Audit Committee

17 March 2022: 10:30am (Virtual)

Location: Virtual via Microsoft Teams

Contact Officer: Alan Edwards

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Agenda items

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Part Two: Exclusion of the Press & Public (Exempt) *The Chair to move the removal of the press and public since the following items would be exempt from the Access to Information Regulations. Local Government Act 1972 Schedule 12(a) (as amended) Paragraph 7 - information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime*	
E1. Internal Audit on Cyber Security	

* **Declarations of Interests**

If you are present at a meeting of London Councils' or any of its associated joint committees or their sub-committees and you have a disclosable pecuniary interest* relating to any business that is or will be considered at the meeting you must not:

- participate in any discussion of the business at the meeting, or if you become aware of your disclosable pecuniary interest during the meeting, participate further in any discussion of the business, or
- participate in any vote taken on the matter at the meeting.

These prohibitions apply to any form of participation, including speaking as a member of the public.

It is a matter for each member to decide whether they should leave the room while an item that they have an interest in is being discussed. In arriving at a decision as to whether to leave the room they may wish to have regard to their home authority's code of conduct and/or the Seven (Nolan) Principles of Public Life.

*as defined by the Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012

If you have any queries regarding this agenda or are unable to attend this meeting, please contact:

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Minutes of the Informal Meeting of the Audit Committee held Virtually on 16 September 2021

Cllr Roger Ramsey was in the Chair

Members Present:

Cllr Roger Ramsey (LB Havering)
Cllr Muhammed Butt (LB Brent)
Cllr David Gardner (RB Greenwich)
Cllr Stephen Alambritis (LB Merton)
Cllr Robin Brown (LB Merton)

In Attendance:

Matt Lock, Head of Audit & Risk Management, City of London Corporation
Martha Franco-Murillo, Senior Auditor, City of London Corporation
Ciaran T McLaughlin, Director, Grant Thornton UK LLP
Ibukun Oluwasegun, Grant Thornton UK LLP

London Councils' officers were in attendance.

The Chair informed members that this would be an informal meeting of the Audit Committee and that any decisions taken would be agreed via the London Councils' Urgency Procedure following the meeting.

1. Apologies for Absence

There were no apologies for absence.

2. Declarations of Interest

There were no declarations of interest.

The Chair informed members that this would be Frank Smith's last meeting of the Audit Committee as he was retiring on 3 October 2021. He said that Frank Smith had attended over a 1,000 London Councils' committee meetings and would be greatly missed by this Audit Committee and London Councils as a whole. Frank Smith said that it had been a pleasure working for London Councils. He said that he had given more than 38 years' service and was a firm advocate for local government in London. Frank Smith wished London Councils all the best for the future.

3. Minutes of the Audit Committee meeting held on 17 June 2021

The Chair said that the action to email the Audit Committee members the revised wording of the Annual Governance Statement had been completed.

As this was an informal meeting of the Audit Committee, the minutes of the meeting held on 17 June 2021 were noted by the Committee and would be agreed by London Councils' Urgency Procedure following the meeting.

4. Draft Annual Audit Report 2020/21

The Audit Committee received a report that presented members with the annual audit report to those charged with governance (ISA260) prepared by Grant Thornton, London Councils' external auditor, in respect of the 2020/21 financial year.

The Chair informed the Audit Committee members that David Sanni would be the Acting Director of Corporate Resources once Frank Smith retired. David Sanni, Chief Accountant, London Councils, said that the report presented the audit findings by Grant Thornton - London Councils' external auditors. He said that there were still some areas that were outstanding.

Ciaran McLaughlin, Director, Grant Thornton UK, introduced the report and made the following comments:

- The report provided an update on audit findings for work on the 2020/21 accounts.
- A letter will be sent to the London Pension Fund Authority (LPFA) seeking assurances over the validity and accuracy of information included in the IAS19 pension valuation report.
- The London Councils Ltd accounts had been completed and signed off.
- The review of significant risks included risks relating to the fraudulent recognition of revenue, which is a standard audit consideration. Given the nature of London Councils income streams, such as borough subscriptions, and the culture and governance arrangements within the organisation, the risk of fraud has been rebutted.
- Audit testing had been carried out on management override of controls including the review of journals and journal listings. Audit work was still in progress and there were no issues identified so far.
- The next significant risk considered was the pension scheme deficit. There were no matters arising. There was a pension deficit across all authorities, although the increase in London Councils' deficit was large in comparison and more work needed to be carried out.
- Grant Thornton was still working through the key judgements and estimates. Grant Thornton was satisfied that the process for dilapidation and external decoration provisions for the Limited Company were adequate.
- Testing had been completed for the European Social Fund (ESF) Grants in the Grants Committee.
- There were no other matters arising and a letter of representation would be required for all entities within London Councils.
- Sufficient work had been carried out with regards to management's going concern assessment, and there were no matters to bring to the Audit Committee's attention.
- There were no significant facts or matters that impacted on Grant Thornton's independence as auditors, and Grant Thornton had complied with the Financial Reporting Council's Ethical Standards.
- No audit adjustments had been identified to date (Appendix A), which was very positive.
- There was nothing to draw members' attention to with regards to London Councils Ltd. This was signed off on 9 September 2021.

The Chair asked when the outstanding areas of work in the report would be completed. He said that the previous year's audit had been completed in December/January. Ciaran McLaughlin said that the work should be completed by the end of October 2021. The Chair asked if the amount of additional fees is likely to change. Ciaran McLaughlin said that the additional costs of £7,800 should not increase at this stage, although there was more work to do, including the AR27 to finish off.

Councillor Brown asked about the increase in the net pension deficit. He also asked about the changes to the financial assumptions and mortality indicators used in the calculation of the pension deficit. Ciaran McLaughlin confirmed that there had been changes to key assumptions. The assumptions were compared to an expected range assumptions produced by PwC and were found to be within a range expected to produce a reasonable estimate. Ciaran McLaughlin said that there would be concern if the estimates were outside this range. He said that the mortality indicators used by the actuary were also within the expected range.

Ciaran McLaughlin said that the total actuarial loss was £16.5 million compared to a £4.5 million gain from the previous year. Councillor Brown said that the deficit was £42 million. David Sanni said that the pension liability had increased to £42 million, which was up from the £24 million last year. He said that there had been increases in the financial assumptions used to calculate the pension obligation. The discount rate had reduced from 2.35% to 2% and the inflation rate had increased from 1.85% to 2.85% which both increase the value of the liability. He said that the assumptions used by the actuary were on the prudent side of PwC's range of financial assumptions. Councillor Brown asked what the value was of the gross pension liability. Ciaran McLaughlin confirmed that the gross pension liability was £105 million. Councillor Brown said that the pension liability was considerably underfunded in that case, as the gap was large. He asked if the financial assumptions used by the actuary were more prudent than those used in previous years. David Sanni said that the financial assumptions were no more prudent than previous years. The Chair said that there had been a significant increase in the pension deficit, which needed to be monitored.

Councillor Gardner said that the values of pensions fund assets had increased over the last 12 months. He said that he thought that the audit was supposed to be completed by the end of September 2021. Councillor Gardner said that London Councils had come out of the audit favourably. He also asked about the misstatement on the balance sheet. Ciaran McLaughlin confirmed that there was no statutory deadline for London Councils' accounts to be completed. He said that Grant Thornton was not in a position to sign-off the accounts by 30 September 2021, and that it would take longer to do so. Ibukun Oluwasegun, Audit Manager, Grant Thornton UK said the misstatement was a result of the incorrect classification of a £951 debtor in the balance sheet of the limited company accounts*.*

Frank Smith, Director of Corporate Resources, London Councils, said that, with regards to pensions, the amounts shown in the accounts would never be fully payable. He said that this would only happen if London Councils ceased to exist as an organisation. The LPFA would then have to start a cessation order which would result in the calculation of a cessation value. Frank Smith said that London Councils did not have a great deal of influence on the financial assumptions used to calculate the pension deficit and relied on the expertise of the actuary, Barnett Waddingham, and the LPFA. However, the increase in inflation is well publicised and will increase the value of the pension liability. Councillor Brown felt that it would be beneficial for London Councils to have a better understanding of the pension scheme deficit. *.*

The Audit Committee noted the contents of the annual audit report included at Appendix A.

5. Financial Accounts 2020/21

The Audit Committee received a report presenting the statement of accounts for 2020/21 for approval. The accounts to be noted (and approved via the London Councils' Urgency Procedure following the meeting) comprised of London Councils Consolidated Statement of Accounts for 2020/21, London Councils Transport and Environment Committee Statement of Accounts for 2020/21 and London Councils Grants Committee Statement of Accounts for 2020/21.

David Sanni introduced the report that presented the three sets of accounts (Grants, TEC and Consolidated) to the Audit Committee for 2020/21. He informed members that there was a pre-audited surplus in the consolidated accounts of £1.983 million (Table 1). Table 3 showed the adjusted position for 2020/21 as shown in the statutory accounts which included the actuarial loss on pensions assets/liabilities. Finally, Table 5 showed the usable reserves at 31 March 2021, which amounted to £13.713 million (consolidated). The Chair said that he would have to certify the accounts on behalf of the Audit Committee when the audit was completed.

Councillor Gardner thanked David Sanni for the accounts. He asked why reserves had been used in setting the annual budget and if this practice was sustainable. Councillor Gardner also asked why the actual use of reserves differed from the budgeted amount. The Chair informed members that the London Councils' Leaders Committee had agreed the budget, along with the use of reserves. David Sanni said that reserves had been used to set a balanced budget for the year. He said that the actual use of reserves of £4 million included a transfer from the pensions reserve to offset the impact of the increase in the pension scheme deficit on the revenue account in accordance with local authority accounting. There would be a budget setting exercise in November, before boroughs set their budgets, and the level and use of reserves would be considered.

Frank Smith said that Table 2 showed a surplus of £1.983 million, and Table 4 in the report showed a breakdown of how it arose. Frank Smith said that 2020/21 was an extraordinary year owing to the effects of Covid-19. There were reductions on income from the London Lorry Control Scheme (LLCS), the replacement of Freedom passes and the hire of meeting rooms at the Southwark Street offices. London Councils' premises requirements will be considered as part of a review of future operating models.

Councillor Brown felt that the reserves could go towards helping out hard pressed boroughs at the moment. Frank Smith said that this issue had been brought up at London Councils' Executive Committee last week, where reviewing benchmark levels was discussed. The level and adequacy of reserves will be considered as part of the 2021/22 budget setting process.

As this was an informal meeting of the Audit Committee, any decisions/approval of the accounts would be agreed by the London Councils' Urgency Procedure following the meeting.

The Audit Committee:

- Noted the statement of accounts, as detailed at Appendices A to C of this report subject to the satisfactory conclusion of outstanding audit work detailed on Item 4 of the Committee agenda.

6. Risk Management: Corporate Risk Register

The Audit Committee received a report that presented the current Corporate Risk Register for consideration by the Audit Committee.

Christiane Jenkins, Director of Corporate Governance, London Councils, introduced the report. She said that the Corporate Risk Register was presented to the Audit Committee every September for noting. The Directorate and Corporate Risk Registers were reviewed quarterly by the Corporate Governance Officer Group and on a twice-yearly basis by the Corporate Management Team (CMT). Christiane Jenkins said that all the risks were reviewed in 2020, with particular attention being paid to where London Councils was with regards to risks caused by the pandemic. Risk 1 ("loss of borough support") had been strengthened and risk 10 ("failure to exploit gains and synergies from London Councils Challenge process") had been deleted as all the workstreams had been completed or absorbed into business plans.

Christiane Jenkins said that further amendments to the risk register would be made in light of Spencer Palmer leaving and Frank Smith retiring. The Chair said that changes to the risk registers were now being highlighted in the report which was very helpful.

The Audit Committee noted the London Councils' Corporate Risk Register for 2021/22 which could be found attached at Appendix 2 of the report.

7. Internal Audit Update

The Audit Committee considered a report that provided members with an update in relation to the work of Internal Audit since the last update report made to the June 2021 meeting.

Matt Lock, Head of Audit & Risk Management, City of London Corporation, introduced the report. He said that the audit of recruitment and payroll adjustments had been completed and a draft report issued on ICT cyber security. Matt Lock said a way would be found to share the findings on cyber security with members. He said that progress had been very good, and reviews would be taking place on the pan London mobility schemes and parking and trafic contracts over the next couple of months. This left the ICT strategy 2020/23 which had not been started yet. Matt Lock said that there was nothing to bring to the attention of the Audit Committee. The Chair said that any confidential reports could be presented to the Audit Committee under the exempt part of the agenda.

The Chair asked whether the City of London were on target to complete the number of days set out in the table in paragraph one of the report. Matt Lock said that he was very happy with the progress being made so far.

The Audit Committee noted the contents of the Internal Audit report.

8. Business Continuity Plan

The Audit Committee received a report on the revised version 4.1 of the Business Continuity Plan (BCP) document that had been produced and approved by London Councils' Corporate Management Team (CMT) on 1 July 2021 and could be found at Appendix 1 of the report.

Roy Stanley, Head of ICT and Facilities, London Councils, introduced the report which was a 2021 (4.1) version of the Plan. The Plan continued the concept of Gold, Silver and Bronze response teams, along with names, specific responsibilities and tasks linked to those teams/individuals. Roy Stanley said that the Plan also included key lessons learned from the Covid-19 pandemic, which could be found in section 9.0 of the Plan.
The Chair asked whether the Plan would need updating as London Councils moved forward. Roy Stanley confirmed that the full review of the BCP was due to take place in January 2022. The Plan was also reviewed on a monthly basis.

Councillor Brown thanked officers for the Plan, and everyone that was responsible for getting the organisation "up and running" during the pandemic. He said that insurance was important and could have a significant impact on the organisation but there was no reference to it in the Plan. Councillor Brown said that an officer should be responsible for contacting the insurers and landlord and this should be incorporated into the BCP. Roy Stanley said that part of the Plan included liaising with the Gold and Silver teams, and this was brought out in the Plan.

The Chair asked who London Councils' insurers were. Frank Smith said that London Councils had various insurance policies including one that would pay the organisation £150,000 to find temporary alternative premises. He said that staff at London Councils also had access to the City of London's premises. Frank Smith said that the revised Plan had taken advantage of the lessons learned during the pandemic. The Plan could also include details of insurance in the future.

David Sanni confirmed that London Councils did have business continuity cover and details of this could be incorporated into the Plan. He said that there was a wide range of insurers that covered London Councils' Southwark Street building and the London Tribunals building. David Sanni said that a great deal of information was held in the cloud, and there was now an extra set of controls for London Councils' business continuity arrangements. Councillor Brown voiced concern that insurers often made it difficult for customers to make a claim. He urged London Councils to make a claim as soon as possible in the event of catastrophe, like the loss of the building, in order to receive any pay-outs on a timely basis. Councillor Alambritis thanked officers for the excellent report, which was one of the best BCPs he had seen.

The Audit Committee:

- Noted that details of London Councils' insurance arrangements would be included in the Plan when it was next reviewed, and
- Noted the revised Business Continuity Plan v 4.1 which could be found at Appendix 1 of the report.

9. Dates of the Audit Committee Meetings for 2022/23

The Audit Committee received a report that notified members of the proposed Audit Committee meeting dates for 2022/23.

It was noted that there was an error in the date of the June 2022 Audit Committee meeting, which should be on Thursday *16 June* 2022, and not Thursday 17 June 2022 (as stated in the report).

The Audit Committee noted the dates for the meetings in 2022/23 and the error for the June 2022 Audit Committee meeting (above).

The meeting finished at 11:29am

Audit Committee

Annual Audit Report 2020/21 Item no: 04

Report by:	David Sanni	**Job title:**	Director of Corporate Resources
Date:	17 March 2022		
Contact Officer:	David Sanni		
Telephone:	020 7934 9704	**Email:**	david.sanni@londoncouncils.gov.uk

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Summary

This report presents the updated annual audit report to those charged with governance (ISA260) prepared by Grant Thornton, London Councils' external auditor, in respect of the 2020/21 financial year.

Ciaran McLaughlin and Ibukun Oluwasegun, from Grant Thornton, will attend the meeting to present the report to members.

Recommendations

The Audit Committee is asked to

- note the contents of the updated annual audit report included at Appendix A.

Annual Audit Report 2020/21

Introduction

1. At its meeting on 16 September 2021, the Audit Committee received an audit report from Grant Thornton, London Councils' external auditor, that provided an update on the status of the audit of the 2020/21 financial accounts. The completion and has been conducted remotely during a period when businesses were gradually returning to normal operations following the removal of restrictions introduced to prevent the spread of Covid-19. The September audit report set out the areas that were still outstanding. Grant Thornton completed the audit of the financial accounts in November 2021 and is required to report the outcome to those charged with governance in accordance with the International Standards of Auditing (UK and Ireland). The updated audit report summarises the key findings arising from the audit of London Councils 2020/21 accounts and is included at Appendix A to this report.

Audit outcome

2. Grant Thornton issued unqualified opinions on all three committee accounts. There were no material adjustments identified during the course of the audit.

3. Grant Thornton recommended three disclosure changes to the accounting policy notes and Narrative report. These recommendations can be found on page 16 of the audit report and have been accepted by officers. There were no recommended improvements to internal controls included in the audit report.

Management representation

4. The management letter of representation signed by the Director of Corporate Resources can be found at Appendix B. The letter declares, to the best of the management's knowledge, that the financial statements and other information provided to the auditor are sufficient and appropriate and have not omitted any facts that are material to the financial statements. The letter covers all three sets of accounts.

Financial Implications for London Councils

None

Legal Implications for London Councils

None

Equalities Implications for London Councils

None

Appendices

Appendix A – External Audit Findings Report for 2020/21
Appendix B – Management Representation Letter dated 24 November 2021

Background Papers

Final accounts working files 2020/21

London Councils External Audit Plan for 2020/21

The Audit Findings for London Councils

Year ended 31 March 2021

London Councils includes:
- Joint committee (consolidated)
- Grants Committee
- Transport and Environment Committee
- London Councils Limited.

8 December 2021

Contents

Your key Grant Thornton team members are:

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect London Councils or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents will be discussed with management and the Audit Committee.

1. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents will be discussed with management and the Audit Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of London Councils and is risk based, and in particular included:

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- An evaluation of the components within the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

Conclusion

We issued an unqualified audit opinion for the group as at 31 March 2021.

1. Financial Statements

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

We have revised materiality due to the actual gross expenditure changing significantly from that at the planning stage resulting in a review of the appropriateness of the materiality figure.

We detail in the table above our determination of materiality for all entities within London Councils.

Entity	Benchmark	Materiality	Performance materiality	Triviality
Joint Committee (Consolidated)	Gross expenditure	£1,460,000	£1,095,000	£73,000
Joint Committee	Gross expenditure	£250,000	£187,500	£12,500
Grants Committee	Gross expenditure	£180,000	£135,000	£9,000
Transport and Environment Committee	Gross expenditure	£1,026,000	£769,500	£51,300
London Councils Ltd	Gross expenditure	£46,000	£34,500	£2,300

1. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	**Risk relates to**	**Commentary**
The revenue cycle includes fraudulent transactions Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.	Joint Committee (including consolidation) Grants Committee Transport and Environment Committee London Councils Ltd	As reported in our Audit Plan, under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of your revenue streams which includes income from Borough subscriptions, Freedom passes, Taxi card services, direct services income, Borough commission, European Social Fund grant funding, tenants licence holders income, grant funding from central government, we have determined that the risk of fraud arising from revenue recognition can be rebutted because: • opportunities to manipulate revenue recognition are very limited; • the culture and ethical frameworks of London Councils mean that all forms of fraud are seen as unacceptable. Therefore we do not consider this to be a significant risk for London Councils.

1. Financial Statements - Significant risks

Risks identified in our Audit Plan	Risk relates to	Commentary
Management over-ride of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	Joint Committee (including consolidation) Grants Committee Transport and Environment Committee London Councils Ltd	We performed the following work: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determine the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Conclusion Our audit work is complete and we have not identified any evidence of management override of controls.
Pension scheme (valuation) London Councils a scheduled body of the London Pension Fund Authority (LPFA) Pension Scheme. The level of the pension scheme deficit is susceptible to fluctuations given market movements and/or changes to the assumptions used to calculate the value of the assets and liabilities within the scheme. The potential impact of GMP and McCLoud will also be considered.	Joint Committee (including consolidation) Grants Committee Transport and Environment Committee London Councils Ltd	We performed the following work: • updated our understanding of the processes and controls put in place by management to ensure that the Joint Committee's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • assessed the competence, capabilities and objectivity of the actuary who carried out the Joint Committee's pension fund valuation; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. Conclusion Our audit work is complete and we have not identified any issue in respect of this risk.

1. Financial Statements - Other risks

Other risks identified in our Audit Plan	Commentary
Creditors are understated (completeness) The level and size of transactions for the Joint Committees increases the risk of errors in recording liabilities accurately and on a timely basis.	We performed the following work: • documented our understanding of the control processes in place and performed walk through testing to gain assurance that in-year controls were operating in accordance with our documented understanding. • Obtained the listings required for testing to identify unrecorded liabilities including a review of post year end bank payments. Conclusion Our audit work is complete and we have not identified any issue in respect of this risk.
Certification of AR 27 Return London Councils, as an employer's association, has an obligation under the Trade Union and Labour Relations (Consolidation) Act 1992 to submit an annual return (AR27) to the Certification Officer. The information included in the return is based on the audited financial accounts. The Act imposes a duty on London Councils to appoint an auditor to audit the accounts included in the return.	We will: • discuss and agree the work to be carried out with management and consider any fee implications should additional audit procedures be required

1. Financial Statements - key judgements and estimates

Significant judgement or estimate

Valuation of defined benefit net pension fund liabilities– £42.496m

Summary of management's approach

London Councils total net pension liability at 31 March 2021 is £42.496m (PY £24.148m) comprising of the LPFA pension fund which includes unfunded defined benefit pension scheme obligations. London Councils uses Barnett Waddingham to provide actuarial valuations of the assets and liabilities derived from these schemes. A full actuarial valuation is required every three years.

The latest full actuarial valuation was completed as at 31 March 2019. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £16.590m net actuarial loss during 2020/21.

Audit Comments

In reviewing this estimate, we;

- Carried out an assessment of management's expert
- Carried out an assessment of actuary's approach taken
- Used PwC as auditors expert to assess actuary and assumptions made by actuary. The table below compares the Actuary assumptions with PwC's range.

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2%	1.95% - 2.05%	●
Pension increase rate	2.85%	2.80% - 2.85%	●
Salary growth	3.85%	3.80% - 3.85%	●
Life expectancy – Males currently aged 45 / 65	45: 23.5 65: 22.7	45: 21.9 - 24.4 65: 20.5 – 23.1	●
Life expectancy – Females currently aged 45 / 65	45: 26.0 65: 24.5	45: 24.8 – 26.4 65: 23.3 – 25.0	●

- Reviewed the completeness and accuracy of the underlying information used to determine the estimate
- Assessed the impact of any changes to valuation method
- Assessed the adequacy of the disclosure of estimate in the financial statements

Assessment

●

Assessment

●	Dark Purple	We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
●	Blue	We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
●	Grey	We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
●	Light Purple	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

1. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Dilapidation, External and Internal decoration provisions in the Limited Company- £0.74m	Both provisions are based on legal obligations included within property leases. Management base this estimate on the most recent historic experience which in this case was the dilapidation cost incurred at the end of a lease at Angel Square, Islington in July 2015. An inflation rate is applied to calculate the estimated dilapidation costs when the obligations arise in the future. This future cost is discounted to arrive at the present value of the obligation. The provision is built up over the life of the lease. Due to decoration obligation not occurring in the 10th year of the agreement, the unused amount was reversed in 2020/21. This meant that the provision decreased from £0.937m in 2019/20 to £0.740m in 2020/21.	In reviewing this estimate, we: • Evaluated the appropriateness of the underlying information used to determine the estimate • Considered the impact of any changes to estimation method • Assessed the reasonableness of decrease in estimate • Reviewed the adequacy of the disclosure of estimate in the financial statements	●
European Social Fund Grants in the Grants Committee- £0.027m	European Social Fund (ESF) grants is an EU match funded grant scheme to improve training and skills in the long term unemployed. The funding agreements set out the grant that can be claimed on eligible expenditure. The grant funding for provider costs is calculated by applying the 50% funding rate to the value of approved claims submitted by organisations during the year. As the programme concluded on 30 June 2019, there has been a significant decrease in income. The ESF income has reduced from £0.624m in 2019/20, to £0.027m in 2020/21.	In reviewing this estimate, we: • Assessed whether the Grants Committee is acting as the principal or agent which would determine whether the committee recognises the grant at all • Reviewed completeness and accuracy of the underlying information used to determine whether there are conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income • Reviewed the adequacy of the disclosure of estimate in the financial statements	●

Assessment

●	Dark Purple	We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
●	Blue	We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
●	Grey	We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
●	Light Purple	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

1. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with management. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been received from management for all entities within London Councils.

1. Financial Statements - other communication requirements

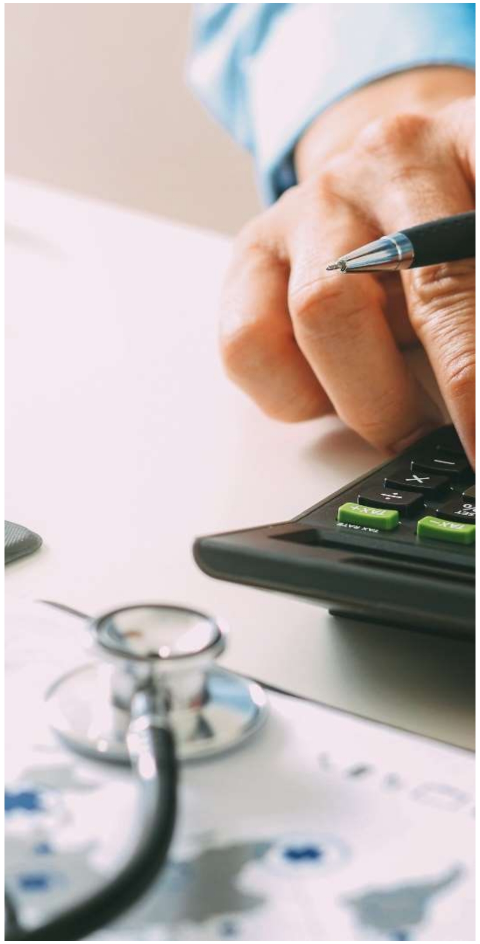
Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by London Councils meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of London Councils and the environment in which it operates • London Councils financial reporting framework • London Councils system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

1. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified to date. We plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. We have nothing to report on these matters.



2. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We wish to draw to your attention to the fact that the Engagement Lead Ciaran McLaughlin is also the lead auditor for the audit of London Pension Fund Authority which London Councils pension fund is an admitted body.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix B

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. No non-audit services were identified which were charged from the beginning of the financial year to date.

Appendices

A. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Derecognition of finance lease			
Dr Accumulated depreciation		89	
Cr Asset		(89)	
Overall impact	Nil	Nil	Nil

Disclosure changes

The table below provides details of disclosure changes identified during the audit which have been made in the final set of financial statements.

Detail	Auditor comments
Ensure Councillors list in the Narrative report is up to date	Narrative report has been updated
Update the useful life for leasehold improvements to ensure the appropriate useful life is used.	Note 1 – Accounting policy on useful life has been updated
Ensure all post balance sheet events are disclosed within the accounts.	Note 5 - Events After the Balance sheet date has been updated

A. Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £‘000	Statement of Financial Position £’ 000	Impact on total net expenditure £’000	Reason for not adjusting
None identified to date				
Overall impact	Nil	Nil	Nil	

B. Fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Audit fees	**Proposed fee**	**Final fee**
Financial Statements Audit – Joint Committees	£39,200	39,200
Additional costs arising from regulatory requirements and changes to International Standards on Auditing and impact of COVID-19	£7,800	£7,800
Cost of AR 27 Certification	-	TBC
Total audit fees (excluding VAT)	£47,000	TBC

Auditor’s remuneration reconciles with Note 28 External Audit Costs disclosed within London Councils Joint Committee consolidated statement of accounts.

- There are no non-audit services provided.
- None of the above services were provided on a contingent fee basis.
- For the purposes of our audit we have made enquiries of all Grant Thornton teams within the Grant Thornton International Limited network member firms providing services to London Councils Joint Committee. There were no non-audit services which were identified.

Audit Committee

Financial Accounts 2020/21 Item no: 05

Report by:	David Sanni	**Job title:**	Director of Corporate Resources
Date:	17 March 2022		
Contact Officer:	David Sanni		
Telephone:	020 7934 9704	**Email:**	david.sanni@londoncouncils.gov.uk

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Summary This report presents the audited statement of accounts for 2020/21 and compares the results to the pre-audited position reported to the Audit Committee at its virtual meeting held on 16 September 2021.

Recommendations The Audit Committee is asked to note that there are no changes between the pre-audited and audited accounts for 2020/21 for each of London Councils' three committees.

Introduction

1. At its meeting on 16 September 2021, the Audit Committee considered and approved the pre-audited accounts subject to the satisfactory conclusion of outstanding audit work. The pre-audited accounts were presented to Grant Thornton in July 2021 but there was a delay in the completion of the audit due to working restrictions introduced to prevent the spread of the Covid-19 pandemic. The audit work was carried out remotely which proved to be less efficient with tasks taking longer to complete. Grant Thornton completed its audit in November 2021 and issued unqualified opinions on all three sets of accounts. The audited accounts were approved by the Chair of the Audit Committee on behalf London Councils and adopted by London Councils Executive on 18 January 2022.

Audited Accounts

2. The pre-audited accounts presented to the Audit Committee on 16 September 2021 showed a provisional surplus for the year of £1.983 million. Following completion of the audit no additional adjustments were made. The audited accounts are included at appendices A to C of this report and show a combined surplus of £1.983 million.

3. The finalised revenue outturn for 2020/21, split across the three funding streams, is highlighted in Table 1 below:

Table 1 - Surplus for 2020/21 split across funding streams

	Grants	TEC	Core	Consolidated
	£000	£000	£000	£000
Total Expenditure	7,259	41,069	10,091	58,419
Total Income	(6,704)	(39,931)	(9,970)	(56,605)
Interest income/expense	(5)	84	262	341
Deficit for the year before transfer from reserves	**550**	**1,222**	**383**	**2,155**
Transfer from General Reserves	(618)	(670)	(852)	(2,140)
Net transfer from Specific Reserves	-	(163)	-	(163)
Transfer from Unusable Reserves	(47)	(541)	(1,247)	(1,835)
Surplus for the year after transfers from reserves	**(115)**	**(152)**	**(1,716)**	**(1,983)**

4. In accordance with Local Authority Accounting (LAA), the use of reserves during the year is excluded from each of the Comprehensive Income and Expenditure Statements featured in the audited accounts so that the statements only reflect the income and expenditure due in the relevant financial year. LAA also requires that actuarial gains or losses on the pension scheme during the year are included in the statement to derive the Total Comprehensive Income and Expenditure. These gains or losses which have not been realised arise due to the actual experience or events differing from the assumptions adopted by the actuary at the previous valuation. The effect of these requirements on the audited accounts is summarised in Table 2 below:

Table 2 – position 2020/21 as shown in the statutory accounts

	Grants	TEC	Core	Consolidated
	£000	£000	£000	£000
Deficit for the year before transfer from reserves	**550**	**1,222**	**383**	**2,155**
Actuarial gains on pension assets/liabilities	186	4,755	11,649	16,590
Total Comprehensive Income and Expenditure	**736**	**5,977**	**12,032**	**18,745**

5. Another requirement of LAA is the separation of reserves between Usable Reserves and Unusable Reserves. Usable Reserves comprise of resources that can be used in the provision of services including reserves with spending restrictions. London Councils' Usable Reserves consist of the General Reserve, the Freedom Pass Renewal Specific Reserve and the TEC Special Projects Reserve. The Unusable Reserves cannot be used in the provision of services and are set up to deal with instances where income and expenditure are recognised against General Fund balances on a statutory basis which is different from that expected by accounting standards adopted by LAA. London Councils' Unusable Reserves consist of the Pensions Reserve and the Accumulated Absence Reserve which serve to offset the impact of the IAS19 Pension Liability and Accumulated Absence Liability on the General Reserve.

6. The level of Usable Reserves for each funding stream as at 31 March 2021 has been confirmed as follows:

Table 3 –Usable Reserves as at 31 March 2021

	Grants	TEC	Core	Consolidated
	£000	£000	£000	£000
Usable Reserves at 1 April 2020	**1,866**	**6,687**	**5,480**	**14,033**
Transfer from General Reserve	(618)	(670)	(852)	(2,140)
Net transfer from Specific Reserves	-	(163)	-	(163)
Surplus for the Year	115	152	1,716	1,983
Usable Reserves at 31 March 2021	**1,363**	**6,006**	**6,344**	**13,713**

7. The Unusable Reserves at 31 March 2021 amounted to a negative balance of £42.727 million consisting of a Pension Reserve of £42.496 million and an Accumulated Absences Reserve of £231,000. As mentioned in paragraph 5 above, the reserves offset the impact of their associated liabilities on the General Reserve. The Pension Liability has increased from £24.148 million as at 31 March 2020 to £42.496 million as at 31 March 2021, an increase of £18.348 million which is explored further on item 11 of this agenda.

The Audited Accounts

8. The audited accounts consist of the following core statements:

- **Comprehensive Income and Expenditure Statement**
  This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices.

- **Movement in Reserves Statement**

This statement shows the movement in the year on the different reserves held by the Committee, analysed into usable reserves and unusable reserves.

- **Balance Sheet**
  The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Committee. The net assets of the Committee (assets less liabilities) are matched by the reserves held by the Committee.

- **Cash Flow Statement**
  The Cash Flow Statement shows the changes in cash and cash equivalents of the Committee during the reporting period.

9. The statement of accounts include a number of notes that provide further detail to the cost, income and balances shown within the core statements.

10. Each statement also contains a Narrative Report which provides a review of the Committee's activities during the year, and a summary of the financial outturn. It also includes an Annual Governance Statement (AGS) which is a description of the key elements of the systems and processes that comprise the governance arrangements and the procedures applied to maintain and review their effectiveness. The pre-audited AGS for 2020/21 was approved by the Audit Committee at its meeting on 17 June 2021.

Financial Implications

The financial implications are contained in the body of the report.

Legal Implications

London Councils' financial regulations require the Director of Corporate Resources to present the audited statement of accounts to the Audit Committee for approval by 30 September each year.

Equalities Implications

None

Appendices

Appendix A:	London Councils Joint Committee Consolidated Statement of Accounts for the year ended 31 March 2021
Appendix B:	London Councils Transport and Environment Committee Statement of Accounts for the year ended 31 March 2021
Appendix C:	London Councils Grants Committee Statement of Accounts for the year ended 31 March 2021

Background papers

2020/21 Final accounts working files
Report to Audit Committee on Financial Account 2020/21 dated 16 September 2021

Audit Committee

External Audit Plan 2021/22 Item no: 06

Report by:	David Sanni	**Job title:**	Director of Corporate Resources
Date:	17 March 2021		
Contact Officer:	David Sanni		
Telephone:	020 7934 9704	**Email:**	david.sanni@londoncouncils.gov.uk

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Summary

This report presents the draft external audit plan for 2021/22 prepared by London Councils' external auditor, Grant Thornton. The draft audit plan informs the Audit Committee of the scope of the external audit for London Councils for 2021/22. Ciaran McLaughlin and Ibukun Oluwasegun from Grant Thornton will attend the meeting to present the plan and answer any questions the Audit Committee may have.

Recommendations

The Audit Committee is asked to

- Approve the draft external audit plan for 2021/22 (Appendix A) in principle, subject to further clarification on the increase of the annual audit fee as highlighted in paragraph 8.
- Note and comment on the proposal to retender the external audit contract one year early as highlighted in paragraph 12.

Audit Plan 2021/22

Introduction

1. This report informs members of the proposed audit plan for the 2021/22 financial year, which is attached at Appendix A to this report. The purpose of the plan is to inform both the officers and the members of London Councils of the scope for the external audit of the 2021/22 financial accounts.

2. The provisions of the Local Audit and Accountability Act 2014 which replaced the Audit Commission Act 1998 do not require joint committees, such as London Councils, to produce audited accounts. However, London Councils has other legal obligations that require it to produce audited accounts outside of those derived from the Audit Commission Act. Grant Thornton was appointed as London Councils' external auditor by the Leaders' Committee in June 2019 following a procurement exercise and recommendation from this Committee. The 2021/22 accounts will be the third set of accounts audited by Grant Thornton.

Scope of the Audit

3. The audit plan provides details of the approach Grant Thornton intends to adopt in order to express an opinion on whether or not the financial statements represent a true and fair view of London Councils affairs for the year ended 31 March 2022. The audit will be conducted in accordance with the International Standards on Auditing (UK and Ireland).

Significant Audit Risks

4. Grant Thornton has carried out an assessment of London Councils operations and identified potential audit risks that need to be addressed during the course of its audit. The results of its assessment and its planned audit approach are detailed on pages 6 and 7 of the audit plan. In summary, the main risks identified are as follows:
    - Fraudulent revenue transactions (which has been rebutted);
    - Management override of controls; and
    - Pension scheme valuations.

5. Grant Thornton has identified other key areas where the likelihood of material misstatement cannot be reduced to remote without gaining a greater understanding of the control environment. The risk of misstatement for these areas is lower than that for a significant risk. The other key audit areas as detailed on page 8 of the plan are:
   - Understated creditors; and
   - Dilapidation and External decoration provisions.

6. Grant Thornton also intends to carry out additional work on accounting estimates and related disclosures in accordance with the updated International Standard on Auditing 540, Auditing Accounting Estimates and Related Disclosures. The work the auditor intends to carry out is detailed on pages 9 and 10 of the plan.

Materiality Levels

7. The materiality levels for the audit are set out on page 12 of the plan. The materiality levels set for the consolidated accounts are as follows:
   - Materiality: £1.46 million;
   - Performance materiality: £1.095 million; and
   - Trivial reporting materiality: £73,000.

   The materiality levels for the individual entities can also be found on page 12 of the plan.

Audit Fees

8. The audit fee is detailed on page 14 of the audit plan. The 2020/21 audit fee was £47,000 inclusive of £7,800 in relation to additional regulatory requirements. The proposed 2021/22 audit fee is £70,000, an increase of £23,000 or 49%. The terms of the audit contract require all proposed fee increases to be approved by London Councils.

9. Grant Thornton has set out on page 4 of the audit plan their reasoning and justification for the increase to the 2021/22 audit fee and this includes:

- Ensuring that audit fees properly reflect the changes in the audit environment since 2017;
- Continuing to work with the audit regulators; the FRC and the ICAEW to ensure that their audits meet the highest standards, which requires continued investment in developing the audit approach and audit staff. There is therefore an expectation that there is a minimum cost of providing a compliant audit;
- London Councils is a group audit which Grant Thornton consider more complex than many NHS and smaller Local Government audits;
- The revision to major auditing standards, including those covering estimates and fraud, and the update of Practice Note 10 (the adaption of auditing standards to public sector audits).

10. A comparison of the proposed fees for 2021/22 with previous years are detailed in the table below:

	2021/22 (£) (Proposed)	**2020/21 (£) (Actual)**	**2019/20 (£) (Actual)**
Audit fee (including the limited company and AR27 certification)	70,000	47,000	48,000*

*Included additional costs in relation to Covid-19.

11. Despite the explanations noted in page 4 of the audit plan and summarised in paragraph 9 above, the proposed fee of £70,000 represents a significant increase to the original contract fee of £39,200 quoted in the auditor's bid in February 2019. No specific allowance has been set aside in the budget for this level of fee increase, however, there is an expectation that the fee can be met from within approved revenue resources.

Contract Tender

12. Grant Thornton was appointed as London Councils' external auditor by the Leaders' Committee in June 2019 following a procurement exercise and recommendation from this Committee. The contract award covered the audit of

the Financial Statements from 2019/20 through to 2022/23. Considering the significant increase in costs noted above in paragraph 8, officers are seeking to retender the contract one year early, commencing from the audit of the 2022/23 Financial Statements. It is proposed that an open tender process will be undertaken, with a specific requirement for Local Government experience being removed, allowing a broader number of potential audit firms being able tender for the contract and provide value for money for London Councils.

Timing of the Audit

13. The proposed timetable for the audits has been set out in page 4 of the audit plan. The proposals set out that the Limited Company audit will be undertaken in June, increasing the risk that the audit will be not completed in time for board approval at its June meeting.

14. London Councils' financial regulations require officers to present the audited Financial Statements to the Audit Committee by 30 September. The proposed timetable, set out on page 4 of the audit plan, states that the audit of the group will commence in October, therefore, the September deadline will not be met. The auditor has been unable to complete the audit within the September deadline for the two preceding years due to Covid-19 working restrictions and other factors affecting the audit profession.

Audit Report

15. Following the conclusion of the final audit, Grant Thornton will issue an ISA(UK&I) 260 Report to those Charged with Governance which will be presented to the Audit Committee. The report will provide a summary of the results of the audit work and the detail of any significant matters, which have arisen.

Annual Governance Statement

16. The financial accounts include an Annual Governance Statement (AGS) which is prepared in accordance with the CIPFA/SOLACE Framework - *Delivering Good Governance in Local Government*. The framework requires authorities to review

their governance arrangements at least annually to ensure continuing compliance with best practice. The audit will include a review of the AGS to consider the completeness of disclosures included in the statement. Along with the Chief Executive, those charged with governance will have to take ownership of this process and responsibility for the governance arrangements. As external auditor, Grant Thornton will need assurance that members are fully engaged in this process and with the governance of the organisation in general. This includes:

- The process defined for the review of the effectiveness of internal control and the involvement of appropriate members and officers;
- The arrangements for committee meetings at which corporate governance, internal control and risk management matters are considered; and
- The expectation of a formal annual report to those charged with governance by the Head of Audit and Risk Management at the City of London, which includes an opinion on the overall adequacy and effectiveness of the organisation's internal control environment;

17. In practical terms this means that London Councils Audit Committee will be required to be actively engaged in the assessment of corporate governance and internal controls within London Councils. The annual review of the governance arrangements will be carried out at the end of the 2021/22 financial year and the outcome and revised AGS for 2021/22 will be presented to the Audit Committee for review and approval at its meeting in June 2022.

Financial Implications for London Councils

As discussed in paragraphs 8 to 11 of the report.

Legal Implications for London Councils

None

Equalities Implications for London Councils

None

Appendices

Appendix A   Draft External Audit Plan 2021/22

Background Papers

Final Accounts working file 2021/22

Grant Thornton

London Councils External audit plan

Year ending 31 March 2022

London Councils includes:
- Joint Committee (consolidated)
- Grants Committee
- Transport and Environment Committee
- London Councils Limited

2nd March 2022

Contents

Your key Grant Thornton team members are:

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Joint Committee or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the audit of London Councils ('the Joint Committee') for those charged with governance.

Respective responsibilities

Our respective responsibilities are also set out in the agreed engagement letter. As auditor we are responsible for performing the audit of the financial statements of London Councils for the year end in accordance with International Standards on Auditing (ISAs) (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

We will issue statutory opinions for the single entity accounts (Transport and Environment Committee, London Councils Ltd and Grants Committee accounts) and a non-statutory opinion for the Group as the Council does not produce a single entity account for the Joint Committee.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of financial statements which give a true and fair view.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Joint Committee (consolidated) and members of the group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit committee).

The audit reports produced will be issued under ISA 700 for the statutory opinions of the single entity accounts (Transport and Environment Committee, London Councils Ltd and Grants Committee accounts) whilst the audit report for the Consolidated accounts will be issued under ISA 800 for special consideration.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Joint Committee to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Joint Committee is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Joint Committee's business and is risk based.

Group Audit

London Councils is required to prepare group financial statements that consolidate the financial information of Joint Committee, Grants Committee, London Councils Ltd and the Transport and Environment Committee. Single entity accounts are produced for Transport and Environment Committee, London Councils Ltd and Grants Committee. The Joint Committee does not however produce single entity accounts for the Joint Committee.

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

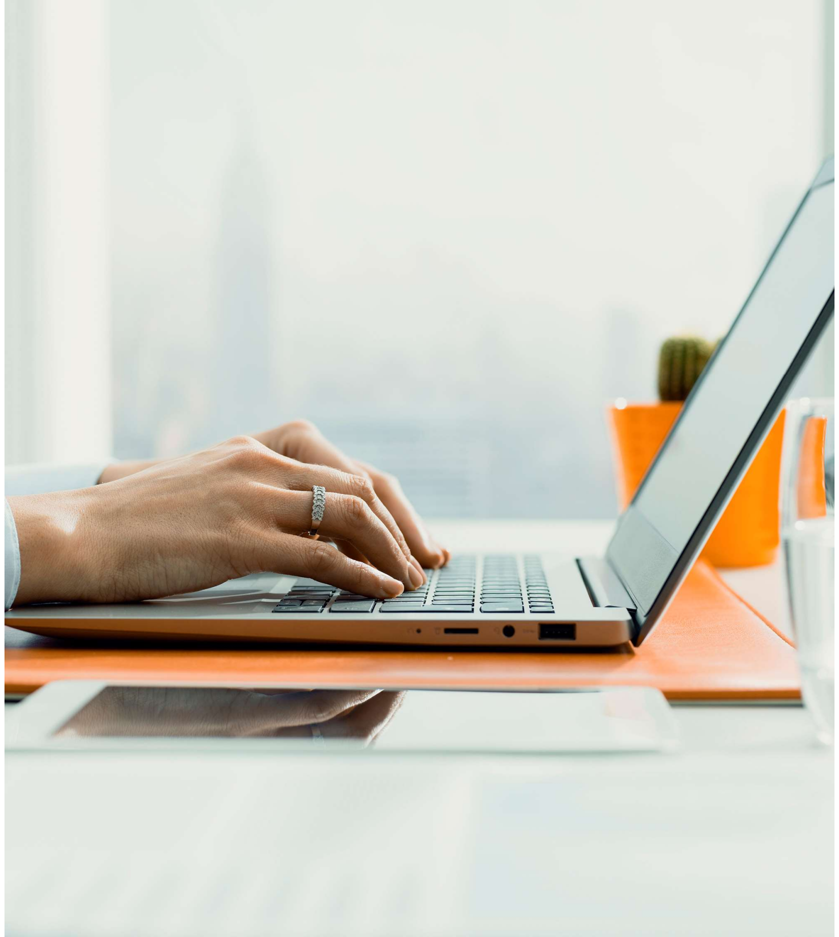
- Management over-ride of controls
- Valuation of the Pension Scheme net liability

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £1.46m (PY £1.46m) for the Joint committee (consolidated), which equates to 2.5% of prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £73k (PY £73k) for the Joint committee (consolidated).

Introduction and headlines cont.



Audit logistics

Our interim visit will take place in April and our year-end visit will take place from June for the limited company and October for the rest of the group. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £70,000 (PY: £47,000) for the group, subject to the Joint Committee delivering a good set of financial statements and working papers. The Firm has been reviewing the costs incurred in competing each of our audits across the public sector, including NHS as well as Local Government audits. In doing so we are seeking to ensure that audits fees properly reflect the changes in the audit environment since 2017.

We continue to work with our regulators, the FRC and the ICAEW each year to ensure that our audits meet the highest standards, and that requires continued investment in developing our approach and in our staff. This has resulted in the last 2 years in increases in those fees of between 50% and 75% with a clear expectation that there is a minimum cost of providing a compliant audit. London Councils as a Group audit is more complicated than many of our NHS and smaller LG audits, requiring corporate audit input as well as public sector experience.

I recognise that we submitted a fee uplift last year and are again requiring another uplift this year, but the Firm has made a decision that it needs to ensure scarce audit resources are only used where we audit fees are appropriate.

The changes over the last few years, include the revision to major auditing standards, including those covering estimates and fraud, and the update of Practice Note 10 (the adaptation of auditing standards to public sector audits). You will no doubt also be aware of the national picture within local government audit, which has resulted in many audits not meeting the target completion date, indeed only 9% of audits met the target date in 2020/21.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
Joint Committee (Consolidated)	Yes	🟪	• Management over-ride of controls • Pension scheme (valuation) • Creditor completeness	Full scope audit performed by Grant Thornton UK LLP
Transport and Environment Committee	Yes	🟪	• Management over-ride of controls • Pension scheme (valuation) • Creditor completeness	Full scope audit performed by Grant Thornton UK LLP
Grants Committee	Yes	🟪	• Management over-ride of controls • Pension scheme (valuation) • Creditor completeness	Full scope audit performed by Grant Thornton UK LLP
London Councils Ltd	Yes	🟪	• Management over-ride of controls • Pension scheme (valuation) • Creditor completeness • Dilapidation and External decoration Provisions	Full scope audit performed by Grant Thornton UK LLP
Joint Committee	No	⬛	• Management over-ride of controls • Pension scheme (valuation) • Creditor completeness	Audit performed by Grant Thornton UK LLP

Key changes within the group:

- There are no known significant changes within the group at this stage.

Audit scope

🟪 Audit of the financial information of the component using component materiality
⬛ Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
🟦 Review of component's financial information
◼ Specified audit procedures relating to risks of material misstatement of the group financial statements
◻ Analytical procedures at group level

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions	Joint Committee (including consolidation) Grants Committee London Councils Ltd Transport and Environment Committee	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of your revenue streams which includes income from Borough subscriptions, Freedom passes, Taxi card services, direct services income, Borough commission, European Social Fund grant funding, tenants licence holders income, grant funding from central government, we have determined that the risk of fraud arising from revenue recognition can be rebutted because: • opportunities to manipulate revenue recognition are very limited; • the culture and ethical frameworks of the Joint Committees mean that all forms of fraud are seen as unacceptable. Therefore we do not consider this to be a significant risk for London Councils.	
Management over-ride of controls	Joint Committee (including consolidation) Grants Committee London Councils Ltd Transport and Environment Committee	Under ISA (UK) 240 there is a non- rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Pension scheme net liability (valuation)	Joint Committee (including consolidation) Grants Committee London Councils Ltd Transport and Environment Committee	London Councils a scheduled body of the London Pension Fund Authority (LPFA) Pension Scheme. The level of the pension scheme deficit is susceptible to fluctuations given market movements and/or changes to the assumptions used to calculate the value of the assets and liabilities within the scheme. The potential impact of GMP and McCLoud should also be considered.	We will: • update our understanding of the processes and controls put in place by management to ensure that the Joint Committee's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Joint Committee's pension fund valuation; • assess the accuracy and completeness of the information provided by the Joint Committee to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtain assurances from the auditor of LPFA as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Other risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Creditors are understated (completeness)	Joint Committee (including consolidation) Grants Committee London Councils Ltd Transport and Environment Committee	The level and size of transactions for the Joint Committees increases the risk of errors in recording liabilities accurately and on a timely basis.	We will: • document our understanding of the control processes in place and perform walk through testing to gain assurance that in-year controls were operating in accordance with our documented understanding. • perform testing to identify unrecorded liabilities including supplier statement testing and a review of post year end bank payments. • perform an analytical review of operating expenses recorded and test a sample to invoices to gain assurance that expenditure has occurred and has been correctly classified.
Dilapidation and External decoration Provisions	London Councils Ltd	The Limited company has set aside provision for its contractual obligations for dilapidations and periodic decoration included within its property leases. The level of provision is based on an estimate of future costs. We have therefore identified this as an area of risk due to the assumptions and estimates used when deriving the provision.	We will: • gain an understanding of the accounting estimates and any critical judgements applied by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes noted in the methodology used to calculate of the estimate • review the calculations to ensure that they are fairly stated within the financial statements. • undertake procedures to confirm the reasonableness of significant increase or decrease to the provision in year.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures which* includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2022.

Based on our knowledge of the Joint Committees we have identified the following material accounting estimates for which this is likely to apply:

- Valuation of defined benefit net pension fund liabilities
- Dilapidation and External decoration Provisions in the Limited company

The Joint Committee's Information systems

In respect of the Joint Committee's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

Accounting estimates and related disclosures

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the London Councils uses management experts in deriving some of its more complex estimates, e.g. pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Joint Committee (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.

Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainly is unresolved.

Planning enquiries

As part of our planning risk assessment procedures we will make enquiries of management around informing auditors of risks and accounting estimates. We ask that the responses are presented to those charged with governance. We would appreciate a prompt response to these enquires in due course.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf

Other matters

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

Materiality

The concept of materiality

Materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

We have determined financial statement materiality based on 2.5% of the gross expenditure of the prior year's financial statements. In the prior year we used the same benchmark for all members of the group except for the limited company where 2% was used.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Joint committee consolidated, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £73k (PY £73k).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

London Councils	Benchmark	Materiality	Performance materiality	Triviality
Joint Committee (consolidated)	**Gross expenditure**	**£1,460,000**	**£1,095,000**	**£73,000**
Joint Committee	Gross expenditure	£250,000	£187,500	£12,500
Grants Committee	Gross expenditure	£180,000	£135,000	£9,000
Transport and Environment Committee	Gross expenditure	£1,026,000	£769,500	£51,300
London Councils Ltd	Gross turnover	£52,000	£39,000	£2,600

Audit logistics

Audit committee
17th March 2022
Draft audit Plan*

Planning and risk assessment

Audit committee
14th June 2022
Finalised Audit plan

Limited company year-end audit
June – July 2022

Group year-end audit
Oct - Dec 2022

Audit committee
TBD
Audit Findings Report and Audit opinion

Client responsibilities

Where clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

* Subject to the approval of audit fees

Audit fees

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In 2019, London Councils awarded a contract of audit to begin with effect from 2019/20. The fee agreed in the contract was £39,200. Since that time, there have been a number of developments.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as detailed on page 9 in relation to the updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Our proposed work and fee, as set out below;

	Actual Fee 2020/21	**Proposed fee 2021/22***
Financial Statements Audit – Joint Committees (Contract fee)	£39,200	£70,000
Additional costs arising from regulatory requirements and changes to International Standards on Auditing	£7,800	
Total audit fees (excluding VAT)	£47,000	£70,000

*To be agreed

Assumptions

In setting the above fees, we have assumed that the Joint Committee will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office’s Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Joint Committee.

Other services

No other services provided by Grant Thornton were identified.

Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

Appendix 1: Auditing developments

There are changes to the following ISA (UK):

- ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement' - This will impact audits of financial statement for periods commencing on or after 15 December 2021.
- ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements' - This will impact audits of financial statement for periods commencing on or after 15 December 2022.
- ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements This will impact audits of financial statement for periods commencing on or after 15 December 2021.

A summary of the impact of the key changes on various aspects of the audit is included below:

Area of change	Impact of changes
Risk assessment	• The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: • the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures • the identification and extent of work effort needed for indirect and direct controls in the system of internal control • the controls for which design and implementation needs to be assess and how that impacts sampling • the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	• Greater responsibilities, audit procedures and actions are assigned directly to the engagement lead, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	• The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: • increased emphasis on the exercise of professional judgement and professional scepticism • an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence • increased guidance on management and auditor bias • additional focus on the authenticity of information used as audit evidence • a focus on response to inquiries that appear implausible
Definition of engagement team	• The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. • Consideration is also being given to the potential impacts on confidentiality and independence.

Appendix 1: Auditing developments

Area of change	Impact of changes
Fraud	• The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: • clarification of the requirements relating to understanding fraud risk factors • additional communications with management or those charged with governance
Documentation	• The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

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Audit Committee

Internal Audit Plan 2022/23 Item no: 07

Report by:	David Sanni	**Job title:**	Director of Corporate Resources
Date:	17 March 2021		
Contact Officer:	David Sanni		
Telephone:	020 7934 9704	**Email:**	david.sanni@londoncouncils.gov.uk

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Summary

This report informs the Audit Committee of the draft internal audit plan for 2022/23, as proposed by the City of London's Internal Audit section under terms of the service level agreement for financial and payroll services. The report also provides details of the proposed rolling five-year programme covering the period up to 2026/27. Officers from the internal audit section will attend the meeting to answer any questions members may have on the plan.

Recommendations

The Audit Committee is asked:

- To approve the internal audit plan for 2022/23 and the rolling five-year programme, as proposed by the City of London and detailed in Appendix A of this report.

Introduction

1. The Audit Committee has received an internal audit plan for 2022/23 and a revised five year rolling programme for the period 2022/23 to 2026/27 proposed for London Councils by the City of London's internal audit section.

2. During the planning process, the internal audit section invited London Councils' Corporate Management Team and Corporate Governance Group to recommend any areas for inclusion in the plan. The internal audit section considered the planned work of London Councils' external auditor to ensure that there were no areas of duplication. The internal audit section has also considered London Councils' corporate and divisional risk registers to assist in identifying areas which have been classified as exposing London Councils to a high level of risk.

Internal Audit Plan 2022/23

3. The proposed internal audit plan for 2022/23 is included at Appendix A of this report. The reviews proposed for 2022/23 are:

Full Assurance Reviews	**Planned Days**
• Financial Management	10
• Procurement of goods and services	15
• Information Governance and Data Security	10
• Declarations of Interest, Related Party Transactions & Gifts and Hospitality	5
ICT Assurance Reviews	
• ICT Strategy	10
Follow-up reviews	
• Assess implementation of audit recommendations from prior year's reviews	5

4. The Audit Committee is asked to approve the plan for 2022/23.

Rolling Internal Audit Plan 2022/23 to 2026/27

5. The Audit Committee is also asked to approve the rolling five-year internal audit programme for the period 2022/23 to 2026/27 as detailed in Appendix A. This rolling plan will be reviewed and updated annually when firm proposals are made for the audit plan for the next financial year.

6. The cost of the internal audit work provided by the City of London is included within the annual cost of the service level agreement between London Councils and the City for financial and payroll services. In addition to the internal audit function, the service level agreement also covers the provision of an accounting and business system, the issue of invoices and payments, VAT accounting, treasury management, cashiers, cheque handling, and payroll services. The estimated cost of the service level agreement for 2022/23 is £103,000.

Financial Implications for London Councils

Included in the body of the report.

Legal Implications for London Councils

None

Equalities Implications for London Councils

None

Appendices

Appendix A	London Councils Proposed Internal Audit Plan for 2022/23 and five year rolling programme from 2022/23 to 2026/27.

Background Papers

Internal Audit work file 2022/23

London Councils - Proposed Internal Audit Plan for 2022/23
Last updated: 23/11/21

AUDIT	Date of last audit	2022/23 no. of days	Key contact(s) LC	Qtr 1	Qtr 2	Qtr 3	Qtr 4
				Apr-Jun 2022	Jul-Sep 2022	Oct- Dec 2022	Jan-Mar 2023
Full Assurance Reviews							
FINANCIAL MANAGEMENT (INCL. BUDGET SETTING, BUDGET MONITORING & INCOME CONTROLS)- An examination of the financial management framework to determine whether it effectively supports relevant and timely financial planning, and allocation of resources and income controls: Budget Management: budget setting, monitoring and performance reporting. Income: setting charges, billing, collection and reconciliation of income and debt management	2019-20	10	David Sanni, Acting Director of Corporate Resources and Richard Merrington, Acting Chief Accountant.	Q1			
PROCUREMENT OF GOODS AND SERVICES - To examine the adequacy of controls in operation in relation to procurement of goods and services, including the use of procurement cards. Adequacy of controls for raising and authorising orders, compliance with financial and procurement polices, value for money and recording of assets.	2019-20	15	David Sanni, Acting Director of Corporate Resources and Richard Merrington, Acting Chief Accountant.				Q4
INFORMATION GOVERNANCE AND DATA SECURITY - To determine the transparency and effectiveness of the information governance framework and channels used to manage information, including compliance with GDPR requirements.	2018-19	10	Christiane Jenkins, Director of Corporate Governance, Reuben Segal, Head of Governance, David Sanni, Acting Director or Corporate Resources and Roy Stanley Information communications technology and facilities manager				Q4
ICT STRATEGY - To assess the adequacy of the ICT strategy including alignment to LC business goals, planning processes, resources, monitoring and reporting, risk management and supporting policies.	2016-17	10	David Sanni, Acting Director or Corporate Resources and Roy Stanley Information communications technology and facilities manager		Q2		
DECLARATIONS OF INTERESTS, RELATED PARTY TRANSACTIONS AND GIFT AND HOSPITALITY - To examine the adequacy of controls in place for obtaining, recording and reviewing Members and officers' interests and gift and hospitality register.	N/A	5	Christiane Jenkins, Director of Corporate Governance	Q1			
FOLLOW UP Annual exercise to determine progress in implementing internal audit recommendations.	2021-22	5	Various - David Sanni to co-ordinate				
TOTAL NUMBER OF COL INTERNAL AUDIT DAYS		**55**					

Note - not all these days are on site, this includes planning, report writing and QA reviews.

London Councils Base Plan

AUDIT	DATE OF LAST AUDIT	YEAR 2 2022-23	YEAR 3 2023-24	YEAR 4 2024-25	YEAR 5 2025-26	YEAR 1 2026-27	COVERAGE IN FIVE YEARS
London Councils							
Full Assurance Reviews							
PAN LONDON MOBILITY SCHEMES	2021-22	0	0	15	0	0	15
FINANCIAL MANAGEMENT (INCL. BUDGET SETTING, BUDGET MONITORING & INCOME CONTROLS)	2019-20	10	0	0	0	10	20
GRANTS (INCLUDING PROBITY CHECKS)	2020-21	0	15	0	15	0	30
PARKING & TRAFFIC CONTRACTS	2021-22	0	0	15	0	15	30
PROCUREMENT OF GOODS AND SERVICES	2019-20	15	0	0	15	0	30
DISASTER RECOVERY AND BUSINESS CONTINUITY ARRANGEMENTS	2019-20	0	10	0	0	0	10
RECRUITMENT & PAYROLL ADJUSTMENTS	2021-22	0	0	0	0	5	5
RISK MANAGEMENT	2020-21	0	10	0	10	0	20
PENSION SCHEME ADMINISTRATION	2019-20	0	5	0	0	0	5
DECLARATIONS OF INTERESTS, RELATED PARTY TRANSACTIONS AND GIFT AND HOSPITALITY	N/A	5	0	0	0	0	5
Full Assurance Reviews ICT Reviews							
INFORMATION GOVERNANCE AND DATA SECURITY	2018-19	10	0	0	0	0	10
ICT REMOTE ACCESS AND MOBILE DEVICES	2018-19	0	10	0	0	0	10
ICT CYBER SECURITY	2021-22	0	0	10	0	10	20
ICT STRATEGY 2020-2023	2016-17	10	0	10	0	0	20
CONTINGENCY		0	0	0	0	0	0
FOLLOW-UP EXERCISE	2019-20	5	5	5	5	5	25
TOTAL		**55**	**55**	**55**	**45**	**45**	**255**

Audit Committee

Internal Audit Update

Item no: 08

Report by: Matt Lock **Job title:** Head of Audit & Risk Management (City of London Corporation)

Date: 17 March 2021

Contact Officer: Martha Franco Murillo, Senior Auditor (City of London Corporation)
Email: Martha.Franco-Murillo@cityoflondon.gov.uk

Matt Lock, Head of Audit & Risk Management (City of London Corporation)
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Summary The purpose of this report is to provide the Committee with an update in relation to the work of Internal Audit since the last update report made to the September 2021 meeting.

The report provides an overall status update on progress against the 2021/22 Internal Audit Plan and a summary of the findings from the completed reviews of PAN London Mobility Schemes (Green Assurance opinion); ICT Cyber Security (Amber Assurance opinion) and Parking and Traffic Services (Amber Assurance opinion).

Recommendations The Audit Committee is asked to note and comment on the contents of the report and appendix

Background

Internal Audit Plan 2021/22

1. At its meeting on 18 March 2021 the Audit Committee approved the Internal Audit Plan for 2021/22 that was proposed by the City of London's Internal Audit section under the terms of the service level agreement for financial support services. This report provides an update on the overall status of delivery of the Audit Plan. This year's audits are being undertaken, in part, using remote connectivity to examine controls and digitally stored content. The table below summarises the overall status of the plan:

Planned Audits	Days	Status
Recruitment and Payroll Adjustments	7	Completed
Pan London Mobility Schemes	15	Completed
Parking and Traffic Contracts	15	Completed
ICT Cyber Security	10	Completed
ICT Strategy 2020/23	10	Deferred to 2022/23
Follow Up of Audit Recommendations	3	Completed

Internal Audit Reviews Completed Since the Last Update Report:

PAN London Mobility Schemes Audit– Green Assurance Rating (1 Green recommendation raised)

2. The objectives of this review were to obtain assurance that:

   - Adequate contract management arrangements are in place: performance monitoring to ensure that services provided comply with those laid down in the contract i.e. regular measurement against KPIs, SLAs and other relevant aspects of the service specification;

   - Effective controls are in place ensuring that only eligible users have access to the mobility schemes services;

   - Appropriate record keeping arrangements are in operation, to ensure that where London Councils is responsible for processing applications, these are supported by relevant evidence and that records are kept securely and access restricted; and

- Effective quality controls in place, ensuring efficient service provision and swift resolution of problems identified, including complaints.

3. **The Audit review found that:**

- London Councils has adequate contract management arrangements in place, in respect of the Freedom Pass and the Taxicard contracts. These include: formal and informal performance monitoring through regular meetings, measurement against KPIs and follow up of agreed actions, to ensure that services provided comply with those laid out in the contract. The new structure of the Transport and Mobility team effectively supports the contract management function.

- Audit testing confirmed that there are effective controls in place, ensuring that only eligible users have access to the mobility schemes services. These are reinforced by regular management spot checks, NFI mortality screening and Medium-Term reviews.

- Appropriate record keeping arrangements are in operation, to ensure that where London Councils is responsible for processing applications, these are supported by relevant evidence and that records are kept securely and access restricted. Internal Audit discussions with relevant staff confirmed that The CMS system is being further developed to facilitate online applications for Taxicards and the expectation is for this process to be completed by March 2022.

- London Councils has established quality controls for the Taxicard In-house team, to facilitate efficient service provision and swift resolution of problems identified. These include monitoring of call quality, time taken to answer calls, process applications and deal with complaints.

- Incident management: incidents are identified, addressed and reported.

- Data loss prevention: mechanisms in place to protect data.

Parking and Traffic Services Audit

4. The objectives of this review were to provide assurance that adequate arrangements were in place to:

- Manage delivery of internally delivered Parking and Traffic services;

- Manage the performance of external contractors;

- Ensure that key external contracts are procured in line with the relevant Procurement Regulations; and

- Ensure effective financial monitoring against allocated service budgets.

5. **The Audit review found that:**

   - Whilst there are arrangements in place for regularly monitoring performance of internally delivered Parking and Traffic Services, key elements of the framework are inadequate. Recommendations have been made to strengthen performance measurement in respect of services delivered by London Tribunals and to improve performance management in respect of the London Lorry Control Scheme;

   - Whilst there is an established framework for regularly monitoring the performance of external contractors, the framework is not fully effective. Specifically, the audit identified two Parking and Traffic Services Contractors have not been reporting in full against their respective performance requirements;

   - The framework for ensuring that all external contracts are procured in line with the relevant Procurement Regulations is not fully effective. Specifically, the audit identified one contract that had been extended beyond its original end date, without following the relevant regulations; and

   - There are adequate arrangements in place to ensure effective financial monitoring against allocated service budgets.

Cyber Security audit

6. The outcome of the Cyber Security audit is included in the exempt part of the agenda.

Recommendations Follow-up

7. Internal Audit undertook follow up work on 12 open audit recommendations, the overall status is as follows:

   - 7 recommendations were found to be implemented fully.

   - 2 recommendations were found to be partially implemented (these are both related to the Cyber Security Audit and details are included in the exempt report).

- 3 recommendations had not been implemented by the agreed due dates, two are outlined below and the third one relates to the Cyber Security Audit for which details are provided in the exempt report.

Audit Review	**Summary of Recommendation**	**Agreed Implementation Date**	**Current Position** (Management Update)
PAN London Mobility Schemes	Enable the CMS system to produce performance management information.	01/09/2020	**Not Implemented -** At the start of May 2022, ESP, will be launching a new CRM system which will enable us to report on application processing times. This is currently a manual process until the new CRM is in place.
2020-21 LC - Risk Management	London Councils should benchmark their Risk Management Framework to the ISO 3000 2018 standards to identify any gaps.	31/07/2021 The Review of the Risk Management Framework will take place in Q2 of 2022/23.	**Not Implemented**. Due to a number of factors, the review was not carried out last year. Instead LC carried out an intensive and thorough piece of work reviewing corporate governance “checklist” against a new ‘Governance, risk and resilience framework’, which was issued In March 2021 by the Centre for Governance and Security.

Conclusion

8. Work on the 2021/22 Internal Audit Plan is completed, with four audit reviews and the recommendations follow up completed. The findings of audit reviews are presented to this Committee following their completion.

Financial Implications for London Councils

None

Legal Implications for London Councils

None

Equalities Implications for London Councils

None

Appendices

Appendix 1 - 2021-22 Recommendations Follow Up Exercise

London Councils Recommendations for Follow-Up End of March 2022

Audit Name	**Recommendation**	**Assurance Rating**	**Management Response/Update**	**Agreed Implementation Date**	**Status**
2018-19 London Councils - PAN London Mobility Schemes	Management should establish whether the CMS system can be enabled to produce performance management information such as number of days taken to process a taxicard application. The system should also allow for officers to record the reason for card processing delays (over the 15 days target).	Amber	At the start of May 2022 our contractor, ESP, will be launching a new CRM which will enable us to report on application processing times. This is currently a manual process until the new CRM is in place. ***Responsible Officer:*** ***Stephen Boon, Acting Director, Transport and Mobility***	01/09/2020	**Not Implemented** Revised date for implementation 31st May 2022
2021-22 LC PAN London Mobility Schemes	Staff guidance should be reviewed and updated to reflect current practices. It should also be version controlled to confirm last review date.	Green	London Councils notes this recommendation and due to staff absence and problems with using the adobe editor, was not updated in time. The issues have now been resolved and the updates can be made immediately. ***Responsible Officer:*** ***Stephen Boon, Acting Director, Transport and Mobility***	31/12/2021	**Recommendation Implemented**

Audit Name	**Recommendation**	**Assurance Rating**	**Management Response/Update**	**Agreed Implementation Date**	**Status**
2020-21 LC - Risk Management	London Councils should benchmark their Risk Management Framework to the ISO 3000 2018 standards to identify any gaps and form a view as to whether the framework could be slightly amended to fix any issues or hold any changes needed until the next review .	Green	Due to a number of factors, the review was not carried out last year. Instead we carried out an intensive and thorough piece of work reviewing our corporate governance “checklist” against a new ‘Governance, risk and resilience framework’, which was issued In March 2021 by the Centre for Governance and Security. It is designed to reflect and supplement – but not replace - the CIPFA/Solace guidance. It was pertinent to carry out this review in advance of reviewing the Risk Management Framework. The Review of the Risk Management Framework will now take place in Q 2 of 2022/23. ***Responsibility: Christiane Jenkins Director of Corporate Governance***	31/07/2021	**Not implemented.** Revised date for implementation September 2022

Audit Name	**Recommendation**	**Assurance Rating**	**Management Response/Update**	**Agreed Implementation Date**	**Status**
2021-22 - LC - Recruitment and Payroll Adjustments	City of London HR needs to ensure that leavers checklists are fully completed, were applicable, in order to ensure full compliance with leavers procedures	Green	The Director of Corporate Governance at London Councils, as the responsible officer for oversight of the delivery of the SLA of operational HR services by the City of London, will raise this with the appropriate responsible officer at the City (Assistant Director, Human Resources) at the next SLA Management Meeting and will discuss how operationally, the City HR Team can make improvements. ***Responsibility: Christiane Jenkins Director of Corporate Governance***	31/12/2021	**Recommendation Implemented**
2019-20 Procurement of Goods and Services	The Director of Corporate Resources should put monitoring arrangements in place to identify staff issuing retrospective purchase orders, taking appropriate action to prevent such practice. This may include training for those staff who are found to be issuing retrospective orders.	Amber	A reminder will be issued to all staff of the requirement to issue official purchase orders when placing orders for goods and services. Compliance with this requirement will be monitored by finance officers with training provided to officers that breach the regulations. ***Responsibility: David Sanni, Chief Accountant***	28th February 2020	**Recommendation Implemented**

Audit Committee

London Councils' P&PA Risk Register

Item no: 09

Report by:	Christiane Jenkins	**Job title:**	Corporate Governance Director
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Summary

This report presents the current Policy and Public Affairs Risk Register for consideration by the Audit Committee.

Recommendations: The Audit Committee is asked to:

- Note London Councils' P&PA Risk Register for 2021/22 which can be found attached at Appendix 2.

London Councils’ PaPA Risk Register

1. Background

1.1 It is widely accepted that it is good governance and practice to have and maintain an organisational risk register. London Councils has had a Risk Management Strategy and Framework in place for a number of years and this was last reviewed by London Councils’ Audit Committee in March 2019.

1.2 The approach is proportionate to the organisation and establishes a framework for identifying and periodically monitoring risk. The types and definitions of risks used in London Councils’ risk assessments are attached at Appendix 1.

1.3 As set out in the Risk Management Framework, the Corporate Risk Register is reviewed annually by the Audit Committee.

1.4 The Directorate and Corporate Risk Registers are reviewed quarterly by the Corporate Governance Officer Group and half-yearly by London Councils’ Corporate Management Team (CMT). This review process ensures that the risk registers continue to support London Councils’ corporate priorities.

2. Current Position on PaPA Risk Register

2.1 The P&PA Risk Register was last considered and agreed by the Corporate Management Team in March 2022. The 2021/22 P&PA Risk Register is attached at Appendix 2. Although the Register has been annotated, at members’ request, to show a column for the direction of change for key risks since the register was last reported to the Committee, no risk directions have changed (see section 2.2 below).

2.2 The main changes to the register since it was last reported to Audit Committee on 17 June 2020 are set out below:

Risk Ref	Risk	Action taken
PaPA 1	Loss of member/local authority support	Risk Controls updated to reflect Covid arrangements

P&PA 2	Inability to meet all stakeholder expectations with resource base	Risk Type and Controls updated to incorporate reference to London Councils Shared Ambitions
P&PA 4	Ineffective relationships with key stakeholders and with key decision makers	Risk Controls updated to reflect Mayoral arrangements
P&PA 6	Lobbying outputs do not deliver outcome changes	Risk Controls updated to reflects London Councils partnership arrangements
P&PA 7	IT failure with website/ Intranet/ access to systems	Risk Description and Controls updated to reflect the risk during Covid arrangements.
P&PA 10	Work rendered abortive due to external policy changes or other external events	Risk Controls updated to reference London Councils Shared Ambitions
P&PA 12	LOTI member boroughs fail to renew annual subscription.	Risk Controls updated to reflect LOTI monitoring arrangements

3. Rota of Risk registers to Audit Committee

3.1 In accordance with Audit Committee requirements, risk registers are reported to Committee in rotation. Future dates for 2022/23 are as follows:

16 June 2022	CEX
15 September 2022	Corporate Risk Register
16 March 2023	Services Risk Register

4. Implications

Financial Implications for London Councils

There are no financial implications arising from this report.

Legal Implications for London Councils

There are no legal implications arising from this report.

Equalities Implications for London Councils

There are no specific equalities implications arising from this report, although when compiling the Divisional, Directorate and Corporate Risk Registers, equalities issues may be identified and will be recorded, reported and managed as necessary.

5. Recommendations

Audit Committee is asked to:

- Note London Councils' P&PR Risk Register for 2021/22 which can be found attached at Appendix 2.

Appendices:

- **Appendix 1** – Criteria for risks within London Councils
- **Appendix 2** – P&PR Risk Register for London Councils for 2021/22

Background Papers:

- London Councils Risk Management Strategy and Framework 2019
- Directorate and Divisional Risk Registers 2021/22
- Corporate Risk Register 2021/22

Appendix1 – Criteria for risks within London Councils (extract from London Councils Risk Management Strategy and Framework, approved March 2019)

The main types of risk that London Councils is likely to encounter are:

Risk	Definition
Compliance	Risk of failing to comply with statutory requirements.
External	Risks from changing public or government attitudes.
Financial	Risks arising from insufficient funding, losing monetary resources, spending, fraud or impropriety, or incurring unacceptable liabilities
Operational	Risks associated with the delivery of services to the public and boroughs arising, for example, from recruitment difficulties, diversion of staff to other duties, or IT failures, loss or inaccuracy of data systems or reported information
Project	Risks of specific projects missing deadlines or failing to meet stakeholder expectations.
Reputation	Risks from damage to the organisation’s credibility and reputation.
London	Risks to our stakeholders that need to be taken into account in our planning and service provision
Strategic	Risks arising from policy decisions or major decisions affecting organisational priorities; risks arising from senior-level decisions on priorities.
Contractual Risks	Risks related to the management of service contracts
Internal	Risks that relate to HR/People risks associated with employees, management and organisational development

Officers should note the difference between risks and issues. Risks MAY occur and you can put in place controls to stop that happening. Issues HAVE occurred and cannot be stopped so decisions must be made. The risk management process is focussed on issues that MAY occur.

Officers will identify risks applicable to their areas of work. Throughout the risk management process, the general rule of *escalation* will apply – if it cannot be managed satisfactorily at its current level, it needs to be passed up to the next level of management to be owned and addressed, and potentially placed on the directorate/divisional or corporate risk register. Officers may also decide that a separate risk register is required for an individual piece of work or project. This will be left to the discretion of individual Officers and their managers although guidance is available on the intranet and support is available from Corporate Governance. While project/team risk registers do not form part of the formal risk management process, Officers should follow the steps outlined in the framework to ensure consistency in our approach to risk across the organisation.

The decision on whether an individual risk should be included in the directorate or divisional risk register sits with the respective management teams. Decisions on risks to be included in the corporate risk register sits with the Corporate Management Board.

A ‘risk owner’ will be identified who will be responsible for reviewing and accepting the assessment that will be entered onto the risk register.

Assessing and scoring risks

To assess risks adequately London Councils will identify the *consequences* of a risk occurring and give each risk a score or *risk rating*.

A means of comparing risks is needed so that efforts can be concentrated on addressing those that are most important. Each risk will be given a score, depending on its likelihood and its impact, as shown below. A risk may meet some, or all, of a description of likelihood or impact. These descriptions provide guidance rather than a prescriptive formula for determining risk ratings. Scoring a risk is a judgement call based on knowledge, understanding and prediction based on past experience.

Any risks which are both very likely to occur and will have a high impact are the ones that demand immediate attention.

Note that emerging risks (ie risks around new areas of work, projects etc) may initially be scored higher on the register before scoring is adjusted once the risk is fully assessed.

Risk assessment			
Rating	**Likelihood**	**Impact**	**Rating**
Very High 4	**70% chance of occurrence** Almost certain (the risk is likely to occur within 6 months or at a frequent intervals). The event is expected to occur as there is a history of regular occurrence.	Huge financial loss; key deadlines missed or priorities unmet; very serious legal concerns (e.g. high risk of successful legal challenge, with substantial implications for London Councils); major impact on Boroughs or Londoners; loss of stakeholder public confidence.	*Very High 4*
High 3	**40% - 70% chance of occurrence** Probable, the risk is likely to occur more than once in the next 12 months. A reasonable possibility the event will occur as there is a history of frequent occurrence.	Major financial loss; need to renegotiate business plan priorities; changes to some organisational practices due to legislative amendments; potentially serious legal implications (e.g. risk of successful legal challenge); significant impact on the Boroughs or Londoners; longer-term damage to reputation.	*High 3*
Medium 2	**20% - 39% chance of occurrence** Possible, the risk may occur in the next 18 months. Not expected but there's a possibility it may occur as there is a history of casual occurrence.	Medium financial losses; reprioritising of services required; minor legal concerns raised; minor impact on the Boroughs or Londoners; short-term reputation damage.	*Medium 2*
Low 1	**<20% chance of occurrence** Rare, the risk may occur in exceptional circumstances.	Minimal financial losses; service delivery unaffected; no legal implications; unlikely to affect the Boroughs or Londoners; unlikely to damage reputation.	*Low 1*

Risk scores

Risk Assessment

Very High (4)	**4**	**8**	**12**	**16**
High (3)	**3**	**6**	**9**	**12**
Medium (2)	**2**	**4**	**6**	**8**
Low (1)	**1**	**2**	**3**	**4**
	Low (1)	**Medium (2)**	**High (3)**	**Very High (4)**

Impact

It is recognised that the scores at different levels of the register (project/team, directorate/ divisional, corporate) will reflect the importance of the risk in the context of the level of the register. For example, an individual officer's project register may reflect a high impact score on the project if an element is delivered late, but this will not necessarily correspond to a high impact on the organisation as a whole. This incremental approach to impact allows risks to be appropriately scored at each level to enable effective prioritisation of management and mitigation actions.

Controls in Place

For each risk a set of appropriate controls should be in place. Examples of controls might include:

- Regulations including Standing Orders, Financial Regulations
- Policies and Procedures
- Performance Indicators and reporting
- Business planning elements
- Staff (including training and development)
- Contracts with suppliers
- IT Systems
- Stakeholder involvement

Additional Controls

As well as existing controls, the practical management of risk may involve additional mitigation if the existing controls do not adequately mitigate against the risk. In addressing risks, a proportionate response will be adopted – reducing risks to 'As Low a Level as is Reasonably Practicable' in the particular circumstances (known as the ALARP approach).

In identifying actions to address a risk, at least one of the 4 T's; treat, transfer, tolerate or terminate should apply. In some areas of work eg services to external customers risks will need to be actively minimised, whereas other activities such as new business ventures, partnership arrangements may have an 'acceptable' element of risk commensurate with the work area.

Treat – treating the risk is the most common response, taking action to lessen the likelihood of the risk occurring. Treatment can also mean planning what you will do if the risk occurs, therefore minimising the impact. The purpose of 'treatment' is not necessarily to terminate the risk but, more likely, to establish a planned series of mitigating actions to contain the risk to an acceptable level.

Transfer – transferring the risk might include paying a third party to take it on or having an insurance policy in place. Contracting out a service might mitigate the risk but create new risks to be managed.

Tolerate – the ability to take effective action against some risks may be limited, or the cost of taking action may be disproportionate to the potential benefit gained. In this instance, the only management action required is to 'watch' the risk to ensure that its likelihood or impact does not change. This is an acceptable response as long as the risk has been properly identified and toleration is agreed to be the best option. If new management options arise, it may become appropriate to treat this risk in the future. London Councils may choose to tolerate a high residual risk if the activity involves presents a significant, yet risky, opportunity for the organisation. This should be explained in the description of the countermeasures.

Terminate – by doing things differently, you remove the risk.

Information Risks

When considering and reviewing the use, storage, retention and protection of any information asset which is valuable to London Councils, it is essential to look at the risks likely to threaten the asset's security. Management of risk is also an important element of completing a Data Protection Impact Assessment process for new projects or a review of an existing function.

Adopting a risk based approach can improve understanding of the value of the asset and the degree to which it must be protected. Failure to consider these risks could lead to breaches of data, financial loss, legal and reputational penalties and/or reputational harm.

Directorate	Policy & Public Affairs	**Date Last Reviewed**	Jan 2022 (PAPA MT) March 2022 (CMB)		
Director	Vacant	**Reviewed By**	PAPA MT	Corporate Governance Group	CMT

No	**Risk**	**Risk Type**	**Risk description**	**Risk Rating without control (1-4)**			**Controls in place**	**Responsible Officer**	**Risk rating with control (1-4)**		
				L	**I**	**O**			**L**	**I**	**O**
P&PA1	Loss of member authority support	Strategic, reputation,	Ineffective work results in member authorities withdrawing from London Councils. Ineffective communication of successes and benefits of membership. Increased scrutiny is to be expected at the start of a new 4-year term, making the later point critical	**3**	**3**	**9**	Management controls are in place including regular reporting on project progress. Various communication and engagement tools are used to engage borough members and officers. Increased frequency of pan-London on-line meetings improves live comms	Chair and members of PaPA MT	**1**	**3**	**3**

No	Risk	Risk Type	Risk description	Risk Rating without control (1-4)			Controls in place	Responsible Officer	Risk rating with control (1-4)		
				L	**I**	**O**			**L**	**I**	**O**
P&PA 2	Inability to meet all stakeholder expectations with resource base	Operational, project, reputation	Inability to cover the depth and breadth of issues that members or stakeholders would wish given normal resourcing constraints. Risk of failure, given the significant challenges that boroughs face and the added pressure of boroughs collectively delivering devolved initiatives effectively – which has been accentuated as a result of the Covid pandemic	**3**	**3**	**9**	Regular reviews of work programme by PAPA management team. Flexible deployment of resources, including specific changes in response to additional C19 demand Regular engagement with member Portfolio holders. Shared ambitions work will help with prioritising.	Chair and members of PaPA MT	**1**	**3**	**3**
P&PA 3	Weak or defective analysis/ technical mistakes	Project, reputation	Errors in analysis could lead to inappropriate lines being taken, lobbying being ineffective or significant loss of reputation	**2**	**3**	**6**	Work and reports are completed by appropriate staff and cross-checked by more senior officers prior to publication. Staff development considered where appropriate	PAPA Management Team	**1**	**3**	**3**

No	Risk	Risk Type	Risk description	Risk Rating without control (1-4)			Controls in place	Responsible Officer	Risk rating with control (1-4)		
				L	**I**	**O**			**L**	**I**	**O**
P&PA 4	Ineffective relationships with key stakeholders and with key decision makers	Strategic, reputation	Failure to develop effective partnerships is likely to reduce the quality of policy and service developments, which may result in key decision makers not understanding or taking account of the role and needs of boroughs.	**3**	**2**	6	Key partners identified during business planning process and stakeholder database developed. Systematic relationships and boards are in place with the Mayor of London and London Councils is establishing itself as a trusted partner.	PAPA Management Team	**1**	**2**	**2**
P&PA 5	Work undertaken not complying with equalities legislation	Compliance, reputation	The needs of London's diverse population should be reflected in policy work Publications, websites and events that are not accessible will have an adverse effect on London Councils reputation.	**2**	**2**	**4**	Equalities training is available for staff as required. Equalities impact looked at for all events; accessibility audits being implemented for publications, web and events.	Director of Communications, Strategic Leads	**1**	**2**	**2**
P&PA 6	Lobbying outputs do not deliver outcome changes	External and reputational	Voice and concerns of boroughs would not be considered when decision affecting public services and governance in London were being made.	**3**	**2**	**6**	Public affairs team and priorities in place; introducing public affairs training and better use of stakeholder databases. In addition, cross cutting performance arrangements within Policy formalise the	Chair and members of PaPA MT	**1**	**2**	**2**

No	Risk	Risk Type	Risk description	Risk Rating without control (1-4)			Controls in place	Responsible Officer	Risk rating with control (1-4)		
				L	I	O			L	I	O
			That we do not get ahead of, and be seen to positively contribute to, the emerging post-Covid policy priorities.			🟥	relationship between policy teams and Communications to ensure maximum benefit is gained from all work related to lobbying. London Councils is establishing itself as a trusted partner with organisations it seeks to influence				🟩
P&PA 7	IT failure with website/ Intranet/ access to systems	Operational, Project	IT problems prevent work being completed or communicated effectively. Current IT products not fit for purpose for online completion / extensive home working	**3**	**4**	**12**	Liaison with IT support to ensure suitable backups. Training programmes in place. Officers are assessing additional needs for online completion / expanded home working	Director of Communications	**2**	**2**	**4**
P&PA 8	London Councils websites not maintained or updated	Reputation	Loss of credibility among key audiences, inability to meet statutory requirements to publish information, for example Committee Papers	**2**	**2**	**4**	Professional web staff, and trained content managers across the organisation	Director of Communications	**1**	**2**	**2**

No	Risk	Risk Type	Risk description	Risk Rating without control (1-4)			Controls in place	Responsible Officer	Risk rating with control (1-4)		
				L	I	O			L	I	O
P&PA 9	Insufficient coverage of London councils' concerns in the national, regional, local and specialist press and TV & radio	External and reputational	No media coverage would significantly reduce the leverage of London local government in advancing its arguments on behalf of boroughs and those they represent	2	2	4	A team of press officers with clear objectives to deliver coverage. Also cross cutting performance arrangements within Policy formalise the relationship between policy teams and Communications to ensure maximum benefit is gained from all work related to lobbying.	Chair and members of PaPA MT	1	2	2
P&PA 10	Work rendered abortive due to external policy changes or other external events	External	Policy changes (Government or GLA) means that abortive work has been undertaken C19 - Failure to adapt to new C19 environment	3	2	6	Regular communication with government departments and GLA (to gather intelligence) and with member authorities (to ensure work focuses on current priorities and to manage expectations). Work is underway to align our work with the pan-London recovery and renewal work, as well as on Shared Ambitions for London Councils.	PAPA Management Team	2	2	4

No	**Risk**	**Risk Type**	**Risk description**	**Risk Rating without control (1-4)**			**Controls in place**	**Responsible Officer**	**Risk rating with control (1-4)**		
				L	**I**	**O**			**L**	**I**	**O**
P&PA 11	Libel action taken against London Councils	Financial, reputation	Potentially expensive legal and compensation costs	**2**	**2**	**4**	Strict editorial control, insurance	Director of Communications	**1**	**2**	**2**
PAPA 12	LOTI member boroughs fail to renew annual subscription.	Financial	LOTI member boroughs choose not to renew their annual subscription to LOTI, at the end of its original 3 year business plan resulting in a financial challenge to the team's continued operation.	2	3	6	The Director meets with all boroughs each month to ensure LOTI's activities remain aligned to their priorities. Meetings with other boroughs interested in joining LOTI are being arranged.. LOTI hosted a dedicated Away Day for boroughs on 11 January 2022 to establish where they would like the community and team to go next.	Eddie Copeland, Director LOTI	1	2	2

Audit Committee

Treasury Management Update Item no: 10

Report by:	David Sanni	**Job title:**	Director of Corporate Resources
Date:	17 March 2022		
Contact Officer:	David Sanni		
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Summary

This report provides the Audit Committee with an update on London Councils' treasury management strategy. London Councils' cash balances are held by the City of London under the service level agreement for the provision of financial support services. The investment of London Councils' cash balances are covered by the City of London's treasury management strategy as they are aggregated with the City of London's funds for investment purposes.

It was agreed at the meeting of the Audit Committee in September 2009, that the Committee will receive annual reports on the City of London's treasury management activities. The City of London's Treasury Management Strategy Statement and Annual Investment Strategy for 2022/23 was presented to their Financial Investment Board for approval on 9 February 2022 and will be submitted to the Court of Common Council for formal adoption.

Recommendations The Audit Committee is asked

- to note the City of London's Treasury Management Strategy Statement and Annual Investment Strategy for 2022/23 which can be found at Appendix A; and

- to note the City of London provide London Councils with an indemnity against potential future losses of cash balances.

Background

1. London Councils treasury management procedures are carried out by the City of London under the terms of the service level agreement for financial and support services. London Councils' cash balances are pooled with the City of London's funds for investment purposes. It was agreed at the meeting of the Audit Committee in September 2009, that the Committee will receive annual reports on the City of London's treasury management activities to comment on for feedback to the Chamberlain of the City of London.

City of London's Treasury Management Strategy Statement and Annual Investment Strategy for 2022/23

2. The City of London's Treasury Management Strategy Statement and Annual Investment Strategy for 2022/23 was presented to their Financial Investment Board on 9 February 2022 for approval and will then be submitted to the Court of Common Councils for formal adoption.

3. The City of London adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management which was revised in November 2009 following the problems with Icelandic Banks. There was a further revision to the Code of Practice in November 2017. The primary requirements of the revised code implemented by the City of London are the:

   - creation and maintenance of a treasury management policy statement which sets out the policies, objectives and approach to risk management of its treasury management activities.

   - creation and maintenance of suitable treasury management practices which set out the manner in which the City of London will seek to achieve those policies and objectives and prescribe how it will manage and control those activities.

- receipt by the full Court of Common Council of reports on treasury management policies, practices and activities, including as a minimum an annual strategy and plan in advance of the year, a mid-year review and an annual report covering activities during the previous year.

- delegation by the Court of Common Council of responsibilities for implementing and regular monitoring of treasury management policies to the Finance Committee and the Financial Investment Board and for the execution and administration of treasury management decisions to the Chamberlain.

- delegation by the Court of Common Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For the City the delegated body is the Audit and Risk Management Committee.

4. A full copy of the Treasury Management Strategy Statement and Annual Investment Strategy for 2022/23 report can be found at Appendix A.

5. The City of London provide London Councils with an indemnity against potential future losses of cash balances in the event of any losses incurred by the City itself. The City charges a premium of two basis points (0.02%) of the average balance of funds invested on behalf of third parties as compensation for taking on the risk of loss of capital and for providing such an indemnity. If the annual charge was applied to London Councils current average cash balance for 2021/22 of £16.1 million it would amount to £3,220.

6. Overall, the Director of Corporate Resources is satisfied that the City's treasury management function is run in a prudent manner and takes comfort

from the indemnity against future capital losses which safeguards London Councils' funds.

Financial Implications for London Councils

As detailed in the body of the report.

Legal Implications for London Councils

None

Equalities Implications for London Councils

None

Appendices

Appendix A - City of London's Treasury Management Strategy Statement and Annual Investment Strategy for 2022/23 and cover report.

Background Papers

Audit Committee working file 2021/22

Committee:	**Date:**
Financial Investment Board Bridge House Estates Board	9 February 2022 16 February 2022
Subject: Treasury Management Strategy Statement and Annual Investment Strategy 2022/23	**Public**
Report of: The Chamberlain	**For Decision**
Report author: James Graham – Chamberlain’s Department	

Summary

The attached document sets out the Corporation’s Treasury Management Strategy Statement and Annual Investment Strategy (TMSS) for 2022/23. The Treasury Management Strategy and Annual Investment Statement for 2022/23 has been updated taking account of the latest information concerning the organisation’s capital plans and external factors, such as the prospects for interest rates.

The document includes various Treasury and Prudential Indicators required to be set for the City Fund to ensure that the Corporation’s capital investment plans are affordable, prudent and sustainable and to help the organisation identify and control the risks around its treasury management activity.

As has historically been the case, this report covers the treasury management activity carried out across the organisation, including in respect of City’s Cash and Bridge House Estates. As City’s Cash borrowing is not covered by the regulatory framework established for local authorities, the City has adopted its own formal policy in 2018/19 via the City’s Cash Borrowing Policy Statement which is included in the TMSS at Appendix 8.

The main proposals within the document are incorporated within the separate report entitled “City Fund 2022/23 Budget” being considered by the Finance Committee on 15 February 2022 and by the Court of Common Council on 10 March 2022.

Responsibility for approving the Corporation’s borrowing plans remains with the Court of Common Council, not the Financial Investment Board.

The Bridge House Estates Board is responsible for approving the TMSS on behalf of the Bridge House Estates. The Charity does not currently have borrowing powers and thus the most relevant section for the BHE Board is section 5, the Annual Investment Strategy, which sets out how surplus cash balances will be managed in the forthcoming year (it does not apply to the Charity’s longer term investments which are subject to the BHE Investment Strategy Statement). By adopting in the Corporation’s treasury management policies, the BHE Board can ensure that treasury risks associated with the Charity’s surplus cash balances are managed efficiently and effectively.

The key areas to highlight are:

Changes to the Treasury Management and Prudential Codes

CIPFA published revised versions of the Treasury Management Code of Practice and the Prudential Code for Capital Finance in Local Authorities on 20th December 2021.

The revised Codes make several changes, including an explicit ban on borrowing to invest primarily for financial return, as well as other revisions to key definitions and reporting requirements.

Given the timing of the revised Codes' publication, CIPFA has stated that formal adoption is not required until 2023/24 and therefore the City's Treasury Management Strategy Statement for 2022/23 has been prepared in accordance with the pre-existing editions of the Codes.

Capital financing and borrowing

- The Corporation's capital plans create a borrowing requirement across both the City Fund and City's Cash. City's Cash has partially addressed this borrowing requirement through the issuance of £450m market debt in recent years.
- The City Fund borrowing requirement is expected to increase to £216.2m by 2023/24. For the City Fund, there is no immediate requirement to take on external borrowing as it is expected that the City Fund can continue to temporarily use its own cash balances (internal borrowing) for the foreseeable future. Any new external borrowing would serve to increase cash balances and create additional revenue pressures through a "cost of carry", as the rate payable on external borrowing is higher than the interest receivable from treasury management investment activity. Therefore, the proposed treasury management strategy recommends that the City Fund borrowing requirement is managed through the prudent use of internal resources during 2022/23.
- The benefits of this strategy (lower financing costs and reduced counterparty risk) need to be carefully evaluated against the risk of incurring higher borrowing costs in future. Interest rates are expected to rise gradually over the next few years but there is considerable uncertainty surrounding the forecast, particularly around how the Bank of England acts to reduce inflation. Interest rates are monitored daily and should circumstances change, the Chamberlain will maintain the flexibility to meet some or all of the City Fund borrowing requirement through external borrowing. As such the operational boundary and authorised limit for external debt (Appendix 2 of the TMSS) have been revised to enable the Corporation to secure external debt to meet some or all of the borrowing requirement.
- Local authorities are legally required to set aside a prudent amount for the provision of the repayment of prudential borrowing from revenue each year. It should be noted that this requirement applies for all unfunded City Fund capital expenditure (i.e. spending that is not immediately financed through capital grants, capital receipts etc.) not just for actual external borrowing. The Minimum Revenue Provision (MRP) Policy Statement for 2022/23 sets out this policy for the forthcoming year and is included at Appendix 2 in the TMSS.

Investments

- As at 31 December 2021, the Corporation has cash balances totalling £1,302.2m. Cash is expected to decrease in 2022/23 as the Corporation progresses spending on the major projects programme. Most of the treasury cash balances pertain to the City Fund and comprise of liabilities on City Fund's balance sheet (cash that needs to be paid out to third parties or used for a specific purpose at some point in the future) together with cash backed reserves.

- The Corporation currently manages significant short term investment balances. Although these balances are expected to decline in the next few years as the capital programme progresses, a significant level of core cash will persist for the next ten years based on current financial plans. One of the most acute challenges within the treasury management strategy is preventing the gradual erosion of the real value of these long-term cash balances from the effects of inflation. This is particularly important in the current external environment which is characterised by relatively high inflation and low investment returns. Officers have reviewed various longer term investment options with the Corporation’s treasury consultant, Link, and recommend the introduction of multi-asset funds to the list of permitted non-specified investments. Multi-asset funds have higher expected returns and exhibit higher volatility compared to the investment categories currently used and thus would only be suitable for cash that is expected to be available for investment for at least 3-5 years. Multi-asset fund investments would be subject to an overall limit of £50m to ensure the Corporation’s liquidity needs are satisfied. If the proposal is adopted officers will work with Link to identify a shortlist of suitable funds that meet the Corporation’s requirements.
- Officers have considered other options for longer term investment beside multi-asset funds. Property funds have been a popular investment for local authorities in recent years. However, given the Corporation’s existing direct exposure to this asset class, officers have discounted this option for the time being. Equity funds offer higher expected returns than multi asset funds but with more volatility and therefore are not considered appropriate at this stage. Officers have also discounted the option of investing in longer term fixed income products, which would likely involve either additional credit risk through investment in lower quality bonds or additional interest rate risk through investment in longer dated bonds.
- No other changes to the Corporation’s creditworthiness policy (as set out in section 8.2. of the main report) are proposed. Officers judge that the current criteria allow the Corporation to achieve adequate diversification amongst a range of high-quality counterparties.
- The revised CIPFA Codes include a requirement to specify the organisation’s approach to ESG factors alongside traditional creditworthiness policy. Officers have proposed an initial policy on ESG risks at paragraph 5.4 of the Treasury Management Strategy Statement. This policy includes a requirement to incorporate monitoring of relevant ESG risks into ongoing due diligence. Officers will identify suitable indicators with our treasury management consultant Link. It is anticipated that this policy will be further developed over time

The main changes to the document from last year’s version are highlighted in yellow and underlined.

Recommendations

It is recommended that the Financial Investment Board reviews and approves the attached Treasury Management Strategy Statement and Annual Investment Strategy for 2022/23, and submits it to the Finance Committee and the Court of Common Council as part of the City Fund 2022/3 Budget Report for formal adoption.

It is recommended that the Bridge House Estates Board reviews and approves the Treasury Management Strategy Statement and Annual Investment Strategy for 2022/23 on behalf of Bridge House Estates.

Annex

Treasury Management Strategy Statement and Annual Investment Strategy 2022/23

James Graham

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TREASURY MANAGEMENT STRATEGY STATEMENT

AND

ANNUAL INVESTMENT STRATEGY

2022/23

Issue Date: 09/02/2022
Agreed by Court of Common Council: XX/XX/2022

Treasury Management Strategy Statement and Annual Investment Strategy 2022/23

1. Introduction

1.1. Background

The City of London Corporation (the City) is required in its local authority capacity 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 City'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 capital expenditure plans. These capital plans provide a guide to the borrowing needs of the City, essentially the longer-term cash flow planning, to ensure that the organisation can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans where permitted for individual Funds of the City, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet risk or cost objectives.

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.

1.2. The Treasury Management Policy Statement

The City defines its treasury management activities as:

> *The management of the organisation's investments and cash flows, its banking, money market and capital market transaction; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.*

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

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

1.3. Reporting Requirements

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2009) was adopted by the Court of Common Council (the Court) on 3 March 2010, and is applied to all Funds held by the City.

The primary requirements of the Code are as follows:

(i) The City of London Corporation will create and maintain, as the cornerstones for effective treasury management:

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
- Suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

(ii) This organisation (i.e. the Court of Common Council) will receive reports on its treasury management policies, practices and activities, including as a minimum an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close.

(iii) The Court of Common Council delegates responsibility for the implementation and regular monitoring of its treasury management policies to the Finance Committee and the Financial Investment Board (which currently acts in an advisory capacity on behalf of the BHE Board); the execution and administration of treasury management decisions is delegated to the Chamberlain, who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

(iv) The Court of Common Council nominates the Audit and Risk Management Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

The CIPFA 2017 Prudential Code for Capital Finance in Local Authorities and Treasury Management Code of Practice require all local authorities to prepare a capital strategy. The capital strategy provides a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services as well as an overview of how the associated risk is managed and the implications for future financial sustainability. The Treasury Management Strategy Statement is reported separately form the Capital Strategy. This ensures the separation of the core treasury function under security, liquidity and yield principles from the policy and commercial investments usually driven by expenditure on an asset. It is considered good practice by the City to include all of its Funds within these strategies.

1.4. Recent changes to the CIPFA Treasury Management and Prudential Codes

CIPFA published revised versions of both the Treasury Management Code of Practice and the Prudential Code for Capital Finance in Local Authorities on 20th December 2021. Formal adoption is not required until the 2023/24 financial year and the Treasury Management Strategy for 2022/23 has been prepared in accordance with the 2017 editions of both Codes.

The revised codes will have the following implications:

- All investments and investment income must be categorised into one of three types:

  Treasury management
  Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

  Service delivery
  Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".

  Commercial return
  Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to a local authority's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

- a requirement to adopt a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement;

- clarify what CIPFA expects a local authority to borrow for and what they do not view as appropriate. This will include the requirement to set a proportionate approach to commercial and service capital investment;

- address ESG issues within the Capital Strategy;

- require implementation of a policy to review commercial property, with a view to divest where appropriate;

- create new Investment Practices to manage risks associated with non-treasury investment (similar to the current Treasury Management Practices);

- ensure that any long term treasury investment is supported by a business model;

- a requirement to effectively manage liquidity and longer term cash flow requirements;

- a requirement to address ESG policy within the treasury management risk framework;

- amendment to the knowledge and skills register for individuals involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each council;

- a new requirement to clarify reporting requirements for service and commercial investment, (especially where supported by borrowing/leverage).

As this Treasury Management Strategy Statement and Annual Investment Strategy deals soley with treasury management investments, the categories of service delivery and commercial investments will be dealt with as part of the Capital Strategy report.

Furthermore it should be noted that any new requirements are mandatory for the City Fund only.

Members will be updated on how all these changes will impact our current approach and any changes required will be formally adopted within the 2023/24 TMSS report.

1.5. Treasury Management Strategy for 2022/23

The Local Government Act 2003 (the Act) and supporting regulations require the City to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the City's capital investment plans are affordable, prudent and sustainable. The City's Prudential Indicators are set in its annual Budget Report and Medium-Term Financial Strategy, while Treasury Indicators are established in this report (Appendix 2).

The Act requires the Court of Common Council to set out its treasury strategy for borrowing (section 4 of this report) and to prepare an Annual Investment Strategy (section 5 of this report). The Investment Strategy sets out the City's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The suggested strategy for 2022/23 in respect of the required aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with leading market forecasts provided by the City's treasury adviser, Link Asset Services, Treasury Solutions.

The strategy covers:

- the capital expenditure plans and the associated prudential indicators
- the minimum revenue provision (MRP) policy
- the current treasury position

- treasury indicators which limit the treasury risk and activities of the City

- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy
- policy on use of external service providers.

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

1.6. Current Portfolio Position

The City's treasury portfolio position at 31 December 2021 compared to the position at 31 March 2021 comprised:

Table 1: Treasury Portfolio

	Actual	**Actual**	**Current**	**Current**
	31/03/21	**31/03/21**	**31/12/21**	**31/12/21**
Treasury investments	**£m**	**%**	**£m**	**%**
Banks	£495.0	52%	£655.0	50%
Building societies (rated)	£25.0	3%	£60.0	5%
Local authorities	£15.0	2%	£10.0	1%
Liquidity funds	£138.5	17%	£278.8	21%
Ultra-short dated bond funds	£112.6	12%	£137.6	11%
Short dated bond funds	£161.0	17%	£160.8	12%
Total treasury investments	**£947.1**	100%	**£1,302.2**	100%
Treasury external borrowing				
LT market debt (City's Cash)	£250.0	100%	£450.0	100%
Total external borrowing	**£250.0**	100%	**£450.0**	**100%**

2. Capital Expenditure Plans and Prudential Indicators

2.1. City Fund

The City's capital expenditure plans are a 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.

The City's capital expenditure plans in respect of its local authority functions (the City Fund) are detailed in the 2022/23 Budget Report and Medium-Term Financial Strategy, which also contains the City's Prudential Indicators. The Prudential Indicators summarise the City Fund's annual capital expenditure and financing plans for the medium term.

Estimate of Capital Expenditure and Financing (City Fund)

Table 2	2020/21 Actual £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Capital Expenditure:					
Non-HRA	48.5	104.0	164.9	283.2	260.3
HRA	13.2	52.6	52.2	15.1	0.1
Total	**61.7**	**156.6**	**217.1**	**298.3**	**260.4**
Financed by:					
Capital grants	16.4	74.4	83.0	50.1	34.6
Capital reserves	20.4	52.4	12.4	90.3	288.4
Revenue	15.7	29.8	68.5	43	14.4
Total	**52.5**	**156.6**	**163.9**	**183.4**	**337.4**
Net financing need:	**9.2**	**0.0**	**53.2**	**114.9**	**-77.0**

The Prudential Indicators also establish the City Fund'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 City Fund's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource (the net financing need in Table 2), will increase the CFR.

Estimate of the Capital Financing Requirement (City Fund)

Table 3	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Non-HRA	53.4	45.6	78.3	188.2	114.2
HRA	0	6.1	24.8	28.0	23.8
Total	**53.4**	**51.7**	**103.1**	**216.2**	**138.0**

Minimum Revenue Provision (City Fund)

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 asset's life, and so charges the economic consumption of capital assets as they are used. The City's MRP Policy is detailed in Appendix 2.

2.2. City's Cash

As with the City Fund, any capital expenditure incurred by City's Cash which has not immediately been paid for through a revenue or capital resource, will increase the City's Cash borrowing requirement. The medium term financial plan for City's Cash includes an increase in capital expenditure in the coming years, primarily relating to the major projects programme. All projected capital expenditure in 2022/23 will be financed from the existing £450m stock of debt or other sources. Table 3 summarises the planned City's Cash borrowing over the next few years.

Table 4	**2020/21 Actual £m**	**2021/22 Estimate £m**	**2022/23 Estimate £m**	**2023/24 Estimate £m**	**2024/25 Estimate £m**
Borrowing	£250m	£450m	£450m	£450m	£450m

A debt financing strategy will be established to ensure borrowing for City's Cash is reduced gradually over time as set out in the City's Cash Borrowing Policy Statement (Appendix 8).

2.3. Bridge House Estates

The Bridge House Estates' financial plans focus on the charity's primary object, namely the support and maintenance of the five Thames bridges that the charity owns, alongside their future replacement. Any surplus income each year is available for its ancillary purposes, namely charitable funding undertaken in the name of the City Bridge Trust. The charity's revenue expenditure plans over the short and medium term are funded from ongoing income and the returns on investments held within the unrestricted income fund. Capital spend on the charity's investment property portfolio is funded from the designated sales pool, with receipts from disposals or lease premiums being available for this. The current governing documents for BHE do not include powers to access the gains on investments held within the endowment fund, nor to undertake borrowing. The charity is anticipating approval of its Supplemental Royal Charter during 2022, which will amend these powers. This strategy will reflect these new powers once in place.

2.4. Treasury Indicators for 2022/23 – 2024/25

Treasury Indicators (as set out in Appendix 2) are relevant for the purposes of setting an integrated treasury management strategy.

3. Prospects for Interest Rates

The City of London has appointed Link Asset Services (Link) as its treasury advisor and part of their service is to assist the City to formulate a view on interest rates. Appendix 1 draws together a number of forecasts for both short term (Bank Rate – also known as "the Bank of England base rate") and longer term interest rates. The following table and accompanying text below gives the Link central view.

	Bank Rate[1] %	PWLB Borrowing Rates % (including certainty rate adjustment)			
		5 year	10 years	25 year	50 year
Dec 2021	0.25	1.40	1.60	1.80	150
Mar 2022	0.25	1.50	1.70	1.90	1.70
Jun 2022	0.50	1.50	1.80	2.00	1.80
Sep 2022	0.50	1.60	1.80	2.10	1.90
Dec 2022	0.50	1.60	1.90	2.10	1.90
Mar 2023	0.75	1.70	1.90	2.20	2.00
Jun 2023	0.75	1.80	2.00	2.20	2.00
Sep 2023	0.75	1.80	2.00	2.20	2.00
Dec 2023	0.75	1.80	2.00	2.30	2.10
Mar 2024	1.00	1.90	2.10	2.30	2.10
Jun 2024	1.00	1.90	2.10	2.40	2.20
Sep 2024	1.00	1.90	2.10	2.40	2.20
Dec 2024	1.00	2.00	2.20	2.50	2.30
Mar 2025	1.25	2.00	2.30	2.50	2.30

Over the last two years, the coronavirus outbreak has had a significant impact on the UK economy and on economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged before raising it to 0.25% at its meeting on 16th December 2021, and again to 0.50% on 3rd February 2022.

As shown in the forecast table above, the forecast for Bank Rate now includes three further increases (see footnote 1 below), one in quarter 1 of 2023 to 0.75%, then in quarter 1 of 2024 to 1.00% and, finally, one in quarter 1 of 2025 to 1.25%.

Since the start of 2021, we have seen a lot of volatility in gilt yields, and hence PWLB rates. As the interest forecast table for PWLB certainty rates above shows, there is forecast to be a steady, but slow, rise in gilt yields during the forecast period to March 2025, though there will doubtless be a lot of unpredictable volatility during this forecast period.

3.1. Significant risks to the forecasts

There is a high level of uncertainty surrounding the forecast tabled above. Some of the key risks to the forecasts are as follows:

- **Mutations** of the virus render current vaccines ineffective, and tweaked vaccines to combat these mutations are delayed, or cannot be administered fast enough to prevent further lockdowns. The pace and extent of vaccine take up may also have an impact.

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity.

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[1] Link's forecast was compiled on 21 December 2021 and as such does not take account of the Bank of England's change to Bank Rate at its meeting on 3 February 2022, which at the time of writing was

expected to occur in quarter 2.

- **The Monetary Policy Committee** acts 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. Alternatively, the MPC tightens monetary policy too late to ward off building inflationary pressures.

- **The Government** acts too quickly to cut expenditure to balance the national budget.

- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in resolving significant remaining issues.

- **Longer term US treasury yields** rise strongly and pull gilt yields up higher than forecast. While monetary policy in the UK will have a major impact on gilt yields, there has traditionally been a positively correlation between US and UK borrowing rates. Inflationary pressures and erosion of surplus economic capacity look much stronger in the US compared to those in the UK, which would suggest that the Federal Reserve's actions to suppress inflation, are likely to be faster and stronger than Bank Rate increases in the UK. This is likely to put upward pressure on treasury yields which could then spill over into putting upward pressure on UK gilt yields.

- **Major stock markets** e.g., in the US, become increasingly judged as being over-valued and susceptible to major price corrections. Central banks become increasingly exposed to the "moral hazard" risks of having to buy shares and corporate bonds to reduce the impact of major financial market selloffs on the general economy.

- **Geopolitical risks,** for example in Ukraine, Iran, North Korea, but also in Europe and Middle Eastern countries; on-going global power influence struggles between Russia/China/US. These could lead to increasing safe-haven flows.

3.2. Investment and borrowing rates

- Investment returns are expected to improve in 2022/23. However, while markets are pricing in a series of Bank Rate increases, actual economic circumstances may see the MPC fall short of these expectations.
- 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. Borrowing rates have also been impacted by changes in Government policy. In November 2020, the Chancellor announced the conclusion to a review of margins over gilt yields for PWLB rates which had been increased by 100 bps in October 2019. The standard and certainty margins were reduced by 100 bps 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.
- Because borrowing rates are expected to be higher than investment rates, any new borrowing undertaken by the City will have a "cost of carry" (the difference between higher borrowing costs and low investment returns) to any new borrowing that causes a temporary increase in cash balances.

3.3. Interest Rate Exposure

The City is required to set out how it intends to manage interest rate exposure.

This organisation will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements and management information arrangements.

It will achieve this by the prudent use of its approved instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates.

4. Borrowing Strategy

The borrowing strategy is developed from the capital plans and prospect for interest rates outlined in sections 2 and 3 above, respectively.

For both the City Fund and City's Cash, the capital expenditure plans create borrowing requirements and the borrowing strategy aims to make sure that sufficient cash is available to ensure the delivery of the City's capital programme as planned. Bridge House Estates, as stated in section 2.3, does not currently hold the power to borrow.

The City can choose to manage the borrowing requirements through obtaining external debt from a variety of sources; through the temporary use of its own cash resources ("internal borrowing"); or via a combination of these methods.

4.1. City Fund

The City Fund has a positive Capital Financing Requirement, and this is expected to grow over the next few years (see table 2 above). As the City Fund currently has no external debt, it is therefore maintaining an under-borrowed position which is forecast to increase if the City Fund does not acquire external debt. This means that the capital borrowing need is being managed within internal resources, i.e. cash supporting the City Fund's reserves, balances and cash flow is being used as a temporary measure. This strategy is prudent because it helps the City Fund to minimise borrowing costs in the near term and because it leads to lower investment balances which reduces counterparty risk. Against these advantages the City is conscious of the increased exposure to interest rate risk that is inherent in internal borrowing (i.e. the risk that the City Fund will need to replace internal borrowing with external borrowing in the future when interest rates are high).

Therefore, against this background and the risks within the economic forecast, caution will be adopted with the 2020/21 treasury operations. The Chamberlain will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances. For example,

- *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 borrowing will be postponed.

- *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 Finance Committee and the Court of Common Council at the next available opportunity.

The City must set two treasury indicators representing the upper limits for the total amount of external debt for City Fund. These limits are required under the Prudential Code in order to ensure borrowing is affordable and is consistent with the City Fund’s capital expenditure requirements.

- The **operational boundary for external debt** should represent the most likely scenario for external borrowing. It is acceptable for actual borrowing to deviate from this estimate from time to time. The proposed limit is set to mirror the estimated CFR for the forthcoming year and the following two years.

- The **authorised limit for external debt** is the maximum threshold for external debt for over 2022/23, 2023/24 and 2024/25. This limit is required by the Local Government Act 2003 and is set above the operational boundary to ensure that the City is not restricted in the event of a debt restructuring opportunity.

The proposed limits for 2022/23 are set out in Appendix 2.

The City is also required to set a treasury indicator in respect of the maturity structure of external debt to ensure that the external debt portfolio remains appropriately balanced over the long term. Under the revised Treasury Management Code of Practice, the City is required to set limits for all borrowing (i.e. both fixed rate and variable debt), and the proposed limits are detailed in Appendix 2.

4.2. City’s Cash

The capital expenditure plans for City’s Cash also create a borrowing requirement. City’s Cash has issued fixed rate market debt totalling £450m to fund its capital programme. Of this total, £250m was received in 2019/20 and the remaining £200m was received in 2021/22. City’s Cash is likely to have a further temporary borrowing requirement arising in 2023/24. It is not anticipated that any new external borrowing will be acquired by City’s Cash in 2022/23. However, the Chamberlain will keep this position under review and in doing so will have regard for liquidity requirements, interest rate risk and the implications for the revenue budget.

The regulatory framework established through the CIPFA professional codes and MHCLG guidance pertains to the City’s local authority function, the City Fund. To facilitate effective management of the City’s Cash borrowing requirement, this organisation has adopted the City's Cash Borrowing Policy Statement (Appendix 8), which sets out the principles for effectively managing the risks arising from borrowing on behalf of City's Cash. Under this framework, the City has resolved to establish two further treasury indicators, which will help the organisation to ensure its borrowing plans remain prudent, affordable and sustainable:

- **Estimates of financing costs to net revenue stream.** This indicator is given as a percentage and establishes the amount of the City's Cash net revenue that is used to service borrowing costs.
- **Overall borrowing limits.** This indicator represents an upper limit for external debt which officers cannot exceed.

The proposed indictors for 2022/23 are set out in Appendix 2 alongside the City Fund treasury indicators.

4.3. Bridge House Estates

Bridge House Estates does not currently hold the power to borrow. The changes to its governing documents being sought by way of a Supplemental Royal Charter will address this, enabling borrowing to take place for specific purposes relating to its primary objective. There are no current plans for borrowing to take place in the short to medium term.

4.4. Policy on borrowing in advance of need

The City 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 City can ensure the security of such funds.

4.5. Debt rescheduling

The City does not anticipate any debt rescheduling in the near term. However, should any opportunities for debt rescheduling arise (through a decrease in borrowing rates, for instance), such cases will need to be considered in the context of the current treasury position and the size of the cost of debt repayment (i.e. any penalties incurred).

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

All rescheduling will be reported to the Court of Common Council, at the earliest meeting following its action.

4.6. Sources of borrowing

Historically, the main source of borrowing for UK local authorities has been the

PWLB. Any new loans issued by the PWLB are subject to the PWLB's revised lending arrangements with effect from 26 November 2020. Currently the PWLB Certainty Rate is set at gilts + 80 basis points for new loans. Local authorities have recourse to other sources of external borrowing including financial institutions, other local authorities and the Municipal Bonds Agency. Our advisors will keep us informed as to the relative merits of each of these alternative funding sources

5. Annual Investment Strategy

The Annual Investment Strategy sets out how the City will manage its surplus cash balances for the forthcoming year (i.e. investments held for treasury management purposes). It does not apply to other long-term investment assets, which are dealt with variously by other strategy documents (for instance the Capital Strategy for City Fund, or the Investment Strategy Statement for Bridge House Estates).

5.1. Investment Policy

The Department of Levelling Up, Housing and Communities (DLUHC - this was formerly the Ministry of Housing, Communities and Local Government (MHCLG)) and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This strategy deals solely with treasury (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 City of London’s investment policy will have regard to the DLUHC’s Guidance on Local Government Investments (“the Guidance”), the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectorial Guidance Notes 2017 (“the CIPFA TM Code”) and CIPFA Treasury Management Guidance Notes 2018.

The City’s investment priorities are:

(a) security; and

(b) liquidity.

The City will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of the City is low in order to give priority to the security of its investments.

The borrowing of monies purely to invest or on-lend and make a return is unlawful and the City will not engage in such activity.

In accordance with the above guidance from the DLUHC and CIPFA, and in order to minimise the risk to investments, the City applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

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 City 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.

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. Investment instruments identified for use in the financial year are listed in Appendix 3 under the ‘specified’ and ‘non-specified’ investments categories.

- **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. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e. an 18-month deposit would still be non-specified even if it has only 11 months left until maturity.

The City will also set a limit for the amount of its investments which are invested for longer than 365 days (see Appendix 2).

5.2. Expected investment balances

The City’s medium term financial plans for City Fund and City’s Cash imply that total investment balances within the treasury investment portfolio are expected to decline over the next few years as the capital programme is progressed (Bridge House Estates’ cash balances are expected to remain consistent) but to remain above a minimum constant level of £422m.

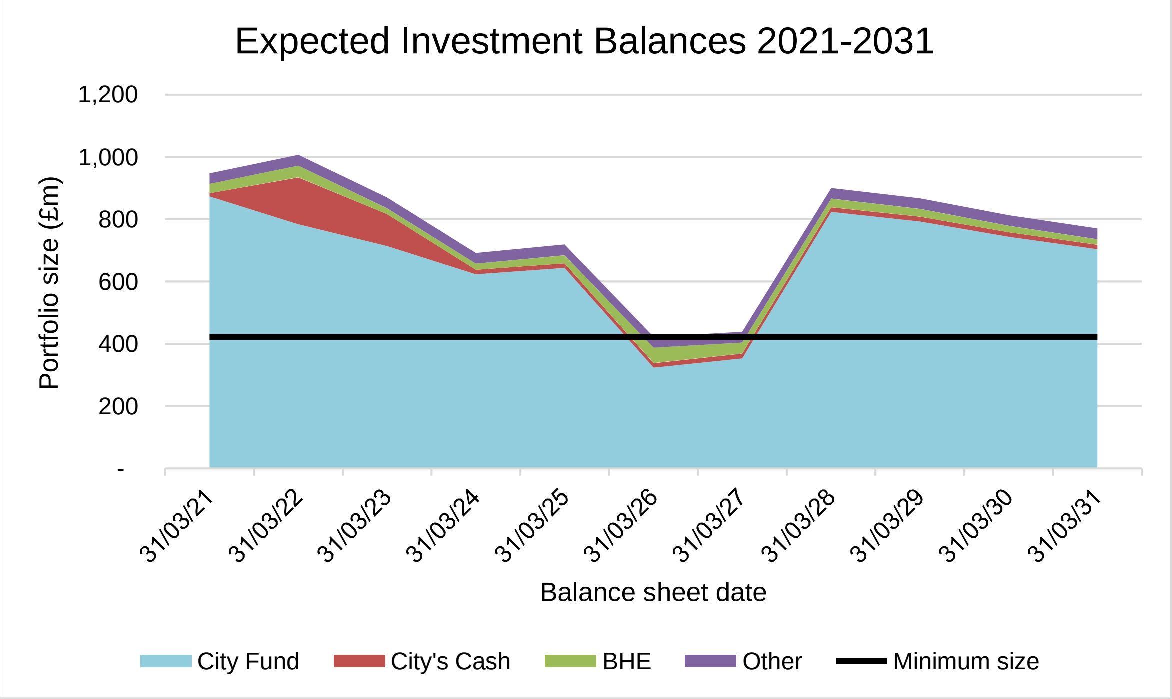

Figure 1 shows projected investment balances across the three funds and others over the coming years as at the end of each financial year.[2] Most of the investment balances relate to City Fund and it should be noted that generally investment balances are expected to be higher between reporting dates.

As the City, and the City Fund in particular, is expected to maintain significant cash balances over the forecast horizon, the treasury management strategy will duly consider how best to protect the capital value of resources, particularly in the context of elevated inflation and low (by historical standards) investment returns. This will include, where appropriate, exposure to investments with an expected investment horizon in excess of one year such as short dated bond funds and multi asset funds. Such investments will only be conducted following a thorough assessment of the City's liquidity requirements and will be subject to ongoing monitoring practices as specified in paragraph 5.13 below.

5.3. Creditworthiness policy

The primary principle governing the City'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 City 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.

- 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 City's prudential indicators covering the maximum principal sums invested.

The Chamberlain will maintain a counterparty list in compliance with the following criteria and will revise these criteria and submit them to the Financial Investment Board for approval as necessary. These criteria are separate to those which determine which types of investment instruments are classified as either specified or non-specified as it provides an overall pool of counterparties considered high quality which the City may use, rather than defining what types of investment instruments are to be used.

Regular meetings are held involving the Chamberlain, the Deputy Chamberlain, Corporate Treasurer and members of the Treasury team, where the suitability of prospective counterparties and the optimum duration for lending is discussed and agreed.

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 a possible longer-term bias outside the central rating view) are provided to officers almost immediately after they occur and this information is

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[2] “Other” refers to other entities for whom the City provides treasury management services.

considered before dealing. For instance, a negative rating Watch applying to a counterparty would result in a temporary suspension, which will be reviewed in light of market conditions.

All credit ratings will be monitored daily**.** The City is alerted to credit warnings and changes to ratings of all three agencies through its use of the Link creditworthiness service.

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

- Banks 1 – good credit quality – the City 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+ (Fitch rating)

  and have, as a minimum the following Fitch, credit rating:

  (i) Short-term – F1
  (ii) Long-term – A-

- Banks 2 – Part nationalised UK banks – Royal Bank of Scotland ring-fenced operations. This bank can be included if it continues to be part nationalised, or it meets the ratings in Banks 1 above.

- Banks 3 – The City’s own banker (Lloyds Banking Group) for transactional purposes and if the bank falls below the above criteria, although in this case, balances will be minimised in both monetary size and duration.

- Bank subsidiary and treasury operation - The City will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above. This criteria is particularly relevant to City Re Limited, the City’s Captive insurance company, which deposits funds with bank subsidiaries in Guernsey.

- Building Societies – The City may use all societies which:

  (i) have assets in excess of £10bn; or
  (ii) meet the ratings for banks outlined above

- Money Market Funds (MMFs) Constant Net Asset Value (CNAV)* – with minimum credit ratings of AAA/mmf

- Money Market Funds (MMFs) Low-Volatility Net Asset Value (LVNAV)* – with minimum credit ratings of AAA/mmf

- Money Market Funds (MMFs) Variable Net Asset Value (VNAV)* – with minimum credit ratings of AAA/mmf

- Ultra-Short Dated Bond Funds with a credit rating of at least AAA/f (previously referred to as Enhanced Cash Plus Funds)

- Short Dated Bond Fund – These funds typically do not obtain their own standalone credit rating. The funds will invest in a wide array of investment grade instruments, the City will undertake all necessary due diligence to ensure a minimum credit quality across the funds underlying composition is set out within initial Investment Manager Agreements and actively monitor the on-going credit quality of any fund invested.

- Multi-Asset Funds – these funds have the potential to provide above inflation returns with a focus on capital preservation, thus mitigating the erosion in value of long-term cash balances by investing in a range of asset classes that will typically include equities and fixed income. The value of these investments will fluctuate and they are not suitable for cash balances that are required in the near term. Before any investment is undertaken a rigorous due diligence process will be undertaken to identify funds that align with the City's requirements.

- UK Government – including government gilts and the debt management agency deposit facility.

- Local authorities

A limit of £400m will be applied to the use of non-specified investments.

*****Under EU money market reforms implemented in 2018/19, three classifications of money market funds exist:

- Constant Net Asset Value ("CNAV") MMFs – must invest 99.5% of their assets into government debt instruments and are permitted to maintain a constant net asset value.
- Low Volatility Net Asset Value ("LVNAV") MMFs – permitted to maintain a constant dealing net asset value provided that certain criteria are met, including that the market net asset value of the fund does not deviate from the dealing net asset value by more than 20 basis points.
- Variable Net Asset Value ("VNAV") MMFs – price assets using market pricing and therefore offer a fluctuating dealing net asset value

5.4. Environmental, Social and Governance Risks

The City of London Corporation is committed to being a responsible investor. It expects this approach to protect and enhance the value of the assets over the long term. The City recognises that the failure to identify and manage financially material environmental, social and governance risks can lead to adverse financial and reputational consequences. The City will incorporate ESG risk monitoring into its ongoing counterparty monitoring processes, alongside traditional creditworthiness monitoring. This risk analysis will be consistent with the City's investment horizon, which in many cases will be short term (under one year) in nature.

5.5. Use of additional information other than credit ratings.

Additional requirements under the Code require the City 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

5.6. Time and monetary limits applying to investments.

The time and monetary limits for institutions on the City's counterparty list are as follows (these will cover both specified and non-specified investments):

	Minimum Creditworthiness Criteria	**Money Limit**	**Time Limit**
Banks 1 higher quality	Fitch Rating Long Term: A+ Short Term: F1	£100m	3 years
Banks 1 medium quality	Fitch Long Term Rating Long Term: A Short Term: F1	£100m	1 year
Banks 1 lower quality	Fitch Long Term Rating Long Term: A- Short Term: F1	£50m	6 months
Banks 2 – part nationalised	N/A	£100m	3 years
Banks 3 – City's banker (transactions only, and if bank falls below above criteria)	N/A	£150m	1 working day
Building Societies higher quality	Fitch Long Term Rating A *or* assets of £150bn	£100m	3 years
Building Societies medium quality	Fitch Long Term Rating A- *or* assets of £10bn	£20m	1 year
UK Government (DMADF, Treasury Bills, Gilts)	UK sovereign rating	unlimited	3 years
Local authorities	N/A	£25m	3 years
External Funds*	**Fund rating**	**Money and/or % Limit**	**Time Limit**
Money Market Funds CNAV	AAA	£100m	liquid

Money Market Funds LVNAV	AAA	£100m	liquid
Money Market Funds VNAV	AAA	£100m	liquid
Ultra-Short Dated Bond Funds	AAA	£100m	liquid
Short Dated Bond Funds	N/A	£100m	liquid
Multi Asset Funds	N/A	£50m	liquid

*An overall limit of £100m for each fund manager will also apply.

A list of suitable counterparties conforming to this creditworthiness criteria is provided at Appendix 4. The Chamberlain will review eligible counterparties prior to inclusion on the approved counterparty list and will monitor the continuing suitability of existing approved counterparties.

5.7. Country limits

The City has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA+ (Fitch) or equivalent. The country limits list, as shown in Appendix 5, will be added to or deducted from by officers should individual country ratings change in accordance with this policy. The UK (which is currently rated as AA-) will be excluded from this stipulated minimum sovereign rating requirement.

5.8. Local authority limits

The City will place deposits up to a maximum of £25m with individual local authorities. In addition the City imposes an overall limit of £250m for outstanding lending to local authorities as a whole at any given time. Although the overall credit standing of the local authority sector is considered high, officers perform additional due diligence on individual prospective local authority borrowers prior to entering into any lending.

5.9. Investment Strategy

In-house funds: The City's in-house managed funds are both cash-flow derived and also represented by core balances which can be made available for investment over a longer period. Investments will accordingly 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). Where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

Investment returns expectations: Based on our treasury consultant's latest forecasts, Bank Rate is projected to rise incrementally from 0.50% to 1.25% over the medium term. In these circumstances it is likely that investment earnings from money market-related instruments will increase from the very low levels experienced in recent years. Bank Rate forecasts for financial year ends (March) are:

- 2021/22 0.50%

- 2022/23 0.75%
- 2023/24 1.00%
- 2024/25 1.25%

5.10. Investment Treasury Indicator and Limit

Total principal funds invested for greater than 365 days are subject to a limit, set with regard to the City's liquidity requirements and to reduce the need for an early sale of an investment, and are based on the availability of funds after each year end. The Board is asked to approve the treasury indicator and limit:

Maximum principal sums invested for more than 365 days (up to three years)			
	2021/22 £M	**2022/23 £M**	**2023/24 £M**
Principal sums invested >365 days	500	400	300

5.11. Investment performance benchmarking

The City will monitor investment performance against Bank Rate and 3- and 6-month compounded SONIA (Sterling Overnight Index Average).

5.12. End of year investment report

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

5.13. External fund managers

A proportion of the City's funds, amounting to £577.2m as at 31 December 2021, are externally managed on a discretionary basis by the following fund managers:

- Aberdeen Standard Investments
- CCLA Investment Management Limited
- Deutsche Asset Management (UK) Limited
- Federated Investors (UK) LLP
- Invesco Global Asset Management Limited
- Legal and General Investment Management
- Payden & Rygel Global Limited
- Royal London Asset Management

The City's external fund managers will comply with the Annual Investment Strategy, and the agreements between the City and the fund managers additionally stipulate guidelines and duration and other limits in order to contain and control risk.

The credit criteria to be used for the selection of the Money Market fund manager(s) is based on Fitch Ratings and is AAA/mmf. The Ultra-Short Dated Bond Fund managers (including the Payden & Rygel Sterling Reserve Fund, Federated Sterling Cash Plus Fund and Aberdeen Standard Liquidity Fund (Lux) Short Duration Sterling Fund) are all rated by Standard and Poor's as AAA.

The City also uses two Short Dated Bond Funds managed by Legal and General

Investment Management and Royal London Asset Management. Both funds are unrated (as is typical of these instruments). The funds offer significant diversification by being invested in a wide range of investment grade instruments, rated BBB and above and limiting exposure to any one debt issuer or issuance.

The City fully appreciates the importance of monitoring the activity and resultant performance of its appointed external fund managers. In order to aid this assessment, the City is provided with a suite of regular reporting from its managers. This includes monthly valuations and fund fact sheets as well as quarterly and annual reports. In addition to formal reports, officers also meet with representatives of the fund manager on a regular basis. These meetings allow for additional scrutiny of the manager's activity as well as discussions on the outlook for the fund as well as wider markets.

6. Policy on the use of external service providers

The City uses Link Asset Services, Treasury Solutions as its external treasury management advisers.

The City recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon its 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 City 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.

7. Scheme of Delegation

Please see Appendix 6.

8. Role of the Section 151 officer

Please see Appendix 7.

9. Training

The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. The training needs of members and treasury management officers are periodically reviewed. Training was most recently undertaken by Members in February 2019 and will be renewed in 2022/23.

APPENDICES

1. Interest Rate Forecasts 2022-2025
2. Treasury Indicators 2022/23 – 2024/25 and Minimum Revenue Provision Statement
3. Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management
4. Current Approved Counterparties
5. Approved Countries for Investments
6. Treasury Management Scheme of Delegation
7. The Treasury Management Role of the Section 151 Officer
8. City's Cash Borrowing Policy Statement

APPENDIX 1

LINK INTEREST RATE FORECASTS 2022 – 2025 (Dated 2021-12-21)

Link Group Interest Ra 20.12.21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30
Bank Rate													
Link	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
Capital Economics	0.50	0.75	0.75	1.00	1.25	1.25	1.25	1.25	-	-	-	-	-
5yr PWLB Rate													
Link	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
Capital Economics	1.80	1.90	2.10	2.20	2.20	2.30	2.40	2.40	-	-	-	-	-
10yr PWLB Rate													
Link	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
Capital Economics	2.00	2.10	2.20	2.30	2.30	2.40	2.50	2.50	-	-	-	-	-
25yr PWLB Rate													
Link	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
Capital Economics	2.20	2.30	2.50	2.70	2.70	2.70	2.80	2.90	-	-	-	-	-
50yr PWLB Rate													
Link	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30
Capital Economics	1.90	2.00	2.20	2.40	2.50	2.60	2.70	2.90	-	-	-	-	-

Note: The current PWLB rates and forecast shown above have taken into account the 20 basis point certainty rate reduction effective since 1st November 2012.

TREASURY INDICATORS 2022/23 – 2024/25 AND MINIMUM REVENUE PROVISION STATEMENT

TABLE 1: TREASURY MANAGEMENT INDICATORS	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**
	actual	**probable outturn**	**estimate**	**estimate**	**estimate**
	£m	**£m**	**£m**	**£m**	**£m**
Authorised Limit for external debt (City Fund) -					
Borrowing	153.4	151.7	203.1	316.2	238.0
other long-term liabilities	13.7	13.6	13.5	13.4	13.3
TOTAL	**167.1**	**165.3**	**216.6**	**329.6**	**251.3**
Operational Boundary for external debt (City Fund) -					
Borrowing	53.4	51.7	103.1	216.2	138.0
other long-term liabilities	13.7	13.6	13.5	13.4	13.3
TOTAL	**67.1**	**65.3**	**116.6**	**229.6**	**151.3**
Actual external debt (City Fund)*	0	0			
Upper limit for total principal sums invested for over 365 days (per maturity date)	£500m	£500m	£400m	£400m	£300m

**Actual external debt at the end of the financial year*

TABLE 2: Maturity structure of borrowing during 2021/22	upper limit	lower limit
- under 12 months	50%	0%
- 12 months and within 24 months	50%	0%
- 24 months and within 5 years	50%	0%
- 5 years and within 10 years	75%	0%
- 10 years and above	100%	0%

TABLE 3: CITY'S CASH BORROWING INDICATORS	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**
	actual	**probable outturn**	**estimate**	**estimate**	**estimate**
	%	**%**	**%**	**%**	**%**
Estimates of financing costs to net revenue stream	7.7%	9.4%	7.5%	6.9%	8.0%
	£m	**£m**	**£m**	**£m**	**£m**
Overall borrowing limits	250	450	450	450	450

MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT 2022/23

To ensure that capital expenditure funded by borrowing is ultimately financed, the City Fund is required to make a Minimum Revenue Provision (MRP) when the Capital Financing Requirement (CFR) is positive. A positive CFR is indicative of an underlying need to borrow and will arise when capital expenditure is funded by ‘borrowing’, either external (loans from third parties) or internal (use of cash balances held by the City Fund).

MHCLG regulations have been issued which require the Court of Common Council to approve **an MRP Statement** in advance of each year. The regulatory guidance recommends four options for local authorities. Options 1 and 2 relate to government supported borrowing prior to 2008. As the City Fund does not have any outstanding borrowing from this period, these options are not relevant. For any prudential borrowing undertaken after 2008, options 3 and 4 apply:

- **Option 3: 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 4: Depreciation method** – MRP will follow standard depreciation accounting procedures;

For any new borrowing under the prudential financing system, the City Fund will apply the asset life method over the useful economic life of the relevant assets. MRP commences in the financial year following the one in which the expenditure was incurred. When borrowing to provide an asset, the asset life is deemed to commence in the year in which the asset first becomes operational. Therefore, MRP will first be made in the financial year following the one in which the asset becomes operational. ‘Operational’ here means when an asset transfers from Assets under Construction to an Assets in Use category under normal accounting rules.

As in previous years, the City will continue to apply a separate MRP policy for that portion of the CFR which has arisen through the funding of capital expenditure from cash received from long lease premiums which are deferred in accordance with accounting standards. This deferred income is released to revenue over the life of the leases to which it relates, typically between 125 and 250 years.

The City’s MRP policy in respect of this form of internal borrowing is based on a mechanism to ensure that the deferred income used to finance capital expenditure is not then ‘used again’ when it is released to revenue. The amount of the annual MRP is therefore to be equal to the amount of the deferred income released, resulting in an overall neutral impact on the bottom line.

MRP will fall due in the year following the one in which the expenditure is incurred, or the year after the asset becomes operational.

The MRP liability for 2021/22 is £1.2m and is estimated at £1.2m for 2022/23.

TREASURY MANAGEMENT PRACTICES (TMP 1) – 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' quality criteria where appropriate.

	Minimum 'High' Credit Criteria	**Use**
Debt Management Agency Deposit Facility	--	In-house
Term deposits – local authorities	--	In-house
Term deposits – banks and building societies, including part nationalised banks	Short-term F1, Long-term A-,	In-house via Fund Managers
Money Market Funds CNAV	AAA/mmf (or equivalent)	In-house via Fund Managers
Money Market Funds LVNAV	AAA/mmf (or equivalent)	In-house via Fund Managers
Money Market Funds VNAV	AAA/mmf (or equivalent)	In-house via Fund Managers
Ultra-Short Dated Bond Fund	AAA/f (or equivalent)	In-house via Fund Managers
UK Government Gilts	UK Sovereign Rating	In-house & Fund Managers
Treasury Bills	UK Sovereign Rating	In-house & Fund Managers
Sovereign Bond issues (other than the UK government)	AA+	Fund Managers

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the Specified Investment criteria. A maximum of £400m will be held in aggregate in non-specified investment.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the categories set out below.

	Minimum Credit Criteria	**Use**	**Maximum**	**Maximum Maturity Period**
Term deposits – other LAs (with maturities in excess of one year)	-	In-house	£25m per LA	Three years
Term deposits, including callable deposits – banks and building societies (with maturities in excess of one year)	Long-term A+, Short-term F1,	In-house and Fund Managers	£300m overall	Three years
Certificates of deposits issued by banks and building societies with maturities in excess of one year	Long-term A+, Short-term F1,	In-house on a buy-and-hold basis and fund managers	£50m overall	Three years
UK Government Gilts with maturities in excess of one year	AA-	In-house on a buy-and-hold basis and fund managers	£50m overall	Three years
UK Index Linked Gilts	AA-	In-house on a buy-and-hold basis and fund managers	£50m overall	Three years
Short Dated Bond Funds	--	In-house via Fund Managers	£100m per Fund	n/a*
Multi Asset Funds	--	In-house via Fund Managers	£50m overall	n/a*

*Short Dated Bonds Funds and Multi Asset Funds are buy and hold investments with no pre-determined maturity at time of funding, liquidity access is typically T + 3 or 4.

APPENDIX 4

APPROVED COUNTERPARTIES AS AT 31 DECEMBER 2021

UK BANKS AND THEIR WHOLLY OWNED SUBSIDIARIES

FITCH RATINGS		BANK*	LIMIT PER GROUP	DURATION
A+ A+	F1 F1	Barclays Bank PLC (NRFB) Barclays Bank UK PLC (RFB)	£100M	Up to 3 years
A+	F1	Goldman Sachs International Bank	£100M	Up to 3 years
AA	F1+	Handelsbanken PLC	£100m	Up to 3 years
AA- AA-	F1+ F1+	HSBC (RFB) HSBC (NRFB)	£100M	Up to 3 years
A+ A+ A+	F1 F1 F1	Lloyds Bank Corporate Markets PLC (NRFB) Lloyds Bank PLC (RFB) Bank of Scotland PLC (RFB)	£150M	Up to 3 years
A+ A+ A+	F1 F1 F1	NatWest Markets PLC (NRFB) National Westminster Bank PLC (RFB) Royal Bank of Scotland PLC (RFB)	£100M	Up to 3 years
A+	F1	Santander UK PLC (RFB)	£100M	Up to 3 years

*Under the ring-fencing initiative, the largest UK banks are now legally required to separate the core retail business into a ring-fenced bank (RFB) and to house their complex investment activities into a non-ring-fenced bank (NRFB).

BUILDING SOCIETIES

FITCH RATINGS		BUILDING SOCIETY	ASSETS	LIMIT PER GROUP	DURATION
A	F1	Nationwide	£285Bn	£100M	Up to 3 years
A-	F1	Yorkshire	£49Bn	£20M	Up to 1 year
A-	F1	Coventry	£53Bn	£20M	Up to 1 year
A-	F1	Skipton	£29Bn	£20M	Up to 1 year

A-	**F1**	Leeds	£21Bn	£20M	Up to 1 year

FOREIGN BANKS

(with a presence in London)

FITCH RATINGS		COUNTRY AND BANK	LIMIT PER GROUP	DURATION
		AUSTRALIA (AAA)		
A+	**F1**	Australia and New Zealand Banking Group Ltd	£100M	Up to 3 years
A+	**F1**	National Australia Bank Ltd	£100M	Up to 3 years
		CANADA (AA+)		
AA-	**F1+**	Bank of Montreal	£100M	Up to 3 years
AA-	**F1+**	Royal Bank of Canada	£100M	Up to 3 years
AA-	**F1+**	Toronto-Dominion Bank	£100M	Up to 3 years
		GERMANY (AAA)		
A+	**F1+**	Landesbank Hessen-Thueringen Girozentrale	£100M	Up to 3 years
		NETHERLANDS (AAA)		
A+	**F1**	Cooperatieve Rabobank U.A.	£100M	Up to 3 years
		SINGAPORE (AAA)		
AA-	**F1+**	DBS Bank Ltd.	£100M	Up to 3 years
AA-	**F1+**	United Overseas Bank Ltd.	£100M	Up to 3 years
		SWEDEN (AAA)		
AA-	**F1+**	Skandinaviska Enskilda Banken AB	£100M	Up to 3 years
A+	**F1**	Swedbank AB	£100M	Up to 3 years
AA	**F1+**	Svenska Handelsbanken	£100M	Up to 3 years

MONEY MARKET FUNDS

FITCH RATINGS	MONEY MARKET FUNDS Limit of £100M per fund	DURATION
AAA/mmf	CCLA	Liquid
AAA/mmf	Federated Short-Term Sterling Prime Fund*	Liquid
AAA/mmf	Aberdeen Sterling Liquidity Fund	Liquid
AAA/mmf	Invesco	Liquid
AAA/mmf	Deutsche Liquidity Fund	Liquid

ULTRA SHORT DATED BOND FUNDS

FITCH RATINGS (or equivalent)	ULTRA SHORT DATED BOND FUNDS Limit of £100M per fund	DURATION
AAA/f	Payden Sterling Reserve Fund	Liquid
AAA/f	Federated Sterling Cash Plus Fund*	Liquid
AAA/f	Aberdeen Standard Investments Short Duration Managed Liquidity Fund**	Liquid

*A combined limit of £100m applies to balances across the Money Market Fund and Ultra Short Dated Bond Fund both managed by Federated and Aberdeen Standard

SHORT DATED BOND FUNDS

FITCH RATINGS (or equivalent)	SHORT DATED BOND FUNDS Limit of £100M per fund	DURATION
-	Legal and General Short Dated Sterling Corporate Bond Index Fund	Liquid
-	Royal London Investment Grade Short Dated Credit Fund	Liquid

LOCAL AUTHORITIES

LIMIT OF £25M PER AUTHORITY AND £250M OVERALL
Any UK local authority

APPROVED COUNTRIES FOR INVESTMENT

This list is based on those countries which have sovereign ratings of AAA and AA+ from Fitch Ratings as at 28 January 2022.

AAA

- Australia
- Denmark
- Germany
- Netherlands
- Singapore
- Sweden
- Switzerland
- United States

AA+

- Canada
- Finland

AA-

- United Kingdom

APPENDIX 6

TREASURY MANAGEMENT SCHEME OF DELEGATION

The roles of the various bodies of the City of London Corporation with regard to treasury management are set out below. Financial Investment Board and the Audit & Risk Management Committee current hold on overside role on behalf of Bride House Estates in line with formal references agreed with the Bridge House Estates Board.

(i) Court of Common Council

- Receiving and reviewing reports on treasury management policies, practices and activities
- Approval of annual strategy.

(ii) Financial Investment Board and Finance Committee

- 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.

(iii) Audit & Risk Management Committee

- Reviewing the treasury management policy and procedures and making recommendations to the responsible body.

APPENDIX 7

THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The Chamberlain

- 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.

APPENDIX 8

CITY'S CASH BORROWING POLICY STATEMENT

1. The City Corporation shall ensure that all of its City's Cash capital expenditure, investments and borrowing decisions are prudent and sustainable. In doing so, it will take into account its arrangements for the repayment of debt and consideration of risk and the impact, and potential impact, on the overall fiscal sustainability of City's Cash.

2. Borrowing shall be undertaken on an affordable basis and total capital investment must remain within sustainable limits. When assessing the affordability of its City's Cash investment plans, the City Corporation will consider both the City's Cash resources currently available and its estimated future resources, together with the totality of its City's Cash capital plans, income and expenditure forecasts.

3. To ensure that the benefits of capital expenditure are matched against the costs, a debt financing strategy will be established.

4. To the greatest extent possible, expected finance costs arising from borrowing are matched against appropriate revenue income streams.

5. The City Corporation will organise its borrowing on behalf of City's Cash in such a way as to ensure that financing is available when required to manage liquidity risk (i.e. to make sure that funds are in place to meet payments for capital expenditure on a timely basis). The City Corporation will only borrow in advance of need on behalf of City's Cash on the basis of a sound financial case (for instance, to mitigate exposure to rising interest rates).

6. The City Corporation will ensure debt is appropriately profiled to mitigate refinancing risk.

7. The City Corporation will monitor the sensitivity of liabilities to inflation and will manage inflation risks in the context of the inflation exposures across City's Cash (e.g. the City Corporation will be mindful of the potential impact of index-linked borrowing on the financial position of City's Cash).

8. The City Corporation will seek to obtain value for money in identifying appropriate borrowing for City's Cash. Where internal borrowing (i.e. from City Fund or Bridge House Estates) is used as a source of funding, the City Corporation will keep under review the elevated risk of refinancing.

9. All borrowing is expected to be drawn in Sterling. Where debt is raised in foreign currencies, the City Corporation will consider suitable measures for mitigating the risks presented by fluctuation in exchange rates.

10. Interest rate movement exposure will be managed prudently, balancing cost against likely financial impact.

11. The City Corporation will maintain the following indicators which relate to City's Cash borrowing only:

    - Estimates of financing costs to net revenue stream

    - Overall borrowing limits

Audit Committee

London Councils' Pension Scheme Item no: 11

Report by:	David Sanni	**Job title:**	Director, Corporate Resources
Date:	17 March 2022		
Contact Officer:	David Sanni		
Telephone:	020 7934 9704	**Email:**	david.sanni@londoncouncils.gov.uk

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Summary	This report provides a background to London Councils' Pension Scheme following discussions at the meeting of the Audit Committee on 16 September 2021.
Recommendations	The Audit Committee is asked to note the contents of the report.

Introduction

1. At its meeting on 16 September 2021, the Audit Committee discussed the increase in the IAS19 net pension liability included in the pre-audited 2020/21 financial accounts. The percentage increase in the net pension liability over the financial year was higher than that of other local authority bodies. During the discussion it was agreed that it would be beneficial if members had a better understanding of London Councils pension scheme. This report provides members with a general description of the pension scheme.

Features of the Pension Scheme

2. London Councils staff are eligible to participate in the Local Government Pension Scheme (LGPS) which is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013 and currently provides benefits based on career average revalued earnings. The LGPS is a nationwide pension scheme for people working in local government or working for other types of employers participating in the scheme. It is one of the largest public sector pension schemes in the UK and is operated through administering authorities listed in the regulation who are responsible for maintaining pension funds.

3. The administering authority for London Councils pension scheme is the London Pension Fund Authority (LPFA). London Councils was granted admitted body status to the fund in May 2000 with the pension arrangements of employees of the five predecessor bodies transferring into the scheme. The LPFA was established as a statutory corporation in October 1989 under the London Government Reorganisation (Pensions etc.) Order 1989. The LPFA inherited all the functions, property, rights and liabilities of the London Residuary Body in relation to the Greater London Council’s (GLC) Superannuation Fund. The London Residuary Body was a body set up in 1985 to dispose of, or reallocate, the assets of the GLC after its abolition in 1986. There are a number of London boroughs that have

employees/pensioners in the LPFA pension scheme that transferred to them following the abolition of the GLC and Inner London Education Authority.

4. As disclosed in the accounts, participating in a defined benefit pension scheme exposes an employer to a number of risks:

    - Investment risk. The fund holds investment in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term, the short-term volatility can cause additional funding to be required if a deficit emerges.

    - Interest rate risk. The fund's liabilities are assessed using market yields on high quality corporate bonds to discount future liability cashflows. As the fund holds assets such as equities the value of the assets and liabilities may not move in the same way.

    - Inflation risk. All of the benefits under the fund are linked to inflation and so deficits may emerge to the extent that the assets are not linked to inflation.

    - Longevity risk. In the event that the members live longer than assumed a deficit will emerge in the fund. There are also other demographic risks.

5. In addition, as many unrelated employers participate in the LPFA, there is an orphan liability risk where employers leave the fund but with insufficient assets to cover their pension obligations so that the difference may fall on the remaining employers.

6. All of the risks above may also benefit the employer e.g. higher than expected investment returns or employers leaving the fund with excess assets which eventually get inherited by the remaining employers.

Funding of the Pension Scheme

7. The pension scheme is funded by contributions from employees and London Councils as an employer. The contributions are valued as an estimate of what the benefits are likely to cost in the future. These contributions are invested to seek a return that can meet future obligations to members. The LPFA, as the administering authority, is responsible for managing and investing pension assets, setting employer contributions rates, collecting employer and employee contributions and paying pension benefits. The LPFA after consultation with the fund actuary and other relevant parties, is responsible for preparing and maintaining the scheme's Funding Strategy Statement and Investment Strategy Statement.

8. The employee contribution rate ranges between 5.5% to 12.5% depending on an employee's pensionable pay. The contribution rates are reviewed periodically in order to maintain an average contribution rate of 6.5% and to ensure the long-term costs of the scheme are managed.

9. The employer's contribution rate is set every three years following a full actuarial valuation. The purpose of this triennial valuation is to determine if the scheme has sufficient assets to meet its future pension obligations. There are no minimum funding requirements in the LGPS but the LPFA aims to set contributions to establish and maintain full funding on a risk adjusted triennial valuation basis. The last triennial valuation was based on the position at 31 March 2019 and London Councils employers' contribution was set at 13.6% of pensionable pay for the period 1 April 2020 to 31 March 2023. The valuation resulted in a surplus of £4.02 million broken down into projected liabilities of £50.2 million which are covered by assets of £54.22 million, a funding level of 108%. The next actuarial valuation of the Fund will be carried out as at 31 March 2022 and will set contributions for the period from 1 April 2023 to 31 March 2026.

IAS19 Pension Fund Valuation

10. International Accounting Standard 19 (IAS19) *Employee Benefits* is an accounting standard that sets out the accounting treatment for retirement

benefits. It requires employers that provide defined benefit pension schemes, such as the LGPS, to recognise pension obligations in the financial accounts. The value of the pension obligation is calculated using the value of the pension benefits accrued by members of the scheme at the accounting date and applying a set of assumptions to determine the present-day value. The assumptions used to calculate the IAS19 pension obligation are a discount rate (based on corporate bond yields), future inflation rate, future mortality rate and future salary increases. The value of the pension obligation is offset against the fair value of the assets held by the scheme to arrive at the net pension liability. As with the triennial valuation, the LPFA appoints a firm of independent actuaries to prepare the IAS19 annual pension valuation and related disclosures to include in the annual accounts.

11. The IAS19 pension valuation can differ significantly from the triennial valuation used to set employer contributions to the scheme due to the use of different assumptions. Generally, the demographic assumptions used for both valuations are the same and determined every three years as part of the triennial valuation. The main area where the valuations differ is the calculation of the discount rate. The discount rate used in the triennial valuation is based on the expected investment return of assets actually held by the pension fund. However, the discount rate used in the IAS19 valuation is calculated with reference to the market yield on high quality corporate bonds and with consideration of the duration of the employer’s liabilities. Corporate bond yields are likely to be lower than the return assumed for the triennial valuation as the scheme is likely to invest in a mixture of assets including higher return seeking assets such as equities and property. Therefore, the value of the pension obligation in an IAS19 valuation is likely to be higher than that of a triennial valuation due the use of a lower discount rate.

12. The most recent triennial valuation is the starting point for the IAS19 valuation. In order to calculate the IAS19 valuation for March 2021, the pension obligation calculated for the March 2019 triennial valuation is rolled forward using financial assumptions that comply with the accounting standard known as the projected unit credit method of valuation. London Councils’

share of the funds assets are also estimated using roll forward method starting with the assets allocated in March 2019 which are adjusted for investment returns, contributions received and benefits paid.

13. If an employer wishes to withdraw from an LGPS scheme, a cessation valuation will be carried out in accordance with pension regulations which will determine the termination contribution payable by the employer, based on a set of assumptions deemed appropriate by the fund’s actuary. The outcome of a cessation valuation will differ from both the triennial and IAS19 valuations which are both calculated on the basis that the employer remains within the scheme.

Increase in IAS19 Net Pension Liability

14. There was a significant increase in London Councils’ IAS19 net pension liability at 31 March 2021 which prompted the discussions at the last Committee meeting. The net liability had increased by £18 million from £24 million to £42 million. This increase can be analysed further into an increase in the defined benefit obligation of £27 million from £78 million to £105 million offset by an increase in the value of pension assets of £9 million from £54 million to £63 million. In response to our query on the scale of the increase in the pension obligation, the LPFA informed us that it was primarily due to changes in the discount and inflation rates used to calculate the liability. The discount rate decreased from 2.35% at 31 March 2020 to 2.00% at 31 March 2021 while the inflation rate (CPI) increased from 1.85% to 2.85% over the same period. These movements both contribute to the increase in the pension obligation.

15. Grant Thornton confirmed in its audit report, that the financial and demographic assumptions used in the calculation of London Councils’ pension obligation fall within the acceptable range provided by its pension expert. In addition, London Councils’ officers compared them to rates included in a sample of member boroughs’ 2020/21 accounts. The outcome of this exercise showed that the rates were not significantly different from those used by member boroughs although the discount rate was at the lower end and the

inflation rate at the higher end of the spectrum which reflects the prudent approach adopted by the actuary.

16. Another factor that affects the value of the pension obligation is the duration of an employer's liabilities. Typically, employers with greater liability durations are more sensitive to changes in financial assumptions as benefits will be paid over a longer term which results in larger obligations. Based on a comparison to the sample of members boroughs' accounts, the estimated duration of London Councils' pension liabilities appears to be longer than that of member boroughs. The average duration of the pension liabilities of the sample of boroughs was 19 years compared to 22 years for London Councils with the difference mainly due to the age profile of employees, pensioners and deferred pensioners.

17. The 16% increase in the value of pension assets was less than the average increase of 23% across the sample of borough accounts reviewed. Further analysis revealed that a 5% decrease in assets values in the preceding year, at 31 March 2020, was less than the 8% average decrease across the sample. The lower increase in asset values over the 2020/21 financial year was reflected in the LPFA's annual report which states that its fund delivered a 16.6% investment return which was below its policy portfolio benchmark of 25.2%. The LPFA also states in its annual report that the objective of the fund is to outperform the actuarial discount rate (which is UK CPI + 2.7%) and the fund's primary investment objective is to ensure, that over the long term, it will have sufficient assets to meet all pension liabilities as they fall due.

18. The investment management of the LPFA fund is delegated to Local Pensions Partnership Investments Ltd (LPPI), a pooling arrangement in partnership with Lancashire County Council. The activities of LPPI and the performance of the LPFA fund is overseen by the Investment Committee of the LPFA Board. The LPFA has a Funding Risk Management Framework that sets metrics against which LPPI must report. The framework specifies the metrics and tolerances used to monitor the risk of failing to meet the Fund's primary objective.

19. There are arrangements in place for employers to raise concerns on any aspect of the funds work, including investment management, such as the Local Pension Board (LPB) and fund member and employer forums. An officer of London Councils sits on the LPB and can raise concerns as necessary. In addition, a member of London Councils Leaders' Committee and a London borough treasurer sit on the LPFA board as representatives of London local government and have influence over its affairs.

Conclusion

20. This report provides a general description of London Councils' pension scheme. It explains the reason for the higher percentage increase in the IAS19 accounting valuation at 31 March 2021 in comparison to a sample of valuations from member boroughs accounts. The higher percentage increase was due to a combination of a longer duration of pension liabilities and lower increase in asset values. London Councils officers will continue to monitor the LPFA's investment performance and raise concerns as necessary. The March 2022 triennial valuation of the scheme, that will be completed later this year, will provide a more current assessment of the funding level of the pension scheme.

Financial Implications for London Councils

Included in the body of the report

Legal Implications for London Councils

None

Equalities Implications for London Councils

None

Appendices

None

Background Papers

London Councils LPFA IAS19 valuation report March 2021
Grant Thornton’s Audit Finding Report for year ended 31 March 2021
LPFA Pension Fund Annual report 2020/21
Final accounts working papers 2020/21