Practice. All Treasury Management Prudential Indicators are monitored daily and all Treasury Management practices fully comply with the Revised Code of Practice and this is reported to and agreed by the Authority.
8.	**Treasury Management Arrangements Risk** There is a risk that the Authority does not carry out its Treasury Management function effectively and thereby the Authority could suffer financial loss as a result.	This is unlikely to happen because the Treasury Management function is required to ensure the Authority can comply with all legislative and regulatory requirements. As such the Authority has access to a well-established Treasury Management team that operates under the Lead Authority Finance Officer and is staffed appropriately with a good mix of both experienced and qualified staff. Professional advice is regularly accessed to ensure the team is up to date and that they can inform senior management and Members of all developments and provide the necessary expert advice and guidance in this specialist area of finance.

Tyne and Wear Fire and Rescue Authority
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TYNE AND WEAR FIRE AND RESCUE AUTHORITY **Item No. 7**

MEETING: GOVERNANCE COMMITTEE 31st October 2022

SUBJECT: AUDIT LETTER 2021/2022

REPORT OF THE CHIEF FIRE OFFICER/CHIEF EXECUTIVE (CLERK TO THE AUTHORITY) AND THE FINANCE DIRECTOR

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1. PURPOSE OF THE REPORT

1.1 The report details the recent notification from our external auditor regarding a delay to the audit of the 2021/22 accounts. A copy of the Letter, is attached to this report at Appendix 1 for member's information.

2. AUDIT LETTER – DELAY IN ISSUING THE AUDITORS ANNUAL REPORT FOR 2021/22

2.1 Government regulations require that the auditors (Mazars) issue their Annual Report on the Authority's 2021/22 accounts within 3 months of issuing their opinion on the financial statements, and before 30th September 2022.

2.2 As a result of an extension to the accounts and audit timetable for 2021 (where the timescales have been extended) the auditors have formally notified us that they will not be able to fulfil the 30th September 2022 deadline, which is as expected.

2.3 Members will already be aware that Mazars provided an early notification that delays in the audit work for 2021/22 accounts would be encountered and had provided a revised date for completion of the audit of 30th November 2022 (at the meeting held on 27th May 2022) as being a more realistic date for the audit to be completed compared to the then 30th September 2022 statutory date. This reflected the fact that they had much more detailed Value for Money work to complete for every public sector audit and in addition that there was a backlog of audit work relating to audits from 2020/21 still outstanding that needed to managed and completed. This position was widespread across the country and not specific to Mazars.

2.4 The Audit Letter set out in Appendix 1 is the auditors formal Audit Letter notifying the Authority and members of this Committee of the above position in that there will be a delay in them issuing their Annual Audit Report for 2021/22, which states that they will issue their Annual Report no later than three months after the date of the opinion on the financial statements.

A copy of this letter has already been sent to the Chair of this Committee and was also put on the Authority's website as requested by the auditors.

3. FINANCIAL IMPLICATIONS

3.1 There are no financial implications in respect of this report.

4. RISK MANAGEMENT IMPLICATIONS

4.1 There are no Risk Management implications in respect of this report.

5. HEALTH AND SAFETY IMPLICATIONS

5.1 There are no Health and Safety implications in respect of this report.

6. EQUALITY AND DIVERSITY

6.1 There are no Equality and Diversity implications in respect of this report.

7. RECOMMENDATION

7.1 Members are recommended to note the report and the letter attached as Appendix A.

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Mr G Cook
Chair of the Governance Committee
Tyne and Wear Fire and Rescue Authority
Nissan Way
Washington
Sunderland
Tyne and Wear
SR5 3QY

Direct line: 07813 752 053
Email: cameron.waddell@mazars.co.uk
Date: 30 September 2022

Dear Mr Cook

Tyne and Wear Fire and Rescue Authority

Audit letter – Delay in issuing the Auditor's Annual Report

The 2020 Code of Audit Practice requires us to issue our Auditor's Annual Report within 3 months of issuing our opinion on the financial statements, and before 30th September. Where this is not possible, we are required to write to you setting out the reasons for the delay in an 'audit letter'. For the purposes of compliance with the Accounts and Audit Regulations (2015), this letter constitutes the 'audit letter'.

As a result of an extension to the accounts and audit timetable for 2021/22, our Auditor's Annual Report will not be issued by 30 September 2022. We anticipate issuing this no more than three months after the date of the opinion on the financial statements.

It would be helpful if this letter could be circulated to the Governance Committee, and you might find it useful to publish this letter on your website to explain the delays in publication of the Auditor's Annual Report for 2021/22.

Yours sincerely

p.p Joanne Greener

Cameron Waddell, Partner

For and on behalf of Mazars LLP