OFFICE OF THE POLICE & CRIME COMMISSIONER FOR HUMBERSIDE/ HUMBERSIDE POLICE

JOINT INDEPENDENT AUDIT COMMITTEE

Monday, 21 March 2022 - 10.00AM

REMOTE MEETING VIA MICROSOFT TEAMS

A G E N D A

Open Business		Lead	Primary Action Requested
1. Apologies for Absence	Verbal	Committee Manager	To receive
2. Minutes of meeting 13 December 2021 & 17 January 2022	Pages (1 - 8)	Chair	To approve
3. JIAC Action Schedule	Page (9)	Chair	To receive
4. Annual Cycle of Business 2022/23	Page (10)	Chair	To approve
Statutory & Corporate Governance			
5. Police Complaint Reviews	*Presentation* Pages (11 - 18)	Clare Rex - Statutory Operations Manager (OPCC)	To receive
6. Draft Annual Governance Statements	Pages (19 - 34)	Paul Wainwright - Assurance Manager (OPCC) & Jim Wright - Head of Finance and Business Services (HP)	To receive
7. Declarations of Gifts, Hospitality & Sponsorship	See Office of Police & Crime Commissioner website (https://www.humberside-pcc.gov.uk/Transparency/Lists-and-Registers/Lists-and-Registers.aspx) See Humberside Police website (https://www.humberside.police.uk/register-business-interests)	Kevin Wilson - Chief Finance Officer (OPCC) & Jim Wright - Head of Finance and Business Services (HP)	To receive
Finance			
8. Treasury Management Strategy 2022/23	Pages (35 - 70)	Kevin Wilson - Chief Finance Officer (OPCC)	To receive
External Audit			
9. Audit Progress Report	Pages (71 - 83)	Gavin Barker - Mazars (External Audit)	To receive

Open Business		Lead	Primary Action Requested
10. Follow Up Letter to the 2020/21 Audit Completion Report	Pages (84 - 97)	Gavin Barker - Mazars (External Audit)	To receive
Internal Audit			
11. Progress Report	Pages (98 - 103)	Neil Rickwood - West Yorkshire Police (Internal Audit)	To receive
12. Audit Strategy & Plan 2022/23	Pages (104 - 113)	Neil Rickwood - West Yorkshire Police (Internal Audit)	To receive
Force Update			
12. Feedback from the Force HMICFRS Assurance Group	Verbal	JIAC Members	To receive
Other Business			
13. Any Other Business	-	Chair	-

HUMBERSIDE POLICE/OFFICE OF THE POLICE & CRIME COMMISSIONER

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JOINT INDEPENDENT AUDIT COMMITTEE

MONDAY, 13 DECEMBER 2021

Via MS Teams

PRESENT

Members:

Doug Chapman (Chair), James Doyle, Pam Jackson and Andrew Smith.

Officers:

Humberside Police (HP)

Paul Anderson - Deputy Chief Constable, Nancie Shackleton - Assistant Chief Officer (Resources), James Tabor - Strategic Planning Manager and Jim Wright - Head of Finance and Business Services/S.151 Officer (HP)

Office of Police and Crime Commissioner (OPCC)

Jonathan Evison - Police and Crime Commissioner, Martyn Ransom - Deputy Chief Finance Officer and Paul Wainwright - Assurance Manager

Auditors

Gavin Barker - External Audit
Louise Stables - External Audit
Neil Rickwood - Internal Audit
Faye Simmons - Internal Audit

Committee Manager

Samm Campbell

Also in attendance:

Emma Bowen - Head of People Services (HP) (for Minutes 54/21 & 55/21)
Scot Dunn - South Yorkshire Police (for Minute 58/21 [Internal Audit])

47/21 APOLOGIES FOR ABSENCE - Apologies for absence were received from Mandy Tomlinson.

48/21 MINUTES OF 27 SEPTEMBER 2021 - Agreed - That the minutes of the meeting held on 27 September 2021 be confirmed as a correct record.

49/21 JIAC ACTION SCHEDULE - **Agreed** - That the Action Schedule be received.

50/21 ANNUAL CYCLE OF BUSINESS 2021/22 - Agreed - That the Annual Cycle of Business 2021/22 be received.

51/21 TIMETABLE OF MEETINGS 2022/23 - Agreed - That the timetable of meetings of the Committee for the 2022/23 financial year be approved.

52/21 JIAC ANNUAL REPORT - Agreed - That the Annual Report be received.

53/21 TREASURY MANAGEMENT MID-TERM REVIEW - Martyn Ransom - Deputy Chief Finance Officer (OPCC) provided a review of the treasury management activity and Prudential Indicators for the first six months of 2021/22.

The Commissioner's temporary investments totalled £17.0m as at 30 September 2021. The Commissioner sought to minimise the use of short-term borrowing to fund temporary cash shortfalls. The Commissioner had made use of short-term borrowing during the course of the year, but it had become difficult to invest money in the short-term without negative interest rates. Long-term loans were taken out either to replace existing loans which had matured or to fund capital expenditure. The Commissioners level of borrowing was £88.6m at 30 September 2021, on which £2.0m of interest was expected to be paid.

Based on the Operational Boundary definition, external debt at 30 September 2021 was £61m below the agreed Operational Boundary for 2021/22 and the maturity structure for both borrowing and investments remain within the approved upper and lower limits. Subsequent borrowing or re-scheduling during 2021/22 would take into account prevailing interest rates on offer from the Public Works Loans Board, the current maturity structure of loans, balanced with the need to reduce capital risk by keeping down cash-balances.

The report showed full compliance with the Commissioner's Prudential Indicators for the first six months of 2021/22.

The Committee took assurance from the treasury management activities undertaken during the first six months of 2021/22 and the Prudential Indicators as outlined in paragraphs 14 and 15 and detailed in Appendix 1 of the report.

Agreed - That the report be received.

54/21 CIPFA FINANCIAL MANAGEMENT CODE - Jim Wright - Head of Finance and Business Services (HP) provided an update on compliance against the Code.

At the meeting of the Committee of 22 March 2021 (Minute 9/21 refers) it was agreed that the areas of partial compliance be developed further during 2021/22. This had now been completed and the Force and OPCC was now compliant in all areas.

A Member queried the Force's response to the requirement in the Code to use "independent objective quantitative measures to assess the risks to financial sustainability". The Force had responded by asking what independent objective measures were available to it as this remained unclear. However, the Force was satisfied with its current position in relation to long- and medium-term financial management.

A Member asked about the Force's accountancy staffing and was informed that it had four qualified staff members, three of whom were studying for their qualifications.

Agreed - That the updated be noted.

55/21 DECOUPLING OF THE JOINT HR FUNCTION WITH SOUTH YORKSHIRE POLICE - The Committee received a verbal update from Emma Bowen - Head of People Services (HP).

While South Yorkshire Police was the bigger of the two forces, Humberside Police had taken the decision to decouple its HR function and work had commenced to establish the financial viability of this. The Force's People Services comprised HR services, workforce transformation, and learning and development. The Force was able to provide its own training in relation to policing, crime and driving, and it was in the process of engaging with external partners to evaluate the quality of its provision. Two of the most important reasons for decoupling were to enable faster recruitment and to be able to develop a clear brand as an employer. Recent recruitment efforts had put significant pressure on the Force's learning and development and occupational health functions, and the brand-building aspect of the decoupling was, for the time being, secondary to the immediate recruitment needs. Significant effort had been put into the application of positive action principles during the recruitment processes. The Force did not yet have its own police academy but was working to develop its own leadership programme. It also intended to improve its approach to talent acquisition and performance management.

Agreed - That the update be noted.

56/21 UPDATE ON THE NUMBERS OF AND DEPLOYMENT OF ADDITIONAL RECRUITED OFFICERS - The Committee received a verbal update from Emma Bowen - Head of People Services (HP).

The associated funds received by the Force from the Home Office had been used to quickly recruit new officers. The uplift in funding would result in 204 new officers, and the Force had met its year one targets with regard to recruitment. It was also on course to achieve its year two targets but would also ensure that its efforts were sustainable. While the Policing Education Qualification Framework (PEQF) approach to recruitment took longer to produce functional officers, its benefits were clear. The recruitment process that closed in December 2021 would result in 50 new officers from many applicants, including 400 applications through the Force's pipeline. The Force was also pursuing options through other avenues of recruitment, including direct entry for detectives.

The Force had identified some key risks relating to recruitment:

- The starting salary was not especially competitive for graduates.
- Graduates' low level of practical experience having spent three years in education.
- Increase of staffing costs as the workforce expanded.
- The need to maintain a positive and effective culture.
- The perception of these new routes into the Force by the existing workforce.

Agreed -

(a) That the update be noted, and

(b) that regular updates be provided to the Committee.

57/21 POLICE LEGITIMACY - The Committee received a presentation from James Tabour - Strategic Planning Manager (HP).

Four key national events which had threatened police legitimacy were highlighted:

- The continued enforcement of coronavirus legislation since March 2020.
- The protests between March and May 2021 regarding the Police, Crime, Courts and Sentencing Bill, commonly termed the "Kill the Bill" protests.
- The protests (including by the Black Lives Matter movement) around the country in 2021 following the murder of George Floyd by United States law enforcement.
- The murder of Sarah Everard by a serving Met officer in March 2021 - the single most damaging event for police legitimacy in recent years.

The Force was working in the following ways to mitigate threats to police legitimacy:

- It was active in its engagements with the public online and in communities.
- It was monitoring its use of powers including stop and search and the use of force.
- It continued to take a community-based approach to public order enforcement with a focus on facilitating peaceful protests and respecting the rights of individuals.
- It was taking an active approach to counter-corruption and vetting, with a fully vetted Force and public reporting on misconduct.

Agreed - That the update be noted.

58/21 EXTERNAL AUDIT PROGRESS UPDATE - Gavin Barker - External Audit provided a verbal update.

Mazars had requested and been granted an extension and was due to deliver its audit completion report at the Committee's meeting due to be held on 17 January 2022. The entire external audit sector had continued to struggle to adequately staff itself, with only nine percent of audits having been signed off by the 30 September 2021 deadline. While Mazars apologised for the delay, the quality of its work remained its priority.

Agreed - That the update be noted.

59/21 INTERNAL AUDIT PROGRESS REPORT - The Progress Report monitored the delivery of work undertaken in relation to the provision of shared Internal Audit services as per the Joint Service arrangements between West Yorkshire and Humberside Police & Crime Commissioner (PCC) and the respective Police Forces.

Summary of Progress against the Audit Plan for 2021/22

STATUS OF AUDITS	(as at 2 Dec 21) APPENDIX A
Final Reports with Response Received	3
Final Reports – Response Awaited	1
Final Reports – No Response Required	1
Work Completed/ Advice/ briefings provided	-
Draft Reports Issued	-
Commenced/ In Progress	6

Since the last meeting of the Committee on 27 September 2021 two audits had been finalised: THRIVE/ Re-THRIVE and Follow Up: IS Governance & Financial Management which had both been assessed as providing reasonable assurance. These reports were available for Members' viewing on the secure portal.

In addition the Missing Persons audit had been issued as a final report following substantial post audit discussions. This audit provided limited assurance and management responses were to be agreed at a Chief Officer (COG) meeting in mid-December. This report would therefore be circulated to members outside of a meeting with full management responses at the earliest opportunity.

Currently an IA Protocol specifically relating to IS audit activity which described the audit process and commitments required from all parties was being agreed. A key element of this approach was the confirmation that the IS Function would undertake an ITIL self-assessment to inform IA coverage for this and future years based on identified areas of risk.

An additional development reported was that in accordance with Public Sector Internal Audit Standards (PSIAS) an External Quality Assessment (EQA) was due in 2022 and progress was underway to agree a Peer Review process with Greater Manchester and Merseyside Police audit functions based on a similar methodology to that agreed and adopted in 2017. This would be communicated in detail to chief officers, the OPCC executive team and committee members who would all be given the opportunity to contribute to the assessment process.

Agreed - That the report be received.

<u>CLOSED BUSINESS</u>

60/21 RISK REGISTER UPDATE - Paul Wainwright - Assurance Manager (OPCC) and James Tabor - Strategic Planning Manager (HP) provided an update on the OPPC and Force Risk Registers respectively.

Strategic Risk covering the period from the last update to the Committee was reported by exception only.

Agreed - That the updates be received.

61/21 FEEDBACK FROM THE FORCE HMICFRS ASSURANCE GROUP - The Committee had received an update from Members that had attended the recent Assurance Group meetings.

Agreed - That the update be noted.

62/21 ANY OTHER BUSINESS – IT Strategy – The Committee received a verbal update on the IT Strategy from Scot Dunn - South Yorkshire Police (Internal Audit).

The IT Strategy had been revised in-line with that of the Office of the Police and Crime Commissioner (OPPC) and national guidance. The Force had revised the Strategy to enhance its service delivery and to remove the liability associated with fixed-term contracts in IT. The Force was also providing training and mentorship for its senior IT leaders to help them achieve the standards set out in the recently revised performance framework.

HUMBERSIDE POLICE/OFFICE OF THE POLICE & CRIME COMMISSIONER

JOINT INDEPENDENT AUDIT COMMITTEE

MONDAY, 17 JANUARY 2022

EXTRAORDINARY MEETING

Via MS Teams

PRESENT

Members:

Doug Chapman (Chair), James Doyle, Pam Jackson, Andrew Smith and Mandy Thomlinson

Officers:

Humberside Police (HP)

Paul Anderson - Deputy Chief Constable, Sabine Braddy - Financial Accountant, James Tabor - Strategic Planning Manager, and Jim Wright - Head of Finance and Business Services/S.151 Officer (HP)

Office of Police and Crime Commissioner (OPCC)

Jonathan Evison - Police and Crime Commissioner, Martyn Ransom - Deputy Chief Finance Officer, Paul Wainwright - Assurance Manager, and Kevin Wilson - Chief Finance Officer (OPCC)

Auditors

Gavin Barker (External Audit), Louise Stables (External Audit) and Neil Rickwood (Internal Audit)

Committee Manager

Gareth Naidoo

01/22 EXTERNAL AUDIT COMPLETION REPORT 2020/21 - Gavin Barker - Director (Mazars) presented the Audit Completion Report 202/21

Subject to the satisfactory conclusion of the remaining audit work, Mazars made the following conclusions:

- Audit opinion - anticipated issuing an unqualified opinion, without modification, on the financial statements of the PCC/Group and CC. The proposed audit opinions were included in the draft auditor's report in Appendix B.

- Value for Money - anticipated having no significant weaknesses to report in relation to the arrangements that the PCC and CC had in place to secure economy, efficiency and effectiveness in the use of resources. Further detail on the Value for Money work was provided in section 7 of the report.

- Whole of Government Accounts (WGA) - Having not yet received group instructions from the National Audit Office in respect of the work on the WGA submission Mazars was unable to commence its work in this area until such instructions had been received.

- Wider powers - The 2014 Act required auditors to give an elector, or any representative of the elector, the opportunity to question them about the accounting records of the PCC and CC and to consider any objection made to the accounts. There had been no matters raised in respect of the 2020/21 audit.

As part of the audit, Mazars had to consider internal controls in place relevant to the preparation of the financial statements. Three areas had been identified that auditors ranked as a medium priority. This meant that auditors felt internal controls in those three areas identified required strengthening and that the recommendations should be actioned in the near future.

One disclosure had been updated since the publication of the audit report and that was the removal of the disclosure relating to property, plant & equipment and pensions.

Agreed - That the report be received.

02/22 FINANCIAL STATEMENTS 2020/21 - CHIEF CONSTABLE AND POLICE & CRIME COMMISSIONER - The Statement of Accounts for the Chief Constable and Police and Crime Commissioner of Humberside Police for the year ended 31 March 2021 had been prepared in accordance with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The PCC approved an original budget in February 2020 of £198.760m which following a mid-year financial review was revised to £197.277m after consultation with Branch Commanders/ Heads of Department in conjunction with the Force Finance Team. The budget was realigned in November to reflect those changes and monitoring against the revised budget was undertaken during the second half of the year.

Actual expenditure for the year was £193.858m, an underspend of £3.419m. There were underspends in the following areas:

- £0.935m Covid-19 funding received late in the year;
- £0.811m due to a pay underspend in a number of areas;
- £0.459m underspend on Digital Innovation spending;
- £0.335m primarily due to a reduction in training due to Covid-19;
- £0.376m National Enabling Programme and National ANPR Service;
- £0.263m telephony and network costs.

Reserves at the start of 2020/21 totalled £17.2m. The total level of reserves at 31 March 2021 stands at £20.4m.

The original savings target within the Medium Term Resource Strategy (MTRS) for 2020/21 was £2.1m which was delivered in full by the Force. The main areas of savings were achieved through:

- Decoupling Human Resources from South Yorkshire Police (£0.383m);
- Overtime savings (£0.500m);
- Police staff for vacant hours in part time posts (£0.767m).

A summary of capital performance compared to budget is shown in the table below:

Capital Programme	Current Budget £000	2020/21 Actual £000	Variance £000
Estates Programme	13,660	11,396	(2,263)
ICT Programme	6,301	5,104	(1,197)
Vehicles & Equipment	2,873	1,991	(0.882)
Grand Total	**22,834**	**18,491**	**(4,343)**

The main areas of expenditure during 2020/21 were on Melton 2 and IT expenditure.

PCC reserve balances at 1 April 2020 stood at £17.2m. £2.9m was transferred to Earmarked Reserves during 2020/21. £0.3m was transferred to the General Reserve; balances at 31 March 2021 now stood at £20.4m.

With regard to future spending plans the PCC had published a MTRS for 2021/22 to 2025/26 which set out the overall shape of the PCCs budget. It established how available resources would best deliver the Police and Crime Plan and mitigate corporate risks identified. The current level of PWLB borrowing was £88.588m. The operational boundary was £150.000m and the authorised limit was £180.000m (these were part of the PCC's prudential indicators that had been previously agreed in the PCC's Treasury Management report, published March 2021).

Since the Committee received the draft statements of the Chief Constable in July 2021, two amendments had been made:

- On page 65 of the agenda papers, under the Comprehensive Income and Expenditure Statement of the Chief Constable, reference to Human Resources had been changed to People Services;

- On page 97 of the agenda papers, under Related Parties, regarding the British Association of Women in Policing (BAWP), the narrative had been changed to make clear that Assistant Chief Officer (Resources) became treasurer from 1 April 2020.

Since the Committee received the draft statements of the Police & Crime Commissioner in July 2021, the following amendments had been made:

- Under the Group Accounts reference to Human Resources had been changed to People Services;

- On page 123 of the agenda papers, under the Balance Sheet, the debtors and creditors figures had been amended;

- On page 136 of the agenda papers, under Expenditure and Funding, the figures had been updated to reflect the 2019/20 account figures;

- On page 179 of the agenda papers, in the last paragraph, the Debtors figure, relating to credit risk had been amended from £14m to £15.6m;

- On page 182 of the agenda papers, under Related Parties, regarding the British Association of Women in Policing (BAWP), the narrative had been changed to make clear that Assistant Chief Officer (Resources) became treasurer from 1 April 2020.

Force and OPCC colleagues were thanked for their work in producing the statements.

Agreed - That the Financial Statements 2020/21 of the Chief Constable and Police & Crime Commissioner be received.

03/22 ANY OTHER BUSINESS - None

13 December 2021	Numbers and Deployment of Additional Recruited Officers	56/21	That regular updates be provided to the Committee.	Emma Bowen - Head of People Services (HP)	**Complete -** added to annual cycle of business on a bi-annual basis
27 September 2021	Whistleblowing, Fraud and Anti-Bribery and Anti-Money Laundering Policy Updates	40/21	That the update be removed from annual cycle of business.	Gareth Naidoo - Committee Manager/	**Complete** - annual cycle of business updated.
27 September 2021	OPCC Staff Register of Interests [Minutes of 19 July 2021 - reference to previous Minute 30/21]	36/21	That the staff register of interests of the OPCC be published on the OPCC website.	Clare Rex - Statutory Operations Manager (OPCC)	**Complete -** The staff register of interests is now published on the website: https://www.humberside-pcc.gov.uk/Transparency/Who-We-are-and-What-We-Do/Who-We-Are-and-What-We-Do.aspx
19 July 2021	Chief Constable & Police and Crime Commissioner Draft Financial Statements	30/21	Members also queried the role of the Chief Executive of the OPCC as a non-executive director on the Board of Ongo Partnership Limited: • Duration to date of her role as non-executive director on the Board of Ongo Partnership Limited and whether it was a renumerated post; • Any involvement in the £650,000 Safer Streets Grant Income awarded to Ongo Partnership Limited and whether this was recurring expenditure. *The Chief Finance Officer (OPCC) agreed to confirm the details of this with Members outside the meeting.*	Kevin Wilson - Chief Finance Officer (OPCC)	**Complete** - The Chief Executive of the OPCC wrote to the Chair following the meeting.
19 July 2021	Annual Cycle of Business 2021/22	29/21	That the items 'Decoupling of the joint HR function with South Yorkshire Police' and 'Update on the numbers of and deployment of additional recruited officer' be received at the next meeting (27 September 2021).	Emma Bowen - Head of People Services (HP)	**Complete** - included on the agenda for 13 December 2021.
7 June 2021	AOB - FOI request figures	26/21	That it be confirmed how and where Freedom of Information (FOI) request figures are disclosed.	James Tabor - Strategic Planning Manager (HP)	**Complete -** FOI disclosures are made via the website at this address: https://www.humberside.police.uk/what-weve-already-released-under-foi
7 June 2021	Risk Register Report	20/21	That the item 'Police Legitimacy' be included on a future meeting agenda.	James Tabor - Strategic Planning Manager (HP)	**Complete** - an update was provided to the Committee at its meeting of 13 December 2021.
7 June 2021	PCC Register of Interest	17/21	That regarding the publication of the PCC's Register of Interest (Minute 7/21 'Declarations of Gifts, Hospitality and Sponsorship'), it be clearly stated on the website that it has been updated annually.	Paul Wainwright - Assurance Manager	**Complete** - the OPCC reviews the publication of the Register of Interests annually and this is made clear on the website.

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Agenda Item/Issue	20 Jun 2022	18 Jul 2022	26 Sep 2022	12 Dec 2022	20 Mar 2023	Lead
Standing Items						
Minutes of previous meeting	X	X	X	X	X	Committee Manager
Action Schedule	X	X	X	X	X	Committee Manager
Annual Cycle of Business	X	X	X	X		Committee Manager
Draft Annual Cycle of Business for next financial year					X	Committee Manager
Timetable of Meetings				X		Committee Manager
Statutory and Corporate Governance & Risk Management						
Risk Registers (full review)	X			X		Paul Wainwright - Assurance Manager (OPCC)/James Tabor - Strategic Planning Manager (HP)
Force Complaints Update			X		X	Clare Rex - Statutory Operations Manager (OPCC)
Draft Annual Governance Statements					X	Paul Wainwright - Assurance Manager (OPCC) & Jim Wright - Head of Finance and Business Services (HP)
Declarations of Gifts, Hospitality & Sponsorship (*link to Force & OPCC websites*)					X	Kevin Wilson - Chief Finance Officer (OPCC) & Jim Wright - Head of Finance and Business Services (HP)
Finance						
Treasury Management Strategy					X	Kevin Wilson - Chief Finance Officer (OPCC)
Treasury Management Mid-Term Review				X		Kevin Wilson - Chief Finance Officer (OPCC)
Treasury Management Annual Report	X					Kevin Wilson - Chief Finance Officer (OPCC)
Draft Accounts		X				Kevin Wilson - Chief Finance Officer (OPCC) & Jim Wright - Head of Finance and Business Services (HP)
Audited Accounts		X				Kevin Wilson - Chief Finance Officer (OPCC) & Jim Wright - Head of Finance and Business Services (HP)
External Audit						
Audit Strategy Memorandum	X					Gavin Barker - Mazars (External Audit)
Report Updates	X			X		Gavin Barker - Mazars (External Audit)
Audit Completion Report		X				Gavin Barker - Mazars (External Audit)
Auditor's Annual Report	X			X		Gavin Barker - Mazars (External Audit)
Audit Opinion		X			X	Gavin Barker - Mazars (External Audit)
Internal Audit						
Annual Audit Plan (Review and Approve)					X	Neil Rickwood - West Yorkshire Police (Internal Audit)
Progress Reports (including any final reports)	X	X	X	X	X	Neil Rickwood - West Yorkshire Police (Internal Audit)
Head of Internal Audit Opinion and Annual Report						Neil Rickwood - West Yorkshire Police (Internal Audit)
Force Update						
Force HMICFRS Assurance Group Update	X	X	X	X	X	JIAC Members
Update on Numbers and Deployment of Additional Recruited Officers	X			X		Emma Bowen - Head of People Services (HP)

Additional Items						

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POLICE COMPLAINT REVIEWS

Joint Independent Audit Committee

Monday 21 March 2022

Clare Rex - Statutory Operations Manager

Office of the Police and Crime Commissioner for Humberside

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2 YEARS IN – DAILY BUSINESS

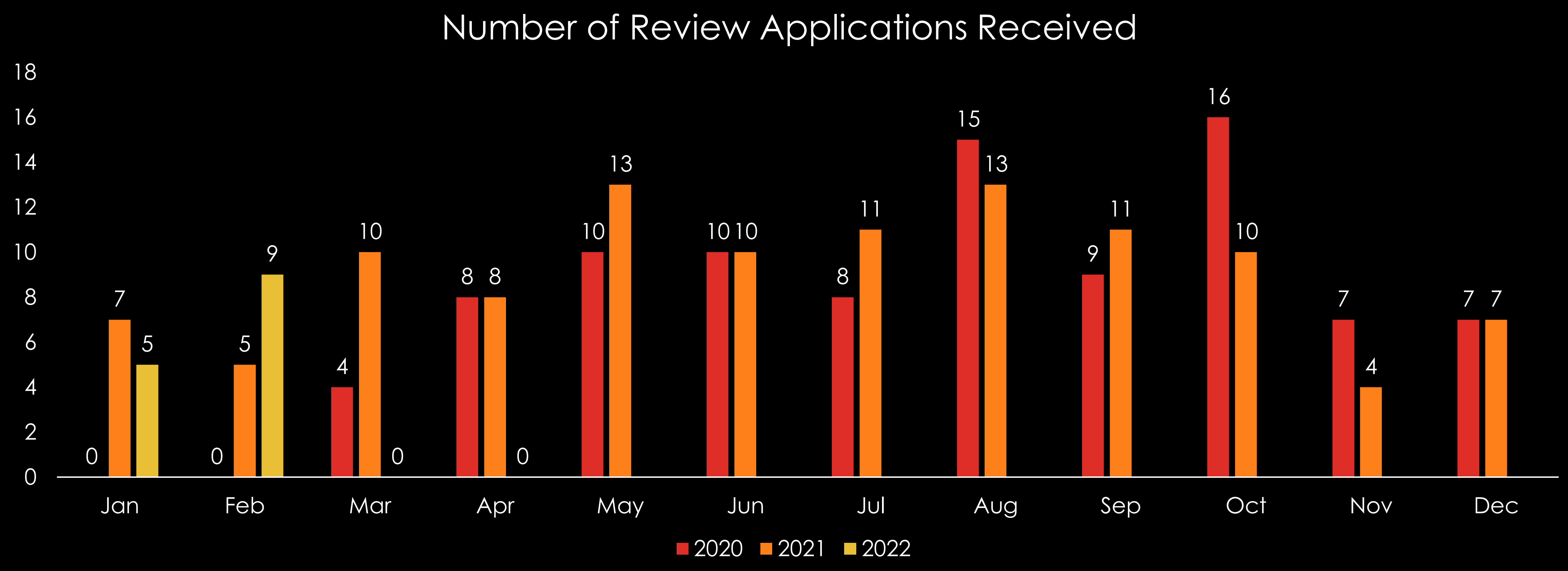
- New Police Complaints and Misconduct Regulations introduced in February 2020
  - Complaints can be dealt with in two ways – Investigation or Otherwise Than By Investigation
  - Investigations – allegations meet crime or misconduct threshold. Review Body is the IOPC. Approx 2%
  - OTBI (handling) – allegations do not meet threshold for crime or misconduct. Review Body is the OPCC. Approx 98%

- Embedded processes - Independent Reviewer with OPCC final sign off
  - Customer service level, demand management, cost efficiency

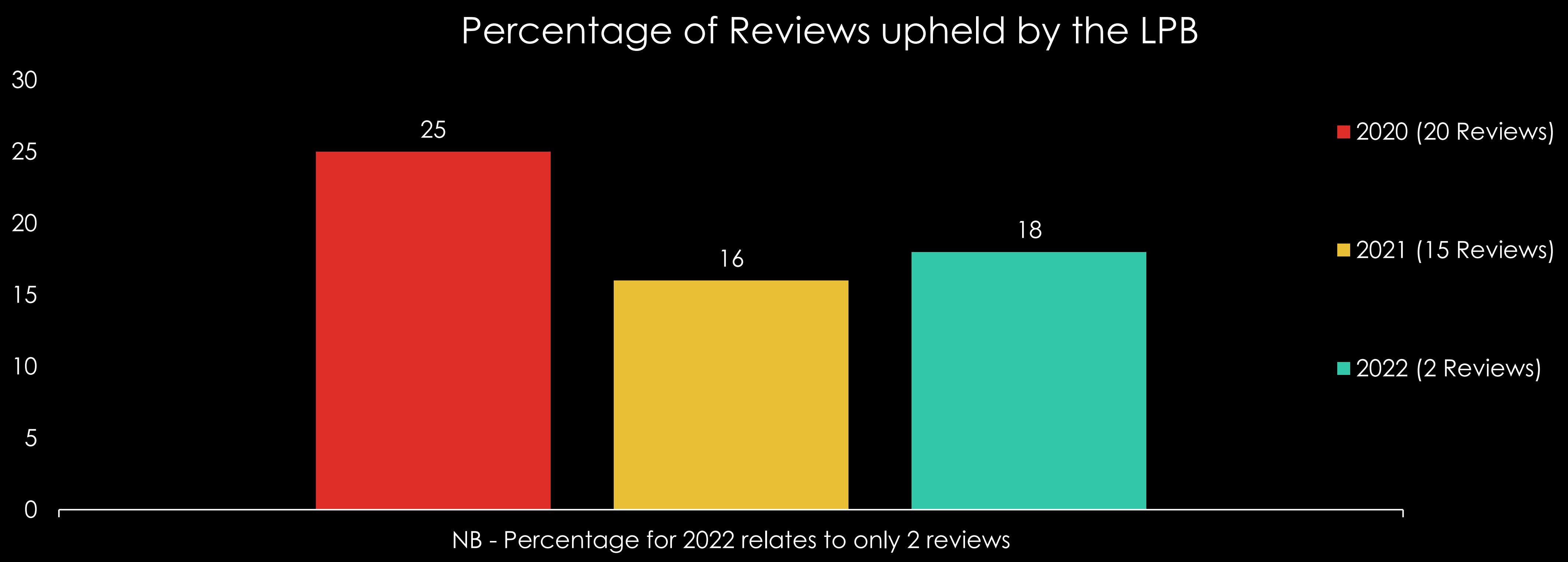
- Communication and Transparency
  - FAQs published, contact management guidance revised
  - Review outcomes published quarterly
  - Complaints narrative published with links to oversight and national data

- Continuous learning and information sharing
  - Regional collaboration NE/SW
  - IOPC (quarterly oversight liaison)
  - PSD (monthly)

YEAR ON YEAR DEMAND

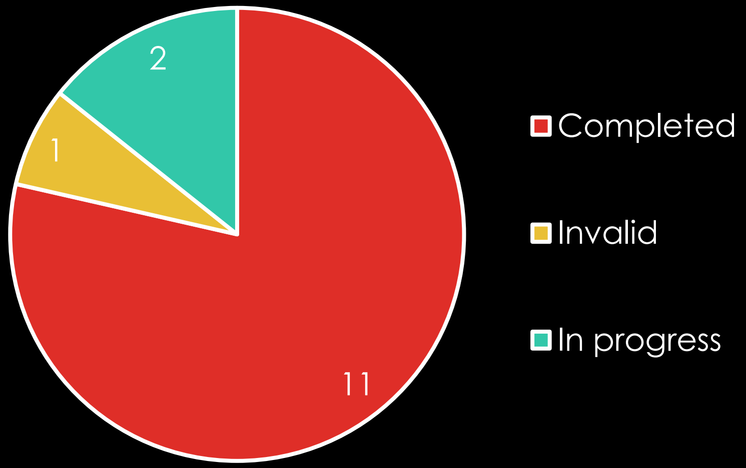


% OF REVIEWS UPHELD



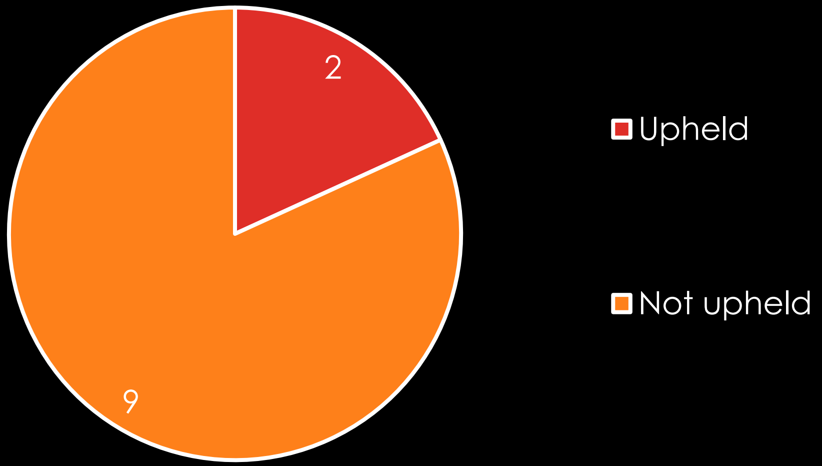
2022 – THE PICTURE SO FAR…

14 REVIEW APPLICATIONS



14 applications of 174 formal complaints
= 8% review request rate

11 REVIEWS CONCLUDED



2 upheld reviews of 174 formal complaints
= 1.2% with an outcome that is not R&P

POLICE COMPLAINTS SNAPSHOT

IN 2021…

- 1336 formal complaints - around 4 per day. Over 60% of dealt with by explanation
- 1% resulted in a misconduct investigation, 1% related to some form of discrimination
- Majority of complaints are from males 41-50 years old, only 40 under 19 years old
- Complainant Ethnicity where disclosed:
  - 97% white – 2% Asian – 1% Black
- 52% Delivery of duties & services
- 18% Police powers, policies & procedures
- 15% Individual behaviours (for example incivility)
- On average, complaint outcomes regarding service provided by police:
  - 77% Acceptable – 16% Not acceptable – 7% not possible to determine

AND FINALLY…

- Humberside recognised nationally by the IOPC
    - Strong in every category - only outlier is formal vs informal complaint handling

- PCC Funding agreed for resolution/customer service team within PSD
    - Customer service focus to improve the complainant experience
    - Improve service recovery rates to reduce formal recording levels
    - Increase resilience in PSD

- Improved data analysis
    - Dedicated performance analyst – able to pull data from Centurion
    - Provides key data to Divisional Commands
    - Fed back through Culture & Standards Board

- Complaint levels are moving in the right direction…
    - 2021 – approximately 4 per day
    - 2022 – approximately 2.5 per day

ANY QUESTIONS?

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POLICE AND CRIME COMMISSIONER FOR HUMBERSIDE
ANNUAL GOVERNANCE STATEMENT 2021-2022

1. INTRODUCTION

This Annual Governance Statement (AGS) demonstrates the governance arrangements in place for the Police and Crime Commissioner (PCC) for Humberside, including how the effectiveness of the framework is evaluated and monitored. This statement also outlines significant governance issues and any planned changes.

2. SCOPE OF RESPONSIBILITIES

The PCC is responsible for ensuring business is conducted in accordance with the law and proper standards, and public money is safeguarded and properly accounted for and used economically, efficiently and effectively. The PCC has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way his functions are exercised having regard to a combination of economy, efficiency and effectiveness.

In discharging his overall responsibility, the PCC is responsible for putting in place proper arrangements for the governance of his affairs and facilitating the exercise of his functions, which includes ensuring maintenance of a sound system of internal control and that arrangements are in place to support the management of risk.

The PCC has adopted a Code of Corporate Governance, consistent with the principles of the CIPFA/SOLACE Guidance: Delivering Good Governance in Local Government[1]. This statement explains how the PCC has complied with the Code and met the requirements of the Accounts and Audit Regulations 2015, requiring all relevant bodies to prepare an Annual Governance Statement (AGS) and publication of a statement on internal control.

3. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems, processes, culture and values by which the PCC directs and controls his activities and through which he accounts to and engages with the community. It enables him to monitor the achievement of his objectives as set out in the Police and Crime Plan, and consider whether those objectives have led to the delivery of appropriate, cost-effective services, including achieving value for money.

The system of internal control is a significant part of the framework, designed to manage risk to reasonable and foreseeable levels. It cannot eliminate all risk of failure to achieve policies, aims and objectives, only providing reasonable not absolute assurance of effectiveness. The system of internal control is based on ongoing processes designed to identify and prioritise risks to achievement of the PCC's policies, aims and objectives, evaluate the likelihood of those risks being realised and the impact should they be realised, and manage them effectively, efficiently and economically.

The fundamental function of good governance in the public sector is to ensure intended outcomes are achieved whilst acting in the public interest at all times. Governance arrangements for the PCC and force follow the seven principles set out in the revised Delivering Good Governance: Guidance Notes for Policing Bodies in England and Wales (2016). These principles are:

A: Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law.
B: Ensuring openness and comprehensive stakeholder engagement.
C: Defining outcomes in terms of sustainable economic, social and environmental benefits.
D: Determining the interventions necessary to optimise the achievement of the intended outcomes.
E: Developing the entity's capacity, including the capability of its leadership and the individuals within it.
F: Managing risks and performance through robust internal controls and strong public financial management.
G: Implementing good practices in transparency, reporting and audit to delivery effective accountability.

[1] Delivering Good Governance in Local Government – Guidance Notes for Policing Bodies (revised 2016)
www.cipfa.org/policy-and-guidance/piblications/d/delivering-good-governance-guidance-notes-for-policing-bodies-in-england-and-wales-2016-edition

4. 4. THE CIPFA FINANCIAL MANAGEMENT CODE

The PCC is required to comply with the CIPFA Financial Management (FM) Code. The CIPFA FM Code introduces an over-arching framework of assurance, building on existing financial management good practice. The six key principles are explained below:

- Organisational **leadership** – clear strategic direction, financial management is embedded into organisational culture.
- **Accountability** – based on a Medium-Term Resource Strategy (MTRS) which drives the annual budget process supported by effective risk management, quality supporting data and whole life costs.
- **Transparency in** Financial Management, using consistent, meaningful, and understandable data, reported frequently with evidence of periodic action and decision making.
- Adherence to professional **standards** is promoted by the OPCC leadership team and is evidenced.
- Sources of **assurance** are recognised as an effective tool mainstreamed into financial management and includes the results of external audit, internal audit and inspection.
- The long-term **sustainability** is at the heart of all financial management process and is evidenced by prudent use of public resources.

The PCC demonstrates that it operates according to these principles by meeting the following standards:

- OPCC leadership team is able to demonstrate that the force provides value for money.
- PCC ensures compliance with the CIPFA Statement on the Role of the Chief Finance Officer of the Police and Crime Commissioner and the Chief Finance Officer of the Chief Constable (2014).
- OPCC leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.
- PCC complies with the CIPFA Delivering Good Governance, Guidance Notes for Policing Bodies in England and Wales (2016).
- Financial management style of the PCC supports financial sustainability.
- PCC ensures the force has carried out a credible and transparent Financial Resilience Assessment.
- PCC understands its prospects for financial sustainability in the longer term.
- PCC ensures compliance with the CIPFA Prudential Code for Capital Finance in Local Authorities.
- PCC ensures a rolling multi-year Medium Term Resource Strategy.

Full compliance against the code is mandatory from 1 April 2022. A full self-assessment has been undertaken against the criteria contained within the CIPFA Financial Management Code jointly with the force. The self-assessment shows both the PCC and force to be fully compliant.

5. THE GOVERNANCE FRAMEWORK

The Chief Constable is responsible for operational policing matters, direction and control of police personnel, and for putting in place proper arrangements for governance of the force. The PCC is required to hold him to account for the exercise of those functions and those of persons under his direction and control. It follows that the PCC must be assured that the force has appropriate mechanisms in place for maintenance of good governance, and that these operate in practice. The relationship between the PCC, Chief Constable, Police and Crime Panel and Home Secretary is guided by the Policing Protocol Order 2011[2].

For the appropriate mechanisms to operate in practice, the PCC and Chief Constable, as separate corporations sole, have separate but complimentary governance structures. These facilitate achievement of effective governance arrangements, including monitoring and assessment of performance in line with statutory responsibilities. This consists of a governance framework, collectively known as the Scheme of Corporate Governance.

The PCC has adopted a number of systems and processes which comprise the PCC's current governance arrangements, the key elements of which are outlined below.

Police and Crime Plan 2021-2025:

[2] Policing Protocol Order 2011 http://www.legislation.gov.uk/uksi/2011/2744/made

On 8 October 2021, the newly elected PCC published his Police and Crime Plan 2021-2025. The three key aims are:

1. Engaged, Resilient and Inclusive Communities.
2. Safer Communities.
3. Effective Organisations.

The Police and Crime Plan sets out the PCC's objectives for policing/community safety, policing to be provided, financial and other resources available, how performance is measured, what grants are to be made and how the Chief Constable is to be held to account. The PCC works with the Chief Constable to ensure processes and systems are in place to deliver against the Police and Crime Plan. This allows the PCC to be satisfied the Chief Constable has regard to the Police and Crime Plan through operational plans of the force, including their Plan-on-a-Page and Strategic Delivery Plan.

Delivery Plan 2021-2022:

This translates the PCC's objectives into the OPCC Annual Delivery Plan[3] and Activity Plan.

Accountability Board:

The Accountability Board[4] ensures proper governance of the force and PCC, through open, constructive debate of their respective statutory duties and the efficiency and effectiveness of the force. The agenda covers delivery against the Police and Crime Plan, inspections/audits/reviews, people, finance, collaboration/partnerships, risks and current/significant issues.

Further Assurance Arrangements:

The PCC fulfils the duty to hold the Chief Constable to account in a number of other ways:

- **Daily Informal Interaction:** enabling and encouraging spontaneous face-to-face discussions between Chief Officers and the PCC on significant issues and critical incidents.
- **Joint PCC/Chief Constable Briefings:** weekly briefings enabling dialogue and discussion, with opportunities to cover Police and Crime Plan delivery and receive updates on topical issues/operational matters.
- **Joint Chief Executive/Deputy Chief Constable Briefings:** monthly briefings enabling dialogue and discussion, with opportunities to discuss organisational planning, risks and current/significant issues.
- **Assurance Conversations:** monthly/quarterly between the PCC and Chief Officers/Function Heads to complement and enhance force performance management and corporate governance arrangements, enhance understanding of the PCC around delivery against Plan-on-a-Page and Police and Crime Plan outcomes, and provide with access to information, officers and staff as required.
- **Joint Independent Audit Committee (JIAC):** quarterly to provide independent advice and recommendations to the PCC and Chief Constable on the adequacy of governance and risk management frameworks, internal controls and financial reporting, annual governance processes and internal and external audit, helping to ensure efficient and effective assurance arrangements.
- **Independent Ethics and Scrutiny Board:** these meetings commenced in October 2021. The meetings are independently chaired, along with representatives from the independent scrutiny groups, OPCC and force. The Board meets quarterly to objectively explore ethical issues and matters raised, in depth and from multiple perspectives, with the purpose of generating genuine and positive organisational learning, informing police and OPCC policy and priorities, challenging when appropriate and creating openness and transparency.
- **Complemented by:**
  - Bespoke briefings from Chief Officers on significant/sensitive issues.
  - Senior OPCC staff attending key force meetings (e.g. HMICFRS Governance Board).
  - Police Powers Scrutiny Group and Hate Crime Scrutiny Group (both with community representatives) meeting quarterly to scrutinise, recognise and promote good practice, and robustly challenge, reporting their findings back to the Independent Ethics and Scrutiny Board.

[3] OPCC Humberside Delivery Plan https://www.humberside-pcc.gov.uk/Our-Work/Delivery-Plan.aspx
[4] Humberside Police and Crime Commissioner – Accountability Board https://www.humberside-pcc.gov.uk/Your-Police/Documents/Accountability-Board-Holding-to-Account.pdf

- Routine liaison between senior OPCC staff/senior force staff and officers on matters including finance, estates, procurement, professional standards, legal and IT.
- Feedback from Independent Custody Visitors (ICVs) to the PCC and Force Custody Board as appropriate.
- Regular meetings with public bodies (e.g. local authorities) and Inspectorates (e.g. HMICFRS).
- Internal Audit plans (provided by West Yorkshire OPCC), with reports back to the JIAC and Force HMICFRS Governance Board.
- Oversight of HMICFRS Force Inspections through attendance at Force HMICFRS Governance Board and meetings between the PCC and Regional HMI.

It is worth noting that some of the above functions operated differently during 2021-2022 due to the Covid-19 pandemic.

Statutory Functions:

The PCC fulfils his statutory duties by ensuring:

- **Monitoring Officer:** effective arrangements are in place for the discharge of the Chief Executive (head of paid service) and Monitoring Officer functions.
- **Financial management:** arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Finance Officer of the Police and Crime Commissioner and the Chief Finance Officer of the Chief Constable (2014), and procedural rules, policies and internal management procedures are established for financial management.
- **Procedure Rules, Policies and Internal Management:** established processes for Financial Management, Procurement (via the Yorkshire and the Humber Regional Procurement Team), Health and Safety (via Humberside Fire and Rescue), Confidential Reporting ('whistleblowing'), Complaints Handling, Anti-Fraud, Bribery and Corruption and Records Management including security of information and information sharing.
- **Codes of Conduct:** defined standards of behaviour for the PCC, statutory officers, staff, members of our Joint Independent Audit Committee (JIAC) and volunteers.
- **Joint Scheme of Corporate Governance:** scheme in place setting out in detail the respective roles and functions of the PCC and Chief Constable, outlining significant decisions consented or delegated and which are of a statutory, financial or management nature.
- **Decision Making Process[5]:** established approaches and principles of decision-making. All decisions made by the PCC are recorded and published online for transparency.
- **Joint Independent Audit Committee (JIAC):** established and responsible for independent assurance on the adequacy of the risk management framework and associated control environment, independent scrutiny of the PCC's and Chief Constable's financial performance to the extent that it affects their exposure to risk and weakens the control environment. JIAC has an independent chair, as identified by the Home Office Code of Practice for Financial Management and the CIPFA Audit Committee: Practical Guidance for Local Authorities and Police Guidance.
- **Corporate Risk Strategy and Risk Register:** continued reviewed of the risk register by OPCC Senior Leadership Group. JIAC is responsible for independent assurance on the adequacy of the risk management framework.
- **External Audit:** function is in place which reports to those charged with governance in respect of the Annual Accounts, ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful. The PCC provides information to External Audit, enabling them to provide assurance. The PCC also ensures External Audit recommendations are implemented.
- **Partnerships/Stakeholders/Communities:** defined and documented roles and responsibilities, with clear arrangements for effective communication in respect of the PCC and partnership arrangements. Established and clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation. We have developed good governance arrangements in respect of partnership and other joint working arrangements, including clear working relationships with Community Safety Partnership (CSPs).
- **Other Statutory Responsibilities and Compliance:**

[5] PCC Decision Making Process https://www.humberside-pcc.gov.uk/Transparency/How-We-Make-Decisions/How-We-Make-Decisions.aspx

- Setting the budget and precept.
- Issuing a Police and Crime Plan[6].
- Publication of an Annual Report[7].
- Publication of specified information, including the requirements of the Elected Local Policing Bodies (Specified Information) (Amendment) Order 2021.
- Duties to consult with victims of crime, the population as a whole and council-tax payers.
- Safeguarding of children and promotion of child welfare.
- Having regard to the Strategic Policing Requirement.
- Duties relating to equality and diversity.
- Attendance at and input to the Humberside Police and Crime Panel.

6. REVIEW OF EFFECTIVENESS

The PCC has responsibility for conducting a review of the effectiveness of the governance framework. The review of effectiveness is informed by the work of the OPCC Leadership Meeting, who have responsibility for development and maintenance of the governance environment and the Annual Report and Audit Opinion of the Head of Internal Audit (OPCC West Yorkshire), as well as comments by External Auditors and other review agencies and inspectorates.

Overall governance arrangements are fit for purpose.

In maintaining and reviewing the effectiveness of governance arrangements, the following roles are undertaken:

PCC:

The PCC changed on 6 May 2021. Owing to the Covid-19 pandemic, elections due to be held in May 2020 were delayed until 6 May 2021. The postponement was implemented by the Coronavirus Act 2020 which was enacted on 25 March 2020.

The PCC has overall responsibility for maintenance and review of governance arrangements and has asked his Statutory Officers, together with the Head of Internal Audit (OPCC West Yorkshire) to continue with the review of the corporate governance arrangements, designed to assess and monitor:

- Code of Corporate Governance.
- Review of the system of Internal Control.
- Assurance through development of the Accountability Board, to replace the Corporate Governance Group.
- Production of the Annual Governance Statement (AGS).

Joint Independent Audit Committee (JIAC):

The JIAC has continued to be responsible, on behalf of both corporations sole, for:

- Advising the PCC and Chief Constable according to good governance principles.
- Providing independent assurance on the adequacy and effectiveness of the PCC's and Chief Constable's internal control environment and risk management framework.
- Monitoring the effective development and operation of risk management including the adequacy of management action.
- Oversight of the effectiveness of the framework in place for ensuring compliance with statutory requirements.
- Independent scrutiny of financial and non-financial performance to the extent that it affects the PCC's and Chief Constable's exposure to risks and weakens the internal control environment.
- Oversight of the financial reporting process and consideration of the arrangements to secure value for money.

The Terms of Reference of the JIAC encompass and reflect these duties by defining that they:

- Be the conduit through which governance work is channelled.
- Provide assurance on risk management arrangements on behalf of the PCC.

[6] Police and Crime Plan 2017-2021 https://www.humberside-pcc.gov.uk/Our-Work/Police-and-Crime-Plan.aspx
[7] Annual Report 2018-2019 https://www.humberside-pcc.gov.uk/Our-Work/Annual-Report-2018-19.aspx

- Recommend approval of the Statutory Accounts of the PCC and Chief Constable.

To ensure that it is ably qualified, assessments of its abilities in line with best practice are undertaken confirming that the JIAC is well suited and equipped for such responsibilities. Members of the JIAC continue to undergo regular training to ensure the committee remains effective in advising the PCC and Chief Constable. Recruitment was successfully undertaken in 2021-22 to replace outgoing members.

Internal Audit:

The system of Internal Audit (provided via s.22 agreement with OPCC West Yorkshire) is a primary principle of corporate governance and joint responsibility of the PCC. Provision and maintenance of an effective joint internal audit service has been designated to the OPCC Chief Financial Officer. JIAC continues to oversee provision of this service. Internal audit standards are assessed against Public Sector Internal Audit Standards (PSIAS).

During 2021-2022, internal audit has continued the approach of concentrating on major risks faced by the PCC and force, allowing the PCC to have increased confidence in the governance, risk management and control processes.

Section 151 Officers:

The OPCC has in place a Chief Finance Officer covering the role of s.151 officer. The force has a Head of Finance and Business Services in place, covering the s.151 officer role.

Police and Crime Panel:

The Humberside Police and Crime Panel continues to scrutinise the work of the PCC, acting as critical friend to the PCC through independent challenge. The Panel has:

- Reviewed progress against the Police and Crime Plan 2021-2025.
- Scrutinised the PCC's Annual Report 2020-2021.
- Scrutinised the decisions and actions of the PCC.
- Reviewed and accepted the PCC's proposed policing precept.

The PCC remains compliant with all requests from the Panel, including information and attendance at meetings.

Collaborative Working:

The PCC has collaborative arrangements in place to deliver services in conjunction with both national and neighbouring PCCs. Details of the current collaborative agreements[8] are published on our website. These include:

- Provision of policing services including Regional Organised Crime Unit (Yorkshire and the Humber).
- Joint ICT Service (Humberside and South Yorkshire).
- Procurement (Yorkshire and the Humber).
- Scientific Support Service (North East Region).
- Protected Personnel Carriers.
- National Police Air Service.
- Provision of Legal Services.
- Modern Slavery Police Transformation Programme.

The OPCC Delivery Plan 2021-22 commenced development of a template to ensure a fully transparent method for seeking assurance around regional collaborative working.

The PCC is involved as the North-East Regional Representative for the National Police Air Service (NPAS) Strategic Board. The PCC also continues to collaborate with other bodies including the Humberside Fire and Rescue Service (shared facilities including vehicle maintenance, estates, and health and safety). The PCC is an invited member of the Humberside Fire Authority (HFA), but has not at this time sought to attain a position as a voting member of the HFA. However, the PCC is in contact with the HFA Chair on a needs basis to facilitate the progress around collaborative working.

[8] Publication of Collaborative Agreements: https://www.humberside-pcc.gov.uk/Transparency/What-Our-Priorities-Are-and-How-We-Are-Doing/What-Our-Priorities-Are-and-How-We-Are-Doing.aspx

7. SIGNIFICANT GOVERNANCE ISSUES

Significant governance issues are defined as those:

- Which prevent or seriously prejudice achievement of a principal objective.
- Where additional funding has had to be sought in order to resolve it.
- Which result in material impact on the accounts.
- Which the Head of Internal Audit (OPCC West Yorkshire) has specifically highlighted in the annual audit opinion.
- Which attracts significant public interest and damages the reputation of the PCC.
- Which result in formal action being taken by the OPCC Chief Financial Officer or the Monitoring Officer.

In the 2020-21 Annual Governance Statement (AGS), the OPCC identified four significant issues and included them in the Delivery Plan 2021-22. These were:

1. **Code of Corporate Governance:** a checklist was developed, and a Joint Code of Corporate Governance Review undertaken in May 2021 to ensure continuous improvement of governance and identify any areas for improvement. The review provided assurance that governance in both the OPCC and force was effective, with 95% of the Codes elements being easily evidenced. Several actions were highlighted that were formed into an action plan. This is currently being worked through and progress is regularly reported back through the Accountability Board.
2. **Covid-19:** the OPCC continued to adhere to Government advice and all staff remained able to work from home. Meetings were held virtually where possible and business as usual was maintained.
3. **Complaint Reviews:** the OPCC focused on ensuring public-facing information through publication of timeliness of complaint reviews. In addition, the OPCC is awaiting information from the Independent Office for Police Conduct (IOPC) to enable requirements in the Elected Local Policing Bodies (Specified Information) (Amendment) Order 2021 to be met in respect of complaints information.
4. **NETIC (North-East Transformation, Innovation and Collaboration) Team:** following the decision to disband the regional NETIC team towards the end of 2020-21, the OPCC Delivery Plan 2021-22 outlined development of a template to ensure a fully transparent method for seeking assurance around regional collaborative working. This has been reported back to the Accountability Board.

All significant issues from 2020-21 have been covered, with remaining elements transferred across to the Delivery Plan 2022-23 or incorporated into business as usual.

Using the criteria for significant issues for 2022-23, there are two for the OPCC. Both have actions in place through the OPCC Delivery Plan 2022-23 where relevant:

1. **National PCC Review:** there are several large-scale changes planned through the National PCC Review published on 8 March 2022. Developments will continue to be reported back through the OPCC governance arrangements as appropriate and the Delivery Plan 2022-23 will be updated when further details emerge from Government.
2. **Partnership Funding Arrangements:** there is an issue around a lack of accountability and transparency with how funds provided by the PCC to partnerships (Community Safety Partnerships (CSPs), Youth Offending Services (YOSs), and Statutory Safeguarding Adults Boards and Safeguarding Children Partnerships) are utilised and aligned to the Police and Crime Plan aims. The Delivery Plan 2022-23 will ensure a restructure of how partnerships are funded to ensure better accountability and transparency.

Jonathan Evison **Police and Crime Commissioner**	**Rachel Cook** **OPCC Chief Executive**	**Kevin Wilson** **OPCC Chief Finance Officer**
Date:	**Date:**	**Date:**

1. Introduction

This Annual Governance Statement (AGS) demonstrates the governance arrangements in place for the Chief Constable for Humberside, including how the effectiveness of the framework is evaluated and monitored. This statement also outlines significant governance issues and any planned changes.

2. Scope of Responsibilities

The Chief Constable ensures that Force business is conducted in accordance with the law and proper standards and that the use of public money is safeguarded and properly accounted for. The Chief Constable has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which the Force functions, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Chief Constable is responsible for putting in place proper management arrangements for the governance of the affairs of the Force and facilitating the exercise of functions including arrangements for ensuring that there is a sound system of internal control and for the management of risk. The Chief Constable recognises that reliance is placed by the Police and Crime Commissioner (PCC) on him to support the governance and risk management processes that enable the PCC to fulfil his responsibilities. The PCC has provided an AGS in connection with his and the Office of the Police and Crime Commissioner's (OPCC) activities. This AGS and the one produced by the PCC will be published alongside the financial statements for the year.

A Statement of Corporate Governance for the Police and Crime Commissioner and Chief Constable has been approved and adopted and forms part of the Governance Framework document. The arrangements are consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) Delivering Good Governance, Guidance Notes for Policing Bodies in England and Wales 2016. This Statement explains how these principles have been complied with and meet the requirements of Regulation 6 of the Accounts and Audit Regulations 2015 in respect of the need to conduct a review of the effectiveness of the system of internal control and the preparation and approval of an AGS.

3. The Purpose of the Governance Framework

Governance comprises the arrangements introduced to ensure that the intended outcomes for stakeholders are defined and achieved. Governance is about how decisions are made, focusing on matters such as understanding and clarity of aims, the integrity, fairness and transparency of decisions made by individuals and teams, and the effectiveness of controls and accountability mechanisms.

The governance framework is comprised of the systems and processes, culture and values by which the Force's affairs have been directed and controlled and the activities through which the responsibilities of the Chief Constable have been discharged. It enables both the Chief Constable and the PCC to monitor the achievement of shared strategic objectives and to consider whether those objectives have led to the delivery of appropriate cost effective services, including achieving value for money and engaging with the community.

Good governance is not only about processes, rules and procedures but should also demonstrate the spirit and ethos of good governance. Shared values which are integrated into the culture of the organisation and are reflected in behaviour and policy are essential hallmarks of good governance.

The system of internal control is a significant part of the framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives but can only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of policy aims and objectives. It is also designed to evaluate the likelihood of those risks being realised as well as seeking to manage them effectively, efficiently and economically.

The fundamental function of good governance in the public sector is to ensure intended outcomes are achieved whilst acting in the public interest at all times. Governance arrangements for the Chief Constable and PCC follow the seven principles set out in the CIPFA Delivering Good Governance, Guidance Notes for Policing Bodies in England and Wales 2016. These principles are:

A: Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law.
B: Ensuring openness and comprehensive stakeholder engagement.
C: Defining outcomes in terms of sustainable economic, social and environmental benefits.
D: Determining the interventions necessary to optimise the achievement of the intended outcomes.
E: Developing the entity's capacity, including the capability of its leadership and the individuals within it.
F: Managing risks and performance through robust internal controls and strong public financial management.
G: Implementing good practices in transparency, reporting and audit to delivery effective accountability.

4. The CIPFA Financial Management Code

The Force is required to comply with the CIPFA Financial Management (FM) Code. The CIPFA FM Code introduces an over-arching framework of assurance, building on existing financial management good practice. The six key principles are explained below, with each principle in bold -

- Organisational **leadership** – clear strategic direction, Financial Management is embedded into organisational culture.
- **Accountability** – based on a Medium Term Resource Strategy (MTRS) which drives the annual budget process supported by effective risk management, quality supporting data and whole life costs
- **Transparency in** Financial Management, using consistent, meaningful and understandable data, reported frequently with evidence of periodic action and decision making.
- Adherence to professional **standards** is promoted by the leadership team and is evidenced.
- Sources of **assurance** are recognised as an effective tool mainstreamed into financial management and includes the results of external audit, internal audit and inspection.
- The long term **sustainability** of the Force is at the heart of all financial management process and is evidenced by prudent use of public resources.

The Force demonstrates that it operates according to these principles by meeting the following standards –

- The Leadership Team is able to demonstrate that the Force provides value for money
- The Force complies with the CIPFA Statement on the Role of the Chief Finance Officer of the Police and Crime Commissioner and the Chief Finance Officer of the Chief Constable (2014)
- The Leadership Team demonstrates in its actions and behaviours responsibility for governance and internal control
- The Force complies with the CIPFA Delivering Good Governance, Guidance Notes for Policing Bodies in England and Wales (2016)
- The financial management style of the Force supports financial sustainability
- The Force has carried out a credible and transparent Financial Resilience Assessment
- The Force understands its prospects for financial sustainability in the longer term
- The Force complies with the CIPFA Prudential Code for Capital Finance in Local Authorities
- The Force has a rolling multi-year Medium Term Resource Strategy

Full compliance against the code is mandatory from 1 April 2022. A full self-assessment has been undertaken against the criteria contained within the CIPFA Financial Management Code jointly with the PCC. The self-assessment shows the Force to be fully compliant.

5. The Governance Framework

The Chief Constable is responsible for operational policing matters, direction and control of police personnel, and for putting in place proper arrangements for governance of the Force. He is accountable to the PCC for the exercise of those functions and those of persons under his direction and control. He is required to provide assurance to the PCC that the Force has appropriate mechanisms in place for maintenance of good governance, and that these operate in practice. The corporate processes underpinning this commitment are set out in the Policing Protocol Order 2011, the Financial Management Code of Practice (Home Office, 2013) and the Code of Ethics (College of Policing, 2014).

The Chief Constable is accountable for how the resources are used. This includes accountability for outputs and for the outcomes achieved. In addition, he has an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies. It is essential that he can demonstrate the appropriateness of all actions and have mechanisms in place to encourage and enforce adherence to ethical values and to respect the rule of law.

This core principle underlines that, above almost everything else, good governance depends on building a corporate environment where leaders and staff believe personally in acting in accordance with generally accepted values.

For the appropriate mechanisms to operate in practice, the PCC and Chief Constable, as separate corporations sole, have separate but complimentary governance structures. These facilitate achievement of effective governance arrangements, including monitoring and assessment of performance in line with statutory responsibilities. This consists of a governance framework, collectively known as the Scheme of Corporate Governance, aligned to the key elements of the Plan on a Page which drives ownership and accountability across the operational and organisational business.

The framework clearly articulates the governance mechanism and decision-making processes that are now in place across the Force, and with the OPCC, to manage and coordinate key areas of business including Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS), Continuous Improvement, Neighbourhood Policing, Health and Wellbeing and Staff Development and Leadership. The framework is regularly revisited and refreshed to reflect any changes required.

The framework was amended to reflect the enhancements to the OPCC's accountability processes with the introduction of the bi-monthly Accountability Board (formerly the Corporate Governance Group), which is the formal governance meeting between the PCC and Chief Constable to ensure proper governance of the Force and the OPCC, through open, constructive debate of their respective statutory duties and the efficiency and effectiveness of the Force. OPCC accountability of the Force is further supported by the Joint Independent Audit Committee (JIAC), External Ethics Committee and one-to-one Assurance meetings between the PCC and Chief Officers/Senior Leaders. The framework will be adapted to reflect the outcomes of the OPCC's ongoing review of their wider governance processes.

The Chief Constable is held to account through a number of systems and processes which comprise the PCC's current governance arrangements, the key elements of which are as follows.

Police and Crime Plan 2021-2025

This sets out the PCC's strategic police and crime objectives for the area, including the policing which the Chief Constable is to provide and the financial resources the PCC will make available, how performance is measured, what grants are to be made and how the Chief Constable is to be held to account. The PCC works with the Chief Constable to ensure processes and systems are in place to deliver against the Police and Crime Plan. This allows the PCC to be satisfied the Chief Constable has regard to the Police and Crime Plan through operational plans of the Force, including the Plan on a Page and Strategic Delivery Plan.

Plan on a Page

The Plan on a Page is a key document in meeting the seven principles of good governance. It sets out our culture, values and behaviours, how we will deliver our mission, how the Force will serve communities to make them stronger and safer, reducing crime and building trust and confidence, that planned resources will enable us to continuously improve and be effective and efficient, how management of people and their development is key to success and how we will engage with our partners to improve people's lives.

Delivery Plan 2021-2022

This translates the PCC's objectives into the OPCC Annual Delivery Plan and Activity Plan.

Accountability Board

The Accountability Board ensures proper governance of the Force for the Chief Constable and PCC, through open, constructive debate of their respective statutory duties and the efficiency and effectiveness of the Force. The agenda covers delivery against the Police and Crime Plan, inspections/audits/reviews, people, finance, collaboration/partnerships, risks and current/significant issues.

Corporate Efficiency and Continuous Improvement Review Programme

The Chief Constable has a robust Efficiency and Continuous Improvement Review Programme in place in order to ensure the delivery of required cashable and non-cashable savings across the Force and to maximise opportunities to improve efficiency and effectiveness through a programme of continuous improvement. The Programme has been prioritised through an assessment of performance, demands, threat, risk and harm and financial planning requirements and will be a key vehicle in the delivery of the Force Savings Plan.

Further Assurance Arrangements

The Chief Constable is held to account in a number of other ways:

- **Daily Informal Interaction**: enabling and encouraging spontaneous face-to-face discussions between Chief Officers and the PCC on significant issues and critical incidents.
- **Joint PCC/Chief Constable Briefings**: weekly briefings enabling dialogue and discussion, with opportunities to cover Police and Crime Plan delivery and receive updates on topical issues/operational matters.
- **Joint Chief Executive/Deputy Chief Constable Briefings**: monthly briefings enabling dialogue and discussion, with opportunities to discuss organisational planning, risks and current/significant issues.
- **Assurance Conversations**: monthly/quarterly between the PCC and Chief Officers/Function Heads to complement and enhance Force performance management and corporate governance arrangements, enhance understanding of the PCC around delivery against Plan-

on-a-Page and Police and Crime Plan outcomes, and provide him with access to information, officers and staff as required.

- **Joint Independent Audit Committee (JIAC**): **):** quarterly to provide independent advice and recommendations to the PCC and Chief Constable on the adequacy of governance and risk management frameworks, internal controls and financial reporting, annual governance processes and internal and external audit, helping to ensure efficient and effective assurance arrangements.
- **Independent Ethics and Scrutiny Board:** these meetings commenced in October 2021. The meetings are independently chaired, along with representatives from the independent scrutiny groups, OPCC and Force. The Board meets quarterly to objectively explore ethical issues and matters raised, in depth and from multiple perspectives, with the purpose of generating genuine and positive organisational learning, informing police and OPCC policy and priorities, challenging when appropriate and creating openness and transparency.

- **Complemented by:**

- Bespoke briefings from Chief Officers on significant/sensitive issues.
- Senior OPCC staff attending key Force meetings (e.g. HMICFRS Governance Board).
- OPCC staff, Diversity Panel (community representatives) and Domestic Abuse Scrutiny Panel (senior representatives from a number of key support agencies) conducting further checks/audits as part of their assurance work (e.g. Stop & Search and Use of Force Scrutiny Panels).
- Routine liaison between senior OPCC staff/senior Force staff and officers on matters including finance, estates, procurement, professional standards, legal and IT.
- Feedback from Independent Custody Visitors (ICVs) and Appropriate Adults (AAs).
- Regular meetings with public bodies (e.g. local authorities) and Inspectorates (e.g. HMICFRS).
- Internal Audit plans (provided by West Yorkshire OPCC), with reports back to the JIAC and Force HMICFRS Governance Board.
- Pro-actively supporting HMICFRS Force Inspections through the HMICFRS Efficiency Board including production of the draft Force Management Statement and Efficiency Review and actively encouraging HMICFRS inspectors to attend Force meetings and to visit the Force and maintaining a high level of transparency.

It is worth noting that some of the above functions may have operated differently during 2021-22 due to Covid-19.

Statutory Functions:

The Chief Constable fulfils his statutory duties by ensuring:

- **Financial management:** arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Finance Officer of the Police and Crime Commissioner and the Chief Finance Officer of the Chief Constable (2014), and procedural rules, policies and internal management procedures are established for financial management in accordance with the CIPFA Financial Management Code.
- **Procedure Rules, Policies and Internal Management:** established processes for Financial Management, Procurement (via the Yorkshire and the Humber Regional Procurement Team), Health and Safety (via Humberside Fire and Rescue), Confidential Reporting

('whistleblowing'), Complaints Handling, Anti-Fraud, Bribery and Corruption and Records Management including security of information and information sharing.

- **Codes of Conduct:** defined standards of behaviour for the Force
- **Joint Scheme of Corporate Governance:** scheme in place setting out in detail the respective roles and functions of the PCC and Chief Constable, outlining significant decisions consented or delegated and which are of a statutory, financial or management nature.
- **Decision Making Process:** decisions made by the Chief Constable are recorded at the Chief Officers Group and referred to the PCC in accordance with the Statement of Corporate Governance
- **Joint Independent Audit Committee (JIAC):** established and responsible for independent assurance on the adequacy of the risk management framework and associated control environment, independent scrutiny of the PCC's and Chief Constable's financial performance to the extent that it affects their exposure to risk and weakens the control environment. JIAC has an independent chair, as identified by the Revised Home Office Code of Practice for Financial Management 2018 and the CIPFA Audit Committees: Practical Guidance for Local Authorities and Police 2018.
- **Corporate Risk Strategy and Risk Register:** continued review of the risk register by OPCC Senior Leadership Group. JIAC is responsible for independent assurance on the adequacy of the risk management framework.
- **External Audit:** function is in place which reports to those charged with governance in respect of the Annual Accounts, ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful.

6. Review of Effectiveness

The PCC has responsibility for conducting a review of the effectiveness of the governance framework. The review of the effectiveness is informed by the work of the statutory and senior officers within the Force and the OPCC Leadership Meeting, who have responsibility for development and maintenance of the governance environment and the Annual Report and Audit Opinion of the Head of Internal Audit (OPCC West Yorkshire), as well as comments by External Auditors and other review agencies and inspectorates.

The Chief Constable supports the view of the PCC that the governance arrangements in place are fit for purpose.

JIAC

The JIAC has continued to be responsible, on behalf of both corporations sole, for:

- Advising the PCC and Chief Constable according to good governance principles.
- Providing independent assurance on the adequacy and effectiveness of the PCC's and Chief Constable's internal control environment and risk management framework.
- Monitoring the effective development and operation of risk management including the adequacy of management action.
- Oversight of the effectiveness of the framework in place for ensuring compliance with statutory requirements.
- Independent scrutiny of financial and non-financial performance to the extent that it affects the PCC's and Chief Constable's exposure to risks and weakens the internal control environment.
- Oversight of the financial reporting process and consideration of the arrangements to secure value for money.

The Terms of Reference of the JIAC encompass and reflect these duties by defining that they:

- Be the conduit through which governance work is channelled.
- Provide assurance on risk management arrangements on behalf of the PCC.
- Recommend approval of the Statutory Accounts of the PCC and Chief Constable.

To ensure that it is ably qualified, assessments of its abilities in line with best practice are undertaken confirming that the JIAC is well suited and equipped for such responsibilities. Members of the JIAC continue to undergo regular training to ensure the committee remains effective in advising the PCC and Chief Constable. Recruitment was successfully undertaken in 2021-22 to replace outgoing members.

Internal Audit:

The system of Internal Audit (provided via s.22 agreement with OPCC West Yorkshire) is a primary principle of corporate governance and joint responsibility of the PCC. Provision and maintenance of an effective joint internal audit service has been designated to the OPCC Chief Financial Officer. JIAC continues to oversee provision of this service. Internal audit standards are assessed against Public Sector Internal Audit Standards (PSIAS).

During 2021/22, internal audit has continued the approach of concentrating on major risks faced by the PCC and Force, allowing the PCC to have increased confidence in the governance, risk management and control processes.

Section 151 Officers:

The OPCC has in place a Chief Finance Officer covering the role of s.151 officer. The force has a Head of Finance and Business Services in place, covering the s.151 officer role.

Collaborative Working:

The Chief Constable manages a number of collaborative arrangements to deliver services in conjunction with both national and neighbouring forces. These include:

- Provision of policing services including Regional Organised Crime Unit (Yorkshire and the Humber).
- Joint ICT Service (Humberside and South Yorkshire).
- Procurement (Yorkshire and the Humber).
- Scientific Support Service (North East Region).
- Protected Personnel Carriers.
- National Police Air Service.
- Provision of Legal Services.
- Modern Slavery Police Transformation Programme.

The Chief Constable continues to collaborate with other bodies including the Humberside Fire and Rescue Service (shared facilities including vehicle maintenance, estates, and health and safety).

The Chief Constable also has national roles as Director of Blue Light Commercial, management committee for Police Sports UK, Chair of the National Police Chiefs Council Performance Sub-Committee and also sits on the Records Management Co-ordination Group.

7. Performance

The Chief Officers' Group receives regular monitoring reports based on detailed analysis and including comparator information in order to inform decision making. The Police Effectiveness, Efficiency and Legitimacy (PEEL) standing is good.

Corporate Assessment Framework

The Force Corporate Assessment process is a robust performance management and review framework to monitor progress in the delivery of the Plan on a Page, the Force Strategic Delivery Plan and the PCC's Police and Crime Plan. The approach focussed on the development of Local Delivery Plans within Operational Commands and Support departments outlining the activities they would be undertaking over the year to support the delivery of the Plan on a Page and the Police and Crime Plan and the measures to monitor progress.

A formal performance review process to support the delivery of these plans is in place. This comprises the Deputy Chief Constable (DCC) Victim Focussed Monthly Performance Meeting, chaired by the DCC and attended by the relevant operational/organisational support Commanders/SLT's to monitor overall Force performance. This is supported by monthly Local Accountability Meetings (LAMs) chaired by the relevant ACC with operational command/support departments focussed on the delivery of their local plans and monitoring performance against their specific indicators.

This is a fully embedded process and, in line with the Force culture of continuous improvement, was refined in 2020 with a revision of the planning templates, activities and supporting measures focussed on the Chief Constable's Strategic Delivery Plan, Plan on a Page and OPCC's Police and Crime Plan.

The process is further supported through local Team Accountability Meetings (TAMs) and Individual Accountability Meetings (IAMs) across every level of the organisation to not only assess the contribution to Force Performance, but to also consider continuous personal development and health and wellbeing requirements and opportunities for individuals.

8. Significant Governance Issues

The Chief Constable and the OPCC identified a number of strategic risks in 2021/22. These included risks arising out of processes, systems, national influences such as policy and policing in general, health and safety and financial controls all of which the Chief Constable continues to manage. Each risk has Chief Officer functional ownership and a responsible risk manager who are accountable for the progress of the management of that risk.

All risks have controls or mitigations assigned to them, are assessed and reassessed on a dynamic basis, and receive regular updates which are subject to quality assurance by the DCC in his role as Force Risk Champion. All risks are reported to and scrutinised by Chief Officers, the Accountability Board, and the JIAC. There is a well understood process in place with local risk managers escalating to the strategic level as required. Local managers also manage operational risks in all of the high risk areas of Force business particularly where vulnerability in the community is a key factor for example, Missing Persons, Domestic Violence and Child Abuse.

Significant governance issues are defined as those:

- Which prevent or seriously prejudice achievement of a principal objective.
- Where additional funding has had to be sought in order to resolve it.
- Which result in material impact on the accounts.
- Which the Head of Internal Audit (OPCC West Yorkshire) has specifically highlighted in the annual audit opinion
- Which attracts significant public interest and damages the reputation of the PCC.
- Which result in formal action being taken by the OPCC Chief Financial Officer or the Monitoring Officer.

In the 2020-21 Annual Governance Statement (AGS), the Force identified the following significant issues:

1. **Code of Corporate Governance:** a checklist was developed, and a Joint Code of Corporate Governance Review undertaken in May 2021 to ensure continuous improvement of governance and identify any areas for improvement. The review provided assurance that governance in both the OPCC and Force was effective, with 95% of the Codes elements being easily evidenced. Several actions were highlighted that were formed into an action plan. This is currently being worked through and progress is regularly reported back through the Accountability Board.

2. **Covid-19:** The Covid-19 pandemic necessitated some changes to the Force's governance in order to respond to the crisis. Operation Flame was put in place in order to mitigate the impact of Covid-19 on local communities, and to work together with others to promote recovery to a state of normality. The operation has a Gold/Silver/Bronze command structure which was maintained into 2021/22.

   All significant issues from 2020-21 have been addressed and there are no additional significant governance issues. Operation Flame governance arrangements remained in place during 2021/22, allowing the Force to maintain business as usual governance activities.

Jim Wright Head of Finance and Business Services	Lee Freeman Chief Constable
Date	Date

Agenda Item No. **8**

HUMBERSIDE
POLICE & CRIME
COMMISSIONER

TREASURY MANAGEMENT STRATEGY STATEMENT

2022/23

INTRODUCTION

Background

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

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

CIPFA defines treasury management as:

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

PCC's are subject to the same requirements as Local Authority's in respect of treasury management.

Reporting requirements

The PCC is currently required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals, additionally the PCC will receive quarterly update reports.

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

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

A mid-year treasury management report – This will update the PCC with the progress of the capital position.

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

Quarterly update reports – This will provide the PCC with a quarterly update of the capital position, amending prudential indicators as necessary, and whether any policies require revision.

Scrutiny
The above reports are required to be adequately scrutinised before being recommended to the PCC. This role is undertaken by the Joint Independent Audit Committee (JIAC).

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

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

The aim of this report is to ensure that the PCC fully understands the overall strategy, governance procedures and risk appetite. The Capital Strategy is set out at Appendix 8 of this report.

Treasury Management Strategy for 2022/23

The strategy for 2022/23 covers two main areas:

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

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

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

The CIPFA Code requires the responsible officer to ensure that the PCC with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members of Joint Independent Audit Committee (JIAC) who are responsible for scrutiny. Training will be arranged as required.

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

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

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

THE CAPITAL PRUDENTIAL INDICATORS 2022/23 – 2025/26

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

Capital expenditure – Indicator 1

This prudential indicator is a summary of the PCC's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

Capital expenditure £m	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Total	**28.573**	**16.236**	**11.198**	**10.822**	**5.221**

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

Financing of capital expenditure £m	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Net financing need for the year	**28.573**	**16.236**	**11.198**	**10.822**	**5.221**

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

The second prudential indicator is the PCC'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 PCC's indebtedness and indicates underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

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

The PCC is asked to approve the CFR projections below:

£m	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Capital Financing Requirement					
Total CFR	**126.933**	**137.882**	**141.842**	**144.282**	**140.640**
CFR as a % of Budget Requirement	**60.27%**	**62.67%**	**62.24%**	**61.75%**	**58.86%**
Movement in CFR	**24.871**	**10.949**	**3.960**	**2.440**	**(3.642)**
Movement in CFR represented by					
Net financing need for the year (above)	28.573	16.236	11.198	10.822	5.221
Less MRP/VRP and other financing movements	(3.702)	(5.287)	(7.238)	(8.382)	(8.863)
Movement in CFR	**24.871**	**10.949**	**3.960**	**2.440**	**(3.642)**

This table shows CFR increasing to circa 60% of our Budget Requirement (BR) over the period 2022/23 to 2025/26, before beginning to fall.

*IFRS16 Leases comes into effect from 2021/22 (delayed for one year). The impact of this is yet to be established and will be reviewed throughout the year.

Core funds and expected investment balances – Indicator 3

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

Year End Resources £m	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Fund balances / reserves	21.600	22.100	20.300	18.700	16.200
Total core funds	**21.600**	**22.100**	**20.300**	**18.700**	**16.200**
Working capital*	**(10.000)**	**(10.000)**	**(10.000)**	**(10.000)**	**(10.000)**
(Under)/over borrowing	(21.670)	(19.860)	(16.333)	(11.663)	(4.349)
Expected investments	**(10.070)**	**(7.760)**	**(6.033)**	**(2.963)**	**1.851**

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

TREASURY MANAGEMENT PRUDENTIAL INDICATORS 2022/23 – 2025/26

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

Current portfolio position

The PCC's estimated treasury portfolio position at 31 March 2022, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£m	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
External Debt					
Debt at 1 April	88.588	105.263	118.022	125.509	132.619
Expected change in Debt	16.675	12.759	7.487	7.110	3.672
Actual gross debt at 31 March	**105.263**	**118.022**	**125.509**	**132.619**	**136.291**
The Capital Financing Requirement	**126.933**	**137.882**	**141.842**	**144.282**	**140.640**
Under / (over) borrowing	**21.670**	**19.860**	**16.333**	**11.663**	**4.349**

Within the prudential indicators there are a number of key indicators to ensure that the PCC operates its activities within well-defined limits. One of these is that the PCC needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2022/23 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

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

Treasury Indicators: limits to borrowing activity

The operational boundary – Indicator 4

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

Operational boundary £m	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2024/25 Estimate
Debt	150.000	150.000	150.000	150.000	150.000
Total	**150.000**	**150.000**	**150.000**	**150.000**	**150.000**

The authorised limit for external debt – Indicator 5

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

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all PCCs' plans, or those of a specific PCC, although this power has not yet been exercised.

2. The PCC is asked to approve the following authorised limit:

Authorised limit £m	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Debt	180.000	180.000	180.000	180.000	180.000
Total	**180.000**	**180.000**	**180.000**	**180.000**	**180.000**

Prospects for interest rates

The PCC has appointed Link Group as its treasury advisor and part of their service is to assist the PCC to formulate a view on interest rates. Link provided the following forecasts on 7 February 2022. These are forecasts for certainty rates, gilt yields plus 80bps:

Link Group Interest Rate View	7.2.22												
	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	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
3 month av. earnings	0.80	1.00	1.00	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20
6 month av. earnings	1.00	1.10	1.20	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30
12 month av. earnings	1.40	1.50	1.60	1.70	1.70	1.60	1.60	1.50	1.40	1.40	1.40	1.40	1.40
5 yr PWLB	2.20	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30
10 yr PWLB	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40
25 yr PWLB	2.40	2.50	2.50	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60
50 yr PWLB	2.20	2.30	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40

Additional notes by Link on this forecast table: -

- *LIBOR and LIBID rates ceased at the end of 2021. In a continuation of our previous forecasts, our money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.*

- *Our forecasts for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short term cash at any one point in time.*

Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021 and then to 0.50% at its meeting of 4th February 2022.

As shown in the forecast table above, the forecast for Bank Rate now includes a further three increases of 0.25% in March, May and November 2022 to end at 1.25%.

More recently, equity markets have been negatively impacted by the fall-out from the Russian invasion of Ukraine. Concerns have focussed on supply side shocks in respect of oil, gas, wheat and other mainstream commodities, whilst global economic growth may also slow significantly

More recently, equity markets have been negatively impacted by the fall-out from the Russian invasion of Ukraine. Concerns have focussed on supply side shocks in respect of oil, gas, wheat and other mainstream commodities, whilst global economic growth may also slow significantly

Significant risks to the forecasts

- **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.

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

- **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.

- **The Monetary Policy Committee** 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 sorting out significant remaining issues.

- **Longer term US treasury yields** rise strongly and pull gilt yields up higher than forecast.

- **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. If Russia were to invade Ukraine, this would be likely to cause short term volatility in financial markets, but it would not be expected to have a significant impact beyond that.

The balance of risks to the UK economy: -

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

Forecasts for Bank Rate

The Monetary Policy Committee is now very concerned at the way that forecasts for inflation have had to be repeatedly increased within a matter of just a few months. Combating this rising tide of inflation is now its number one priority and the 5-4 vote marginally approving only a 0.25% increase on 4th February rather than a 0.50% increase, indicates it is now determined to push up Bank Rate quickly. A further increase of 0.25% is therefore probable for March, and again in May, followed possibly by a final one in November. However, data between now and November could shift these timings or add to or subtract from the number of increases.

However, it is likely that these forecasts will need changing within a relatively short timeframe for the following reasons: -

- We do not know whether there will be further mutations of Covid and how severe they may be, nor how rapidly scientific advances may be made in combating them.

- The economy was running out of steam during the second half of 2021 and Omicron will mean that economic growth in quarter 1 of 2022 is likely to be flat, though on the rise towards the end of the quarter as the economy recovers. However, 54% energy cap cost increases from April, together with 1.25% extra employee national insurance, food inflation around 5% and council tax likely to rise in the region of 5% too - these increases are going to hit lower income families hard despite some limited assistance from the Chancellor to postpone the full impact of rising energy costs.

- Consumers are estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above increases. But most of those holdings are held by more affluent people whereas poorer people already spend nearly all their income before these increases hit and have few financial reserves.

- These increases are already highly disinflationary; inflation will also be on a gradual path down after April so that raises a question as to whether the MPC may shift into protecting economic growth by November, i.e., it is more debatable as to whether they will deliver another increase then.

- The BIG ISSUE – will the current spike in inflation lead to a second-round effect in terms of labour demanding higher wages, (and/or lots of people getting higher wages by changing job)?

- If the labour market remains very tight during 2022, then wage inflation poses a greater threat to overall inflation being higher for longer, and the MPC may then feel it needs to take more action.

- If the UK were to invoke article 16 of the Brexit deal over the dislocation in trading arrangements with Northern Ireland, this would have the potential to end up in a no-deal Brexit.

In summary, with the high level of uncertainty prevailing on several different fronts, we expect to have to revise our forecasts again - in line with whatever the new news is.

Gilt yields / PWLB rates

Gilt yields. Since the start of 2021, we have seen a lot of volatility in gilt yields, and hence PWLB rates. Our forecasts show little overall increase in gilt yields during the forecast period to March 2025 but there will doubtless be a lot of unpredictable volatility during this forecast period.

While monetary policy in the UK will have a major impact on gilt yields, there is also a need to consider the potential impact that rising treasury yields in America could have on gilt yields. **As an average since 2011, there has been a 75% correlation between movements in US 10-year treasury yields and UK 10-year gilt yields. This is a significant UPWARD RISK exposure to our forecasts for medium to longer term PWLB rates. However, gilt yields and treasury yields do not always move in unison.**

US treasury yields. During the first part of 2021, US President Biden's, and the Democratic party's, determination to push through a $1.9trn (equivalent to 8.8% of GDP) fiscal boost for the US economy as a recovery package from the Covid pandemic was what unsettled financial markets. This was in addition to the $900bn support package previously passed in December 2020. Financial markets were alarmed that all this stimulus was happening at a time when: -

1. A fast vaccination programme roll-out had enabled a rapid opening up of the economy during 2021.
2. The economy was growing strongly during the first half of 2021 although it has weakened during the second half.
3. It started from a position of little spare capacity due to less severe lockdown measures than in many other countries.
4. And the Fed was still providing substantial stimulus through monthly QE purchases during 2021.

It was not much of a surprise that a combination of these factors would eventually cause an excess of demand in the economy which generated strong inflationary pressures. This has eventually been recognised by the Fed at its recent December meeting with an aggressive response to damp inflation down during 2022 and 2023.

- **At its 3rd November Fed meeting**, the Fed decided to make a start on tapering its $120bn per month of quantitative easing (QE) purchases so that they ended next June. However, at its **15th December meeting** it doubled the pace of tapering so that they will end all purchases in February. These purchases are currently acting as downward pressure on treasury yields and so it would be expected that treasury yields will rise over the taper period, all other things being equal.

- It also forecast that it expected there would be three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024. This would take rates back above 2% to a neutral level for monetary policy. It also gave up on calling the sharp rise in inflation as being 'transitory'.

- At its **26th January meeting**, the Fed became even more hawkish following inflation rising sharply even further. It indicated that rates would begin to rise very soon, i.e., it implied at its March meeting it would increase rates and start to run down its holdings of QE purchases. It also appears likely that the Fed could take action to **<u>force longer term treasury yields up</u>** by prioritising selling holdings of its longer bonds as yields at this end have been stubbornly low despite rising inflation risks. The low level of longer dated yields is a particular concern for the Fed because it is a key channel through which tighter monetary policy is meant to transmit to broader financial conditions, particularly in the US where long rates are a key driver of household and corporate borrowing costs.

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

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

- How strongly will changes in gilt yields be correlated to changes in US treasury yields (see below). As the US financial markets are, by far, the biggest financial markets in the world, any upward trend in treasury yields will invariably impact and influence financial markets in other countries. **Over 10 years since 2011 there has been an average 75% correlation between movements in US treasury yields and gilt yields.** However, from time to time these two yields can diverge. Lack of spare economic capacity and rising inflationary pressures are viewed as being much greater dangers in the US than in the UK. This could mean that central bank rates will end up rising higher in the US than in the UK; the consequent increases in treasury yields could well spill over to cause (lesser) increases in gilt yields. There is, therefore, an upside risk to forecasts for gilt yields due to this correlation. The Link Group forecasts have included a risk of a 75% correlation between the two yields.
- Will the Fed take action to counter increasing treasury yields if they rise beyond a yet unspecified level?
- Would the MPC act to counter increasing gilt yields if they rise beyond a yet unspecified level?
- How strong and enduring will inflationary pressures turn out to be in both the US and the UK, and so impact treasury and gilt yields?
- **Will the major western central banks implement their previously stated new average or sustainable level inflation monetary policies when inflation has now burst through all previous forecasts and far exceeded their target levels? Or are they going to effectively revert to their previous approach of prioritising focusing on pushing inflation back down and accepting that economic growth will be very much a secondary priority - until inflation is back down to target levels or below?**
- How well will central banks manage the running down of their stock of QE purchases of their national bonds i.e., without causing a panic reaction in financial markets as happened in the "taper tantrums" in the US in 2013?
- Will exceptional volatility be focused on the short or long-end of the yield curve, or both?
- If Russia were to invade Ukraine, this would be likely to cause short term volatility in financial markets, but it would not be expected to have a significant impact beyond that.

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

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

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

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

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

Investment and borrowing rates

- **Investment returns** started improving in the second half of 21/22 and are expected to improve further during 22/23 as the MPC progressively increases Bank Rate.

- **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 and still remain at historically low levels. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years.

- On 25.11.20, the Chancellor announced the conclusion to the 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. The current margins over gilt yields are as follows: -.

  - **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
  - **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
  - **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
  - **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
  - **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

- **Borrowing for capital expenditure.** Our long-term (beyond 10 years) forecast for Bank Rate is 2.00%. As nearly all PWLB certainty rates are now above this level, borrowing strategy will need to be reviewed, especially as the maturity curve has flattened out considerably. Better value can be obtained at the very short and at the longer end of the curve and longer-term rates are still at historically low levels. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive as part of a balanced debt portfolio. In addition, there are also some cheap alternative sources of long-term borrowing if a client is seeking to avoid a "cost of carry" but also wishes to mitigate future re-financing risk.

- While the PCC will not be able to avoid borrowing to finance new capital expenditure, to replace maturing debt and the rundown of reserves, there will be a *cost of carry*, (the difference between higher borrowing costs and lower investment returns), to any new borrowing that causes a temporary increase in cash balances.

Borrowing strategy

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

Against this background and the risks within the economic forecast, caution will be adopted with the 2022/23 treasury operations. The Chief Finance Officer & S.151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.*

- *if it was felt that there was a significant risk of a much sharper RISE in borrowing 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 PCC at the next available opportunity.

Policy on borrowing in advance of need

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

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

Debt rescheduling

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates, even though the general margin of PWLB rates over gilt yields was reduced by 100 bps in November 2020.

All rescheduling will be reported to the PCC, at the earliest opportunity following its action.

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

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

- Local authorities (primarily shorter dated maturities out to 3 years or so – still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a "cost of carry" or to achieve refinancing certainty over the next few years).

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

Approved Sources of Long and Short-Term Borrowing

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

ANNUAL INVESTMENT STRATEGY

Investment policy – management of risk
The 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 report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets and service investments, are covered in the Capital Strategy, (a separate report).

The PCC's investment policy has regard to the following: -

- DLUHC's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
- CIPFA Treasury Management Guidance Notes 2021

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

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

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the PCC will engage with its advisors to maintain a monitor on market pricing such as **"credit default swaps"** and overlay that information on top of the credit ratings.

3. **Other information sources** used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4. The PCC has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix 4 under the categories of 'specified' and 'non-specified' investments.

    - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
    - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

5. **Non-specified investments limit.** The PCC has determined that it will limit the maximum total exposure to non-specified investments as being 10% of the total investment portfolio.

6. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in the creditworthiness policy.

7. **Transaction limits** are set for each type of investment in the creditworthiness policy.

8. The PCC will set a limit for its investments which are invested for **longer than 365 days**.

9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**.

10. The PCC has engaged **external consultants**, to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of the PCC in the context of the expected level of cash balances and need for liquidity throughout the year.

11. All investments will be denominated in **sterling**.

12. As a result of the change in accounting standards for 2022/23 under IFRS 9, the PCC will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31.3.23.

Creditworthiness policy

The primary principle governing the PCC'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 PCC will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and

- It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the PCC's prudential indicators covering the maximum principal sums invested.

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

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

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

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

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

i. Short Term – F1;

- Banks 2 – Part nationalised UK bank – Royal Bank of Scotland. This bank can be included provided it continues to be part nationalised or it meets the ratings in Banks 1 above;
- Building societies - The PCC will *use* all societies which:
  i. Meet the ratings for banks outlined above;
- Money Market Funds – £2m limit (each). Subject to £6m maximum;
- Local authorities, Police and Fire and Crime Commissioners - £6m limit (each);
- Debt Management Office (DMO) - £no limit.

Use of additional information other than credit ratings. Additional requirements under the Code require the PCC to supplement credit rating information. Whilst the above criteria rely primarily on the application of credit ratings to provide a pool of appropriate counterparties for 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 opportunities.

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

	Fitch Long-term Rating (or equivalent)	Money Limit	Transaction Limit	Time Limit
Individual Banks 1&2 higher quality	F1+	£6m	£6m	364 days
Individual Banks 1&2 medium Quality	F1	£6m	£6m	364 days
Individual UK Building societies	F1+	£6m	£6m	364 days
Individual UK Building societies	F1	£6m	£6m	364 days
Local authorities/Police, Fire and Crime Commissioners		£6m	£6m	364 days
Money Market Funds	AAA	£2m (each)	£2m (each)	liquid

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

Country and sector limits

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

The PCC has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown in the appendices. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

In addition:

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

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

Investment returns expectations.
The current forecasts are for the Bank Rate to reach 1.25% in November 2022.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

Average earnings in each year	Now	Previously
2022/23	1.00%	0.50%
2023/24	1.25%	0.75%
2024/25	1.25%	1.00%
2025/26	1.25%	1.25%
Years 6 to 10	1.50%	-
Years 10+	2.00%	2.00%

Investment treasury indicator and limit - total principal funds invested for greater than 365 days. These limits are set with regard to the PCC's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.
The PCC is asked to approve the following treasury indicator and limit:

Upper limit for principal sums invested for longer than 365 days is nil			
£m	**2022/23**	**2023/24**	**2024/25**
Principal sums invested for longer than 365 days	£m nil	£m nil	£m nil
Current investments as at *31.03.23* in excess of 1 year maturing in each year	nil	nil	nil

Investment risk benchmarking

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

End of year investment report

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

Day to day Treasury Management

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

APPENDICES

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

Appendix 1

THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2022/23 – 2025/26 AND MRP STATEMENT

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

Capital expenditure

Capital expenditure £m	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Total	**28.573**	**16.236**	**11.198**	**10.822**	**5.221**

Minimum revenue provision (MRP) policy statement

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

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

The PCC has continued to adopt Option 2, the CFR approach in respect of pre-2007/08 debt as indicated above along with use of the asset life method of calculating the MRP for borrowing after that date by setting aside each year an amount that in simple terms equalled approximately 4% of the amount of capital expenditure financed from borrowing.

For post 2008 debt Option 3 is adopted, using the annuity method for calculating the MRP and that rate and amortisation period shall be determined by the PCC's Chief Finance Officer.

The annuity method is now widely used as it makes provision for an annual charge to revenue that takes account of the time value of money (whereby £100 in 10 years time is less of a burden than paying £100 now. The charges produced by the annuity method result in a consistent charge over the life of the asset taking into account he real value of the annual charges when they fall due. The method also reflects the fact that assets deteriorate and deterioration is slower in the early years and accelerates towards the latter end of the life of the assets. This approach conforms to the MHCLG requirement to make a prudent provision over a period which is broadly commensurate with the period that the capital expenditure provides benefit. The annuity calculation method results in lower MRP payments in the early years but higher payment in later years but has the advantage of linking MRP to the flow of benefits from an asset where these are expected to be in later years.

Affordability prudential indicators

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

Ratio of financing costs to net revenue stream – Indicator 6
This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the net revenue stream.

%	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Ratios	2.69%	3.27%	4.02%	4.45%	4.55%

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

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

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

Maturity structure of fixed interest rate borrowing 2022/23 – Indicator 7		
	Lower	**Upper**
Under 12 months	0	15%
12 months to 2 years	0	15%
2 years to 5 years	0	30%
5 years to 10 years	0	60%
10 years and above	0	80%

Appendix 2

Interest Rate Forecasts 2022 – 2025

Link Group Interest Rate View 7.2.22	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	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
3 month av. earnings	0.80	1.00	1.00	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20
6 month av. earnings	1.00	1.10	1.20	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30
12 month av. earnings	1.40	1.50	1.60	1.70	1.70	1.60	1.60	1.50	1.40	1.40	1.40	1.40	1.40
5 yr PWLB	2.20	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30
10 yr PWLB	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40
25 yr PWLB	2.40	2.50	2.50	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60
50 yr PWLB	2.20	2.30	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40

Appendix 3

ECONOMIC BACKGROUND

COVID-19 and vaccines.

Vaccines were the game changer during 2021 which raised high hopes that life in the UK would be able to largely return to normal in the second half of the year. However, the bursting onto the scene of the Omicron mutation at the end of November, rendered the initial two doses of all vaccines largely ineffective in preventing infection. This dashed such hopes and raised major concerns that a fourth wave of the virus could overwhelm hospitals in early 2022. What we now know is that although this mutation is very fast spreading, it does not cause severe illness in fully vaccinated people. Rather than go for a full lockdown which would have heavily damaged the economy, the government strategy this time focused on getting as many people as possible to have a third (booster) vaccination after three months from the previous last injection., It also placed restrictions on large indoor gatherings and hospitality venues over Christmas and into January and requested workers to work from home. This hit sectors like restaurants, travel, tourism and hotels hard which had already been hit hard during 2021. Economic growth will also have been lower due to people being ill and not working. The economy, therefore, faces significant headwinds in early 2022 although some sectors have learned how to cope well with Covid. The big question still remains as to whether any further mutations of this virus could develop which render all current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them, and enhanced testing programmes be implemented to contain their spread, until tweaked vaccines become widely available.

A SUMMARY OVERVIEW OF THE FUTURE PATH OF BANK RATE

- The threat from Omicron was a wild card causing huge national concern at the time of December’s MPC meeting; now it is seen as a vanquished foe disappearing in the rear-view mirror.
- The MPC shifted up a gear last week in raising Bank Rate by another 0.25% and narrowly avoiding making it a 0.50% increase by a 5-4 voting margin.
- Our forecast now expects the MPC to deliver another 0.25% increase in March; their position appears to be to go for sharp increases to get the job done and dusted.
- The expected March increase is likely to be followed by another increase to 1.0% in May and then to 1.25% in November.
- The MPC is currently much more heavily focused on combating inflation than on protecting economic growth.
- However, 54% energy cap cost increases from April, together with 1.25% extra employee national insurance, food inflation around 5% and council tax likely to rise in the region of 5% too - these increases are going to hit lower income families hard despite some limited assistance from the Chancellor to postpone the full impact of rising energy costs.
- Consumers are estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above increases. But most of those holdings are held by more affluent people whereas poorer people already spend nearly all their income before these increases hit and have few financial reserves.
- These increases are going to be highly disinflationary; inflation will also be on a gradual path down after April so that raises a question as to whether the MPC may shift into protecting economic growth by November, i.e., it is more debatable as to whether they will deliver another increase then.
- The BIG ISSUE – will the current spike in inflation lead to a second-round effect in terms of labour demanding higher wages, (and/or lots of people getting higher wages by changing job)?

- If the labour market remains very tight during 2022, then wage inflation poses a greater threat to overall inflation being higher for longer, and the MPC may then feel it needs to take more action.

PWLB RATES

- The yield curve has flattened out considerably in the first two months of 2022.
- We view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate in 2022.
- It is difficult to say currently what effect the Bank of England starting to sell gilts will have on gilt yields once Bank Rate rises to 1%: it is likely to act cautiously as it has already started on not refinancing maturing debt. A passive process of not refinancing maturing debt could begin in March when the 4% 2022 gilt matures; the Bank owns £25bn of this issuance. A pure roll-off of the £875bn gilt portfolio by not refinancing bonds as they mature, would see the holdings fall to about £415bn by 2031, which would be about equal to the Bank's pre-pandemic holding. Last August, the Bank said it would not actively sell gilts until the *"Bank Rate had risen to at least 1%"* and, *"depending on economic circumstances at the time."*
- It is possible that Bank Rate will not rise above 1% as the MPC could shift to relying on quantitative tightening (QT) to do the further work of taking steam out of the economy and reducing inflationary pressures.
- Increases in US treasury yields over the next few years could add upside pressure on gilt yields though, more recently, gilts have been much more correlated to movements in bund yields than treasury yields.

MPC meeting 4th February 2022

- After the Bank of England became the first major western central bank to put interest rates up in this upswing of the economic cycle in December, it has quickly followed up its first 0.15% rise by another 0.25% rise to 0.50%, in the second of what is very likely to be a series of increases during 2022.
- The Monetary Policy Committee voted by a majority of 5-4 to increase Bank Rate by 25bps to 0.5% with the minority preferring to increase Bank Rate by 50bps to 0.75%. The Committee also voted unanimously for the following: -
    - to reduce the £875n stock of UK government bond purchases, financed by the issuance of central bank reserves, by ceasing to reinvest maturing assets.
    - to begin to reduce the £20bn stock of sterling non-financial investment-grade corporate bond purchases by ceasing to reinvest maturing assets and by a programme of corporate bond sales to be completed no earlier than towards the end of 2023.
- The Bank again sharply increased its forecast for inflation – to now reach a peak of 7.25% in April, well above its 2% target.
- The Bank estimated that UK GDP rose by 1.1% in quarter 4 of 2021 but, because of the effect of Omicron, GDP would be flat in quarter 1, but with the economy recovering during February and March. Due to the hit to households' disposable incomes from higher inflation, it revised down its GDP growth forecast for 2022 from 3.75% to 3.25%.
- The Bank is concerned at how tight the labour market is with vacancies at near record levels and a general shortage of workers - who are in a very favourable position to increase earnings by changing job.
- As in the December 2021 MPC meeting, the MPC was more concerned with combating inflation over the medium term than supporting economic growth in the short term. However, what was notable was the Bank's forecast for inflation: based on the markets' expectations that Bank Rate will rise to 1.50% by mid-2023, it forecast inflation to be only

1.6% in three years' time. In addition, if energy prices beyond the next six months fell as the futures market suggests, the Bank said CPI inflation in three years' time would be even lower at 1.25%. With calculations of inflation, the key point to keep in mind is that it is the rate of change in prices – not the level – that matters. Accordingly, even if oil and natural gas prices remain flat at their current elevated level, energy's contribution to headline inflation will drop back over the course of this year. That means the current energy contribution to CPI inflation, of 2% to 3%, will gradually fade over the next year.

- So, the message to take away from the Bank's forecast is that they do not expect Bank Rate to rise to 1.5% in order to hit their target of CPI inflation of 2%. The immediate issue is with four members having voted for a 0.50% increase in February, it would only take one member more for there to be another 0.25% increase at the March meeting.

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

OUR FORECASTS

a. Bank Rate

- Covid remains a major potential downside threat as we are most likely to get further mutations. However, their severity and impact could vary widely, depending on vaccine effectiveness and how broadly it is administered.
- If the UK invokes article 16 of the Brexit deal over the dislocation in trading arrangements with Northern Ireland, this has the potential to end up in a no-deal Brexit.

In summary, with the high level of uncertainty prevailing on several different fronts, we expect to have to revise our forecasts again - in line with whatever the new news is.

b. PWLB rates and gilt and treasury yields

Gilt yields. Since the start of 2021, we have seen a lot of volatility in gilt yields, and hence PWLB rates. After sharp increase in most gilt yields in the first two months of 2022, our forecasts show little overall increase in gilt yields during the forecast period to March 2025; but there will doubtless be a lot of unpredictable volatility during this forecast period.

While monetary policy in the UK will have a major impact on gilt yields, there is also a need to consider the potential impact that rising treasury yields in America could have on gilt yields. **As an average since 2011, there has been a 75% correlation between movements in US 10-year treasury yields and UK 10-year gilt yields. This is a significant UPWARD RISK exposure to our forecasts for medium to longer term PWLB rates. However, gilt yields and treasury yields do not always move in unison.**

US treasury yields. During the first part of 2021, US President Biden's, and the Democratic party's, determination to push through a $1.9trn (equivalent to 8.8% of GDP) fiscal boost for the US economy as a recovery package from the Covid pandemic was what unsettled financial markets. This was in addition to the $900bn support package previously passed in December 2020. Financial markets were alarmed that all this stimulus was happening at a time when: -

1. A fast vaccination programme roll-out had enabled a rapid opening up of the economy during 2021.
2. The economy was growing strongly during the first half of 2021 although it has weakened during the second half.
3. It started from a position of little spare capacity due to less severe lockdown measures than in many other countries.
4. And the Fed was still providing substantial stimulus through monthly QE purchases during 2021.

It was not much of a surprise that a combination of these factors would eventually cause an excess of demand in the economy which generated strong inflationary pressures. This has eventually been recognised by the Fed at its recent December meeting with an aggressive response to damp inflation down during 2022 and 2023.

- **At its 3rd November Fed meeting**, the Fed decided to make a start on tapering its $120bn per month of QE purchases so that they ended next June. However, at its **15th December meeting** it doubled the pace of tapering so that they will end all purchases in February. These purchases are currently acting as downward pressure on treasury yields and so it would be expected that treasury yields will rise over the taper period, all other things being equal.

- It also forecast that it expected there would be three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024. This would take rates back above 2% to a neutral level for monetary policy. It also gave up on calling the sharp rise in inflation as being 'transitory'.

- At its **26th January meeting**, the Fed became even more hawkish following inflation rising sharply even further. It indicated that rates would begin to rise very soon, i.e., it implied at its March meeting it would increase rates and start to run down its holdings of QE purchases. It also appears likely that the Fed could take action to force longer term treasury yields up by prioritising selling holdings of its longer bonds as yields at this end have been stubbornly low despite rising inflation risks. The low level of longer dated yields is a particular concern for the Fed because it is a key channel through which tighter monetary policy is meant to transmit to broader financial conditions, particularly in the US where long rates are a key driver of household and corporate borrowing costs.

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

Globally, our views are as follows: -

- **EU.** The ECB joined with the Fed by announcing on **16th December** that it will be reducing its QE purchases - by half from October 2022, i.e., it will still be providing significant stimulus via QE purchases during the first half of 2022. The ECB did not change its rate at its **3rd February** meeting, but it was clearly shocked by the increase in inflation to 5.1% in January. The President of the ECB, Christine Lagarde, hinted in the press conference after the meeting that the ECB may accelerate monetary tightening before long and she hinted that asset purchases could be reduced more quickly than implied by the previous guidance. She also refused to reaffirm officials' previous assessment that interest rate hikes in 2022 are "very unlikely". It, therefore, now looks likely that all three major western central banks will be raising rates this year in the face of sharp increases in inflation - which is looking increasingly likely to be stubbornly high and for much longer than the previous oft repeated 'transitory' descriptions implied.

- **China.** The pace of economic growth has now fallen back after the initial surge of recovery from the pandemic and China has been struggling to contain the spread of the Delta variant through using sharp local lockdowns - which depress economic growth. However, with Omicron having now spread to China, and being much more easily transmissible, lockdown strategies may not prove so successful in future. To boost flagging economic growth, The People's Bank of China cut its key interest rate in December 2021.

- **Japan.** 2021 was a patchy year in combating Covid. However, recent business surveys indicate that the economy is rebounding rapidly now that the bulk of the population is fully vaccinated, and new virus cases have plunged. The Bank of Japan is continuing its very loose monetary policy but with little prospect of getting inflation back towards its target of 2% any time soon.

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

- **Supply shortages**. The pandemic and extreme weather events, followed by a major surge in demand after lockdowns ended, have been highly disruptive of extended worldwide supply chains. Major queues of ships unable to unload their goods at ports in New York, California and China built up rapidly during quarters 2 and 3 of 2021 but then halved during quarter 4. Such issues have led to a misdistribution of shipping containers around the world and have contributed to a huge increase in the cost of shipping. Combined with a shortage of semi-conductors, these issues have had a disruptive impact on production in many countries. The latest additional disruption has been a shortage of coal in China leading to power cuts focused primarily on producers (rather than consumers), i.e., this will further aggravate shortages in meeting demand for goods. Many western countries are also hitting up against a difficulty in filling job vacancies. It is expected that these issues will be gradually sorted out, but they are currently contributing to a spike upwards in inflation and shortages of materials and goods available to purchase.

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is now to the downside.

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

- **Mutations** of the virus render current vaccines ineffective, and tweaked vaccines to combat these mutations are delayed or unable to be administered fast enough to stop the NHS being overwhelmed.

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

- **Bank of England** 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.

- **The Government** acts too quickly to increase taxes and/or 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 sorting out significant remaining issues.

- **Geopolitical risks,** for example in Ukraine/Russia, Iran, China, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows. If Russia were to invade Ukraine, this would be likely to cause short term volatility in financial markets, but it would not be expected to have a significant impact beyond that.

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

- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.

- Longer term US treasury yields rise strongly and pull gilt yields up higher than forecast.

Appendix 4

TREASURY MANAGEMENT PRACTICE – CREDIT AND COUNTERPARTY RISK MANAGEMENT

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

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

Term deposits with nationalised banks and banks and building societies

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

Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -		
1. Money Market Funds	AAA rated	In-house

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this PCC. To ensure that the PCC is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

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

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

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

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

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

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

The investment policy proposed for the PCC is:

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

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

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

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

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

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

Appendix 5

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

Based on lowest available rating

AAA

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

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

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

Appendix 6

TREASURY MANAGEMENT SCHEME OF DELEGATION

Police and Crime Commissioner

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

Appendix 7

THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (responsible) officer

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

Appendix 8

CAPITAL STRATEGY

1. Introduction

1.1 There is a new requirement on local authorities (including Police and Crime Commissioners) to prepare a capital strategy each year, which sets out our approach to capital expenditure and financing at a high level. The requirement to prepare a strategy arises from Government concerns about a small number of authorities borrowing substantial sums (relative to their budget) to invest in commercial property, often outside the area of the authority concerned.

1.2 There is also a new requirement on local authorities to prepare an investment strategy, which specifies our approach to making investments other than day to day treasury management investments (the latter is included in our treasury management strategy, as in previous years). Given that the Police and Crime Commissioner for Humberside makes no such investments, a strategy has not been prepared.

1.3 This Appendix sets out the proposed capital strategy for approval.

2. Capital Expenditure

2.1 The capital expenditure plans are approved by the PCC, as part of the budget report each year.

2.2 The capital programme is usually restricted to:-

(a) Investment in operational buildings – e.g. stations and administrative offices;

(b) Renewal of operational fleet;

(c) New and replacement equipment;

(d) Investment in ICT.

2.3 The PCC's Code of Corporate Governance sets out the delegations to the Chief Constable on the delivery of the capital programme.

2.4 Capital expenditure on **buildings**, where funded from the capital programme, is principally directed to maintaining the fitness of the operational estate. Major property investments are considered as part of the overall estates strategy.

2.5 Expenditure on the **renewal of the fleet** is directed by the replacement programme approved by the PCC.

2.6 Capital expenditure on **operational equipment** ensures equipment is replaced when it has reached the end of its useful life or has become technologically obsolescent. It also enables the PCC to invest in new technology.

2.7 Capital expenditure on **ICT** is determined by the ICT replacement and Improvement programme which is approved by the PCC.

2.8 Monitoring of capital expenditure is carried out by the COG; the Accountability Board, Joint Independent Audit Committee and the PCC. Reports are presented throughout the year and at outturn.

2.9 the PCC does not capitalise expenditure, except where it can do so in compliance with proper practices: it does not apply for directions to capitalise revenue expenditure.

2.10 Past and forecast capital expenditure is:-

End of:	£m
19/20	8.747
20/21	18.097
21/22	28.573
22/23	16.236
23/24	11.198
24/25	10.822
25/26	5.221

3. Financing of Capital Expenditure

3.1 The PCC funds capital expenditure from the revenue budget, capital receipts and prudential borrowing.

3.2 Prudential borrowing is used to fund capital expenditure, within the limits prescribed within the Annual Treasury Management Strategy Statement. This is reviewed annually for affordability.

3.3 The PCC measures its capital financial requirement, which shows our underlying need to borrow for a capital purpose. This is shown in the table below:-

End of:	Total CFR
	£000
22/23	137,882
23/24	141,842
24/25	144,282
25/26	140,640

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

4. Debt Repayment

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

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

The PCC has continued to adopt Option 2, the CFR approach in respect of pre-2007/08 debt as indicated above along with use of the asset life method of calculating the MRP for borrowing after that date by setting aside each year an amount that in simple terms equalled approximately 4% of the amount of capital expenditure financed from borrowing.

For post 2008 debt Option 3 be adopted, using the annuity method for calculating the MRP and that rate and amortisation period shall be determined by the PCC's Chief Finance Officer.

The annuity method is now widely used as it makes provision for an annual charge to revenue that takes account of the time value of money (whereby £100 in 10 years tome is less of a burden than paying £100 now. The charges produced by the annuity method result in a consistent charge over the life of the asset taking into account the real value of the annual charges when they fall due. The method also reflects the fact that assets deteriorate and deterioration is slower in the early years and accelerates towards the latter end of the life of the assets. This approach conforms to the MHCLG requirement to make a prudent provision over a period which is broadly commensurate with the period that the capital expenditure provides benefit. The annuity calculation method results in lower MRP payments in the early years but higher payment in later years but has the advantage of linking MRP to the flow of benefits from an asset where these are expected to be in later years.

5. Commercial Activity

5.1 Government guidance now requires us to specify our policy towards non-financial investments.

5.2 The PCC makes no such investments.

Audit Progress Report

Office of the Police and Crime Commissioner for Humberside and the Chief Constable for Humberside

March 2022

mazars

01

Section 01:

Audit Progress

Purpose of this report

This report provides the Joint Independent Audit Committee with an update on audit progress since the January meeting.

2020/21 Audit

Following our presentation of the Audit Completion Report to the last meeting of the Committee, it took longer than expected to complete the outstanding work and resolve the remaining issues. We concluded our work on 7 March 2022, and at the time of writing we expect to sign the audit opinion in the next few days when we have received the final signed accounts, annual governance statements and letters of representation. Our audit follow up letter is a separate item on this agenda which formally concludes on the matters which were outstanding in the Audit Completion Report presented to you at the January meeting.

We have been unable to conclude our value for money work at this stage. We are currently in the process of completing this work, which we are required to report within 3 months of the audit opinion date. We will share our Auditor's Annual Report including our value for money commentary at the next meeting of the Joint Independent Audit Committee.

2021/22 Audit

We will shortly commence our planning work for the 2021/22 audit. We have no issues to bring to the attention of the Joint Independent Audit Committee at this early stage of the audit process.

We will share our formal 2021/22 Audit Strategy Memorandum with the Joint Independent Audit Committee at the next meeting.

02

Section 02:

National publications

	Publication/update	Key points
Chartered Institute of Public Finance and Accountability (CIPFA)		
1.	CIPFA Issues consultations to strengthen Prudential and Treasury Management Codes	The consultations followed previous reviews of the codes' provisions, amid ongoing concerns over local authority commercial investments.
Department for Levelling Up, Housing and Communities		
2.	Consultation on changes to the capital framework: Minimum Revenue Provision	This consultation seeks views on proposed changes to regulations to better enforce the duty of local authorities to make prudent Minimum Revenue Provision each year.
3.	Measures to improve local audit delays	This publication sets out the package of measures to support the improved timeliness of local audit.
National Audit Office (NAO)		
4.	The Government’s preparedness for the COVID-19 pandemic: lessons learned for government on risk management	The report sets out central government’s risk analysis, planning, and mitigation strategies prior to the arrival of the COVID-19 pandemic, with the aim of drawing out wider learning for the government’s overall risk management approach.
5.	Cyber and Information Security: Good practice guide	Provides a good practice guide for audit committees on cyber security arrangements.
Financial Reporting Council		
6.	Inspection findings into the quality of major local body audits	Sets out the findings of FRC’s most recent quality inspection of major local audits.

CIPFA

1. CIPFA Issues consultations to strengthen Prudential and Treasury Management Codes, September 2021

The consultations (which closed 16 November 2021) followed previous reviews of the codes' provisions, amid ongoing concerns over local authority commercial investments. The Prudential Code is a professional code that ensures that capital finance decisions are prudent and sustainable. The Treasury Management Code, which sits alongside the Prudential Code, provides a framework for effective, risk-managed treasury management in public sector organisations. Richard Lloyd-Bithell, Senior Technical Manager at CIPFA, said: "The key changes being brought forward in these consultations, especially those in the Prudential Code, clarify and update CIPFA's position on local authority commercial investment. The revised code will emphasise that any borrowing made solely for the purpose of financial return constitutes imprudent activity, while also taking into account the realities that accompany regeneration activities.

The full publication can be seen at this link: The Prudential Code for Capital Finance in Local Authorities | CIPFA

Department for Levelling Up, Housing and Communities

2. Consultation on changes to the capital framework: Minimum Revenue Provision, December 2021

This consultation seeks views on proposed changes to regulations to better enforce the duty of local authorities to make prudent Minimum Revenue Provision each year.

Local authorities borrow and invest under the Prudential Framework (the Framework), which comprises legislation and 4 statutory codes that authorities must have regard to. Under this system, authorities have wide freedoms to borrow and invest without the need to seek the government's consent, provided that borrowing is affordable. The intent of the Framework is to make sure local decisions are prudent, affordable and sustainable.

The government is aware that some authorities employ practices that are not fully compliant with the duty to make a prudent revenue provision, resulting in underpayment of MRP. This was reported in the NAO's report Local Authority Investment in Commercial Property (February 2020) and the subsequent report by the Public Accounts Committee in July 2020, which recommended the government take steps to address the issue.

The full publication can be seen at this link: https://www.gov.uk/government/consultations/changes-to-the-capital-framework-minimum-revenue-provision/consultation-on-changes-to-the-capital-framework-minimum-revenue-provision#excluding-specific-debt-from-mrp-determination

Department for Levelling Up, Housing and Communities

3. Measures to improve local audit delays

This publication sets out a range of measures agreed with key partners to support the timely completion of local government audits and the ongoing stability of the local audit market. These measures will help to ensure that audit provides transparency and accountability in local government.

Challenges remain around the timeliness of local audit, one of the key issues highlighted by Sir Tony Redmond in his review. In 2017/18 the deadline for issuing audit opinions was brought forward from 30 September to 31 July. Since this point there has been a reduction in the number of local government audit opinions delivered on time, with significant reductions from 2018/19 onwards. This downward trend accelerated during the COVID-19 pandemic, with only 45% of 2019/20 audits completed by the extended deadline of 30 November 2020 and, most recently, only 9% of 2020/21 audits completed by the extended deadline of 30 September 2021. In addition, increasing workload and regulatory pressure on auditors have contributed to further delays.

The government is continuing to prioritise measures to improve timeliness and support capacity as part of our response to the Redmond Review. An additional £15 million in funding has been made available to local bodies for 2021/22 to support with the implementation of recommendations following the Redmond Review and additional costs resulting from new audit requirements, including the new value for money reporting arrangements.

In light of the extent of ongoing delays and capacity issues, a decision to revert to the previous deadline of 31 July would be both unrealistic and counterproductive, especially as the backlog of delayed 2020/21 audits will likely have knock-on effects for future years. Therefore, subject to consultation, secondary legislation will be introduced to extend the deadline for publishing audited local authority accounts to 30 November 2022 for the 21/22 accounts. Following this, to provide certainty for the next contract period under the procurement arrangements being managed by PSAA, the deadline will revert to 30 September for 5 years from until 2027/28, and be reviewed at that point.

Subject to consultation, it is proposed that the deadline for preparing draft accounts remains at 31 May, as the majority of local authorities are continuing to meet this requirement and any changes would have implications for the Whole of Government Accounts.

The full publication can be seen at this link: Measures to improve local audit delays - GOV.UK (www.gov.uk)

National Audit Office

4. The Government's preparedness for the COVID-19 pandemic: lessons learned for government on risk management, November 2021

In November 2021

This report sets out the facts on:
- the government's approach to risk management and emergency planning (Part One);
- the actions the government took to identify the risk of a pandemic like COVID-19 (Part Two);
- the actions the government took to prepare for a pandemic like COVID-19 (Part Three); and
- recent developments (Part Four).

The report sets out central government's risk analysis, planning, and mitigation strategies prior to the arrival of the COVID-19 pandemic, with the aim of drawing out wider learning for the government's overall risk management approach.

The report concludes that this pandemic has exposed a vulnerability to whole-system emergencies – that is, emergencies that are so broad that they engage the entire system. Although the government had plans for an influenza pandemic, it did not have detailed plans for many non-health consequences and some health consequences of a pandemic like COVID-19. There were lessons from previous simulation exercises that were not fully implemented and would have helped prepare for a pandemic like COVID-19. There was limited oversight and assurance of plans in place, and many pre-pandemic plans were not adequate. In addition, there is variation in capacity, capability and maturity of risk management across government departments.

The pandemic also highlighted the need to strengthen the government's end-to-end risk management process to ensure that it addresses all significant risks, including interdependent and systemic risks. This will require collaboration on risk identification and management not only across government departments and local authorities, but also with the private sector and internationally. For whole-system risks NAO states that the government needs to define its risk appetite to make informed decisions and prepare appropriately so that value for money can be protected. NAO state that the pandemic has also highlighted the need to strengthen national resilience to prepare for any future events of this scale, and the challenges the government faces in balancing the need to prepare for future events while dealing with day-to-day issues and current events.

The full report can be seen at this link: https://www.nao.org.uk/report/the-governments-preparedness-for-the-covid-19-pandemic/

National Audit Office

5. Cyber and Information Security: Good practice guide, October 2021

Audit committees should be scrutinising cyber security arrangements. To aid them, this guidance complements government advice by setting out high-level questions and issues for audit committees to consider.

The guide provides a checklist of questions and issues covering:

- The overall approach to cyber security and risk management;
- Capability needed to manage cyber security; and
- Specific aspects, such as information risk management, engagement and training, asset management, architecture and configuration, vulnerability management, identity and access management, data security, logging and monitoring and incident management.

The guidance is based on NAO previous work and our detailed systems audits, which have identified a high incidence of access-control weaknesses. It also provides links to other government guidance and NAO resources.

The full report can be seen at this link: https://www.nao.org.uk/report/cyber-security-and-information-risk-guidance/

Financial Reporting Council

6. Inspection findings into the quality of major local body audits, October 2021

The Financial Reporting Council (FRC) published in October 2021 its **inspection findings into the quality of major local body audits** in England (which includes large health and local government bodies) for the financial year ended 31 March 2020.

The FRC reviewed 20 major local audits performed by six of the largest audit firms and found 6 (30%) required improvements. This is an improvement on the prior year inspection results where 60% of audits inspected required either improvements or significant improvements.

The FRC found that the firms have taken action in response to previous findings, however, the timeliness of auditor reporting was disappointing.

The key areas requiring action by some of the audit firms included:

- strengthening the audit testing of expenditure;
- improving the evaluation and challenge of assumptions used in concluding over investment property valuations;
- improving the evaluation of assumptions used in property, plant and equipment valuations; and
- providing improved rationale supporting a modified audit opinion.

FRC found that all Value for Money arrangement conclusions inspected by the FRC required no more than limited improvements.

The full report can be seen at this link: https://www.frc.org.uk/news/october-2021/frc-publishes-latest-major-local-audit-quality-ins

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

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Mr J Evison
Police and Crime Commissioner for Humberside

Mr L Freeman
Chief Constable for Humberside

Humberside Police Headquarters
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Email gavin.barker@mazars.co.uk

9 March 2022

Dear Sirs

Humberside Police - Police and Crime Commissioner for Humberside and Chief Constable for Humberside

Update/Conclusion of Pending Matters – Audit Completion Report 2020/21

As required by International Standards on Auditing (UK), I am writing to communicate an update on those matters arising since we prepared our Audit Completion Report dated 11 January 2022.

The outstanding matters and the conclusions we reached are detailed below:

Matter	Update/Conclusion reached	Status
Journals	We have completed our work on this area and have no further matters we need to report to you.	Complete
Pensions	We have completed our work in this area. We identified one non-material issue – the benefits paid to pensioners per the actuary report was £5,219k. The data held by East Riding of Yorkshire Pension Fund shows benefits paid of £2,967k. The difference of £2,252k is not material and thus no amendment has been made to the financial statements. We have confirmed the actuary uses an estimation technique for benefits paid, and not the data held by the pension fund. There is no net impact on the pension liability.	

Matter	Update/Conclusion reached	Status
	As the pension fund information is more accurate, in 2019/20 we recommended that you ask the East Riding of Yorkshire Pension Fund to provide this information to the actuary in future so that it can be used as the basis for estimating benefits paid in the actuary's report. We have included this internal control recommendation again in Appendix A as part of our follow-up of prior year recommendations. Our work has identified, for the Local Government Pension Scheme, one actuary report is obtained, covering both the PCC and CC. An allocation is then made in the financial statements based on pension contributions. In 2019/20 we recommended that in future years, the PCC and CC obtain separate actuary reports to ensure the data is as accurate as possible. We have included this internal control recommendation again in Appendix A as part of our follow-up of prior year recommendations. The draft financial statements referred to a "material uncertainty" due to Covid-19 in respect of pensions investments. However, the East Riding Pensions Fund Accounts did not include reference to a "material uncertainty" in the valuation of pension investments. The disclosure has therefore been removed to ensure consistency with the East Riding Pensions Fund Accounts.	
Property, Plant and Equipment	We have completed our work on this area. The draft financial statements referred to a "material uncertainty" due to Covid-19 in respect of property, plant and equipment valuations. However, review of the valuation report indicates there is no material uncertainty as at 31 March 2021 and this is consistent with RICS guidance. The disclosure has therefore been removed from the accounts. The accounting policy for the valuation of land and buildings states that the top 20% of the highest valued properties are revalued every financial year. It does not make reference to the remaining assets being revalued on a four year rolling programme split by local authority location and therefore demonstrate compliance with the CIPFA Code. The accounting policy has been updated to include this information.	Complete
Expenditure and Funding Analysis	We have completed our work on this area. Review of the EFA identified that the 'adjustments for capital purposes' were shown in 2019/20 in the CC accounts, whilst in 2020/21 they are shown in the PCC accounts. As the PCC is the holder of property, plant and equipment it is correct for the	Complete

<table>
<tr><th>Matter</th><th>Update/Conclusion reached</th><th>Status</th></tr>
<tr><td></td><td>adjustments to be shown in the PCC accounts and therefore the prior year comparators are incorrectly disclosed. Further investigations have also highlighted the pension’s adjustment and collection fund adjustment were also incorrect. The value of each amendment in total is as follows:

- Capital adjustments - £7,331k
- Pensions adjustment - £15,025k
- Collection fund adjustment - £289k

The corresponding error is within the intra group funding and there is no overall impact on the total comprehensive income and expenditure (surplus)/deficit position.

A further error was identified in the treatment of the police top up grant, the value of the error is £31,523k.

The figures have been amended and a PPA disclosure added to the accounts.</td><td></td></tr>
<tr><td>Exit Packages</td><td>We have completed our work on this area.

As part of our testing of exit payments, we reviewed an ex gratia payment of £50k relating to a now former employee. We sought evidence of the approval of the payment, the reasons for the payment and the determination of the amount to be paid.

Ex gratia payments, which are payments that are made where there is no legal liability, are by their nature sensitive payments, and they are also relatively few in number. Given their nature, it is all the more important that there is a clear record not only of the decision reached, but also of the considerations as part of the decision making process, the reasons for the decision and the justification for the level of settlement made. Such a decision record is important to demonstrate appropriate governance and proper decision making.

Records were provided that supported the decision, in line with the Governance Framework and required approvals. However, a formal decision record process is not currently in place and should be implemented as this would improve recording and evidencing of such decisions.

We have received assurances from the Chief Finance Officer of the Chief Constable’s office that the payment was properly approved, and that it was fully considered and appropriately paid. We have been provided with background information that supports this position. We are satisfied based on these representations that the payment was appropriate.</td><td>Complete</td></tr>
</table>

Matter	Update/Conclusion reached	Status
	We have included an internal control recommendation in Appendix A.	
Related Party Transactions	Further work on related parties and review of information held by Companies House has identified that 3 officers returned declarations of interest forms with related parties missing. In 2019/20 we recommended that officers should be reminded to include all interests on their Declaration of Interest forms. We have included this internal control recommendation again in Appendix A as part of our follow-up of prior year recommendations.	Complete
Financial Instruments	We have completed our work on this area. We noted that the financial instruments trade creditors and trade debtors disclosure included the council tax creditor and debtor. This is incorrect as these balances do not arise from a contractual arrangement. The figures in the accounts have been amended to exclude the council tax creditor and debtor balance.	Complete
Police Pension Fund Account	We have completed our work on this area and have no further matters we need to report to you.	Complete
IT General Controls	We have completed our work on this area. When testing leavers, it was noted that 4 user account disabling requests arrived after the actual leaving date. We inspected the user account details from the leavers list and AD user list and noted that although the access was removed for the leavers, it was not performed in a timely manner. We have made an internal control recommendation in relation to leaver's access and also followed up on the IT general control recommendations made in 2019/20 at Appendix A.	Complete
Closing Procedures	We have completed our work on this area and have no further matters we need to report to you.	Complete
WGA	We are still awaiting the group instructions from the NAO, which means that we are unable to complete this work at present.	
VFM	We plan to issue the Auditor's Annual Report before 31 March 2022, which will include our commentary on VFM arrangements.	

Matter	Update/Conclusion reached	Status
	We are unable to issue an audit certificate until our VFM work (and our WGA work) has been completed.	

Summary of misstatements

For completeness, I attach a final summary of misstatements as Appendix B to this letter. All changes between the Audit Completion Report and the final position are highlighted in red.

Materiality

We set materiality at the planning stage of the audit at £5.9m for the Group, £4.5m for the PCC and £5.7m for the CC using a benchmark of 2% of Gross Operating Expenditure. Our final assessment of materiality, based on the final financial statements and qualitative factors is £5.8m for the Group, £5m for the PCC and £5.7m for the CC, using the same benchmark. We set our trivial threshold (the level under which individual errors are not communicated to the PCC and CC) at £174k for the Group, £150k for the PCC and £171k for the CC based on 3% of overall materiality.

Issue of our Audit Report

We have now completed our work and plan to issue an unqualified opinion on the financial statements as soon as possible.

I would be grateful if you could share this letter with Members of the Joint Independent Audit Committee to show how the opinion audit has been concluded.

If you wish to discuss these or any other points, please do not hesitate to contact us.

Yours faithfully

Gavin Barker

Gavin Barker
Director
For and on behalf of Mazars LLP

Appendix A

2020/21 Recommendations

Other deficiencies in internal control – Level 3

Exit Packages

Description of deficiency

As part of our testing of exit payments, we reviewed an ex gratia payment of £50k relating to a now former employee. We sought evidence of the approval of the payment, the reasons for the payment and the determination of the amount to be paid.

Ex gratia payments, which are payments that are made where there is no legal liability, are by their nature sensitive payments, and they are also relatively few in number. Given their nature, it is all the more important that there is a clear record not only of the decision reached, but also of the considerations as part of the decision making process, the reasons for the decision and the justification for the level of settlement made. Such a decision record is important to demonstrate appropriate governance and proper decision making.

Records were provided that supported the decision, in line with the Governance Framework and required approvals. However, a formal decision record process is not currently in place and should be implemented as this would improve recording and evidencing of such decisions.

We have received assurances from the Chief Finance Officer of the Chief Constable's office that the payment was properly approved, and that it was fully considered and appropriately paid. We have been provided with background information that supports this position. We are satisfied based on these representations that the payment was appropriate.

Steps need to be taken to ensure that a proper decision record is maintained in future.

Potential effects

Without a decision record, it may be difficult to support sensitive and potentially contentious decisions, making it more difficult to demonstrate appropriate governance and proper decision making.

Recommendation

For future such payments, where there is no report or minutes supporting a sensitive decision of this nature, a separate decision record should be kept. This should clearly record the decision reached, the considerations as part of the decision making process, the reasons for the decision and the justification for the level of settlement made.

Management Response

A decision record process is being progressed by People Services so that such decisions are formally recorded.

Other deficiencies in internal control – Level 2

IT Controls – Leavers Access

Description of deficiency

When testing leavers, it was noted that 4 user account disabling requests arrived after the actual leaving date.

We inspected the user account details from the leavers list and AD user list and noted that although the access was removed for the leavers, it was not performed in a timely manner.

Potential effects

Unauthorised access to the network may compromise data confidentiality and integrity.

Recommendation

In order to ensure access is appropriately restricted, and avoid compromising the confidentiality and integrity of data, we recommend ensuring that the user access management process is complied with in terms of time and quality, through:
- Issuing disabling requests for all leavers;
- Ensuring disabling requests are issued timely (before the actual leaving date of the employee);
- Implementing a periodic review at both network and application level, for identifying, investigating and solving any exceptions to the user access management process.

Management Response

Officers will ensure that leaver access is removed in a more timely manner.

Follow-up of 2019/20 Recommendations

Other deficiencies in internal control – Level 2

Related Parties

Description of deficiency

During our work on related parties in 2019/20, we identified 3 interests held by management that had not been included on the Declaration of Interests forms. In all three instances there had been no transactions with the related parties during 2019/20.

Potential effects

Transactions with related parties are made and not disclosed.

Recommendation

Officers should be reminded to include all interests on their Declaration of Interest forms.

Management Response

Officers will be reminded to include all interests on their Declaration of Interest forms.

2020/21 update

Our work in the current year also identified 3 interests held by management that had not been included on the Declaration of Interests forms.

HR Documentation

Description of deficiency

During our work on testing payroll expenditure, we identified one instance where we were unable to obtain HR documentation for the employee as the records held in the HR system were corrupt. We obtained the evidence we required from alternative procedures.

Potential effects

The PCC and CC do not maintain adequate records.

Recommendation

Procedures should be implemented to ensure HR documentation is maintained and accessible for all employees.

Management Response

HR documentation records in question were held by South Yorkshire Police who were unable to retrieve. HR records since the de-collaboration are held by Humberside Police and are maintained and accessible.

2020/21 update

Our work in the current year identified no further instances of inaccessible HR documentation.

IT Controls – User Access Policy

Description of deficiency

During our review and testing of IT General Controls we noted there was no formalised User Access policy.

Potential effects

Inappropriate access to IT systems.

Recommendation

Management should consider implementing a User Access policy to consider policies for new starters, movers and leavers.

Management Response

A Policy is currently being written by the IT System Administration Team Leader who is working in conjunction with the ICU function. This will formally document the User Access Policy for the Force. The document will be reviewed in draft by the IT SLT and formal approval / signoff will be by the Head of IT. Expected date for a review of the draft Policy will be by 30th Nov 2020.

2020/21 update

Our work in the current year highlighted no similar findings.

IT Controls – Back up Policy

Description of deficiency

During our review and testing of IT General Controls we noted there was no formalised Back Up policy.

Potential effects

Lack of understanding of the process, lack of responsibility and accountability as roles are not defined, loss of data.

Recommendation

Management should consider implementing a Back Up policy.

Management Response

A Backup Policy draft document is already available but further input and detail is required in order to seek approval for official sign off. The task of completing the Policy documentation resides with the IT Server Manager and a formal review of the draft will be undertaken before the 30th Nov 2020. A formal sign off of the document will be achieved prior to the 31st Dec 2020.

2020/21 update

Our work in the current year highlighted no similar findings.

IT Controls – Privileged Access Accounts

Description of deficiency

During our review and testing of IT General Controls we noted one shared account is used by all users with privileged access.

Potential effects

Inappropriate access to the system could be obtained and lack of audit trail.

Recommendation

Management should consider a different approach to providing privileged users with access to the systems.

Management Response

The IT SLT agree that this is not an appropriate approach when dealing with elevated user privilege levels. User privileges should be associated to a single user account only and a formal communication statement will be issued by the Head of IT in order to address this matter.

2020/21 update

Our work in the current year highlighted no similar findings.

Pensions – benefits paid

Description of deficiency

During our work, we identified a difference between the benefits paid to pensioners per the actuary report and the data held by East Riding of Yorkshire Pension Fund. The difference was not material and thus no amendment has been made to the financial statements. We have confirmed the actuary uses an estimation technique for benefits paid, and not the data held by the pension fund.

Potential effects

Inaccurate information is used by the actuary.

Recommendation

As the pension fund information is more accurate, we recommend that you ask the East Riding of Yorkshire Pension Fund to provide this information to the actuary in future so that it can be used as the basis for estimating benefits paid in the actuary's report.

Management Response

We will request that the ERPF provide the actual benefits paid to Pensioners as part of the 20/21 Annual Accounts process.

2020/21 update

Our work in the current year highlighted the same discrepancy between the benefits paid to pensioners per the actuary report and the data held by East Riding of Yorkshire Pension Fund.

Pensions – actuary report for PCC and CC

Description of deficiency

Our work has identified, for the Local Government Pension Scheme, one actuary report is obtained, covering both the PCC and CC. An allocation is then made in the financial statements based on pension contributions.

Potential effects

The allocation between PCC and CC is not accurate.

Recommendation

The PCC and CC obtain separate actuary reports to ensure the data is as accurate as possible.

Management Response

The OPCC and Humberside Police will request individual actuarial reports from the actuary as part of the 20/21 Accounts process.

2020/21 update

Our work in the current year highlighted that for 2020/21 again one actuary report was obtained, covering both the PCC and CC.

Appendix B – Summary of misstatements

The issues arising between the issue of the Audit Completion Report on 11 January 2022 and the issue of this update letter are highlighted in red.

We set out below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of 174k for the Group, £150k for the PCC and £171k for the CC.

The first section outlines the misstatements that were identified during the course of our audit which management has assessed as not being material, either individually or in aggregate, to the financial statements and does not currently plan to adjust.

The second section outlines the misstatements that have been adjusted by management during the course of the audit.

Unadjusted misstatements		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Other long-term liabilities – pension liability			2,100	
	Cr: Pensions reserve				2,100
	The Pension Fund auditor reported to us that the asset values in the pension fund accounts were under-stated by £44.6m. Given the PCC and CC's share of the PF assets at the year end of 4.8% of the scheme investment the net liability of £133m disclosed in the PCC and CC's accounts are over-stated by £2.1m which is not material to our opinion.				
	Total unadjusted misstatements			2,100	2,100

We identified one non-material issue – the benefits paid to pensioners per the actuary report was £5,219k. The data held by East Riding of Yorkshire Pension Fund shows benefits paid of £2,967k. The difference of £2,252k is not material and thus no amendment has been made to the financial statements. We have confirmed the actuary uses an estimation technique for benefits paid, and not the data held by the pension fund. There is no net impact on the pension liability.

Adjusted misstatements

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: PCC Debtors			3,139	
	Cr: PCC Creditors				3,139
	The intercompany balance of £3,139k had been incorrectly accounted for within the PCC accounts, with the both the creditor and debtor balances being included net of the intercompany balance. The CC and Group accounts were unaffected by the error.				
	Total adjusted misstatements			3,139	3,139

Review of the EFA identified that the 'adjustments for capital purposes' were shown in 2019/20 against the CC, whilst in 2020/21 they are shown against the PCC. As the PCC is the holder of property, plant and equipment it is correct for the adjustments to be shown in the PCC accounts and therefore the prior year comparators are incorrectly disclosed. Further investigations have also highlighted the pension's adjustment and collection fund adjustment were also incorrect. The value of each amendment in total is as follows:

- Capital adjustments - £7,331k
- Pensions adjustment - £15,025k
- Collection fund adjustment - £289k

The impact of the error on the PCC 2019/20 CI&ES is as follows:

	CI&ES	
	Dr (£'000)	Cr (£'000)
Dr Intra-Group Funding	7,331 15,025	289
Cr Re-measurements of the net defined benefit liability	289	7,331 15,025

The impact of the error on the CC 2019/20 CI&ES is as follows:

	CI&ES	
	Dr (£'000)	Cr (£'000)
Dr Re-measurements of the net defined benefit liability	7,331 15,025	289
Cr Intra-Group Funding	289	7,331 15,025

There is no overall impact on the total comprehensive income and expenditure (surplus)/deficit position for the above errors for either the PCC or CC and no impact on the group CI&ES.

A further error was identified in the treatment of the police top up grant, the value of the error is £31,523k and has no impact on the CI&ES.

The figures have been amended and a prior period amendment disclosure added to the accounts.

Disclosure amendments

During the course of the audit we identified a number of presentational and disclosure issues. These were generally relatively minor and have been adjusted for in the final version of the financial statements. We have summarised below the main disclosure amendments that have been made.

Comprehensive Income and Expenditure Statement (PCC, CC and Group) – the cost of services breakdown was updated to show Human Resource Services as People Services to reflect the changed name of the service area in 2020/21.

Accounting Policies – Property, Plant and Equipment Valuation (PCC and Group) - the accounting policy for the valuation of land and buildings states that the top 20% of the highest valued properties are revalued every financial year. It does not make reference to the remaining assets being revalued on a four year rolling programme split by local authority location and therefore demonstrate compliance with the CIPFA Code. The accounting policy has been updated to include this information.

Note 1-4 Expenditure and Funding Analysis (PCC and Group) – in 2020/21 the Comprehensive Income and Expenditure Statement (CI&ES) and Expenditure and Funding Analysis (EFA) were re-analysed to include Corporate Development as a separate service line. The EFA has been updated to correct an error in the re-analysis of the 2019-20 comparator figures to reflect the new service line.

Note 5 and Note 7 Pensions Income and Expenditure Account (CC, PCC and Group) – the presentation of the disclosure note has been amended to provide greater clarity to the reader of the accounts.

Note 8 and Note 15 Regional Collaboration (CC, PCC and Group) – the Information Services Collaboration disclosure has been amended to correct a typographical error. Supplies and services expenditure amended from £71k to £6,708k and transport related expenses amended from £6,708k to £71k.

Note 12 and Note 29 Assets and Liabilities in Relation to Retirement Benefits (CC, PCC and Group) - the draft financial statements referred to a "material uncertainty" due to Covid-19 in respect of pensions investments. However, the East Riding Pensions Fund Accounts did not include reference to a "material uncertainty” in the valuation of pension investments. The disclosure has therefore been removed to ensure consistency with the East Riding Pensions Fund Accounts.

Note 21 Property Valuations (PCC and Group) - the draft financial statements referred to a “material uncertainty” due to Covid-19 in respect of property, plant and equipment valuations. However, review of the valuation report indicates there is no material uncertainty as at 31 March 2021 and this is consistent with RICS guidance. The disclosure has therefore been removed from the accounts.

Note 34 and Note 17 McCloud/Sargeant Remedy and Employment Claims (CC, PCC and Group) – the draft financial statements included a note in relation to the impact of the McCloud and Sargeant judgements on the pension’s liability. However, in 2020/21 the impact of the two judgements is incorporated into the pension’s values provided by the actuary and as such is included within the pension’s figures disclosed elsewhere within the accounts. The disclosure has therefore been removed from the accounts.

Note 35 Financial Instruments (PCC and Group) – the disclosure of debtors with central and local government organisations as at 31 March 2021 was amended from £14m to £15.6m.

Note 35 Financial Instruments (PCC and Group) - we noted that the financial instruments trade creditors and trade debtors disclosure included the council tax creditor and debtor. This is incorrect as these balances do not arise from a contractual arrangement. The figures in the accounts have been amended to exclude the council tax creditor and debtor balance.

Note 37 Related Party Transactions (PCC and Group) – two new disclosures for 2020/21 (Safer Streets Grant and British Association for Women in Policing - BAWP) did not have comparator figures disclosed. The comparator for Safer Streets Grant is nil and the accounts have been updated. BAWP became a related party from 1 April 2020, as such a comparator is not appropriate and a narrative disclosure has been added to the accounts to this effect to provide clarity. Humberside Police are treasurer for BAWP and Senior Women in Policing (SWIP). The relationship with BAWP was included in the related party transactions note. The note has been updated to include a disclosure in relation to SWIP.

Agenda Item: 11

Report of the Head of Audit

INTERNAL AUDIT PROGRESS REPORT

1 PURPOSE OF THE REPORT

1.1 The report sets out the current progress against the 2021/22 Audit Plan.

2 BACKGROUND

2.1 This Progress Report monitors the delivery of work undertaken in relation to the provision of shared Internal Audit services as per the Joint Service arrangements between West Yorkshire Police and Humberside Police & Crime Commissioner (PCC)/ Humberside Police.

Table 1: Summary of Progress against the Audit Plan for 2021/22

STATUS OF AUDITS	2021/22 (as at 10 Mar 22) APPENDIX A
Final Reports with Response Received	4
Final Reports – Response Awaited	3
Final Reports – No Response Required	1
Work Completed/ Advice/ briefings provided	-
Draft Reports Issued	1
Commenced/ In Progress	3
TOTAL	**12**

2.2 Since the last JIAC in December 2021 two audits have been issued as final reports, both of which are awaiting management responses. Reports on the Management of Organised Crime Groups (OCGs) (*limited assurance*) and Use of Community Resolutions (Outcome 8) (*reasonable assurance*) will be made available on the members portal and presented in summary at the JIAC once these have been finalised having received management responses.

2.3 As reported at the last JIAC the Missing Persons audit report had been issued as a final report awaiting a management response and this remains the position. The force has committed to providing the overdue management response in advance of the audit committee. Under either scenario the report will be downloaded and made available on the members' portal with or without management responses prior to the committee.

2.4 Currently an IA Protocol specifically relating to IS audit activity which describes the audit process and commitments required from all parties is being agreed. A key element of this approach is the confirmation that the IS Function will undertake an ITIL self-assessment to inform IA coverage for future years based on identified areas of risk. A joint meeting between IS and HP & SYP auditors is to take place (15 March) to develop this workstream further in order that risk based audit activity can be prioritised and undertaken in the 2022/23 audit cycle.

2.5 As previously reported to committee members the peer review proposals for an External Quality Assessment (EQA) in accordance with Public Sector Internal Audit Standards (PSIAS) which is due in 2022 were presented and supported by the West Yorkshire audit committee members. The peer review will take place with the Greater Manchester and Merseyside Police audit functions based on a similar methodology to that which worked successfully in 2017 (See appendix B).

3 OPTIONS, RISKS AND OPPORTUNITIES

3.1 If the Internal Audit function does not provide an efficient and effective risk based audit service the Police and Crime Commissioner and Force will be unable to obtain an appropriate level of assurance regarding the system of internal control operating within both organisations.

4 POLICING PLAN AND PERFORMANCE

4.1 Internal audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

5 IMPACTS ON OR LINKS TO COLLABORATION

5.1 The Internal Audit function is provided to the Humberside Police & Crime Commissioner and Chief Constable by internal audit staff from the West Yorkshire Police under a s22 agreement.

6 FINANCIAL IMPLICATIONS

6.1 There are no direct, specific financial implications within the progress report. However, individual audits contained within the report may include recommendations which contribute to a more effective use of resources and enhance the value for money being obtained by the Force/ PCC. In addition, wherever practicable, recommendations are made which do not cause the PCC/ Force to incur additional costs.

7 LEGAL IMPLICATIONS

7.1 The Police and Crime Commissioner and Chief Constable are required to ensure that appropriate Internal Audit arrangements are in place.

8 EQUALITY AND DIVERSITY AND HUMAN RIGHTS

8.1 There are none in the context of this report.

9 CONCLUSION

9.1 The report summarises the progress to date against the 2021/22 audit plan.

10 RECOMMENDATIONS

10.1 It is recommended that the Joint Independent Audit Committee note the contents of the report and discuss any issues arising.

Contact Officer:
Neil Rickwood, Head of Audit

Background documents:
Appendix A - Audit Plan 2021/22 (to date)

Appendix A – 2021/22 Internal Audit Plan and Progress (as at 10 March 2022)

Audit Status	***Audit Opinion***	***Audit Name***	*Scheduled*	*Type of Audit (days)*		***Description***
			1st Six Months			
FINAL	Reasonable	Repeat Victims (Full Review)	Q4 $^{20/21}$/ Q1	Risk	10	Completion and audit finalisation discussions of carried forward audit work commenced/ progressed late in 20/21. *(NB MISPERS report currently subject to extensive & in depth post audit discussions)*
FINAL (awaiting management responses)	Limited	Missing People (1)	Q4 $^{20/21}$/ Q1	Risk	15	
FINAL (awaiting management responses)	Limited	Management of Organised Crime Groups (OCGs)	Q1	Risk	20	
In Progress	-	Serious Sexual Offences (SSO) investigation quality.	Q1	Risk	20	Review of the quality of investigations in relation Serious Sexual Offences (SSO), including securing and preserving evidence, with consideration re the timeliness of arresting the perpetrator).
FINAL	Reasonable	Application of THRIVE / Re-THRIVE	Q1-2	Risk	20	Review how effectively HP apply the principles of THRIVE methodology (*Threat*, *Harm, Risk*, *Investigative* opportunities, *Vulnerability* of the victim and *Engagement* level required to resolve issue) to the calls for service and how are these re-assessed.
In Progress- Interim Briefing Note	-	Golden Hour Principles	Q1-2	Risk	20	Review of Golden Hour Principles (linked to outcomes and quality of service). This is effectively building on previous audit work that evaluated the compliance with the golden hour principles in the FCR and its integration into the initial investigation work by attending officers. *Agreed to undertake fieldwork in January due to client commitments.*
FINAL (awaiting management responses)	Reasonable	Use of Community Resolution (Outcome 8)	Q2	Assurance/ Support	15	Audit of Outcome 8's and their appropriate usage (lack of). Audit to take place post education and awareness programme to be developed and led by T/ACC Downs over the coming weeks.
-	-	IS Audit Universe workstream	Q1-4	Risk / Governance	25	IS Department are in process of commissioning an ITIL self-assessment which will identify areas of risk that will govern the direction of the shared audit programme of work. *(Refer to Progress Report (section 2.4)).*
-	-	BAME Recruitment	Q3	Assurance/	15	Review of current activity against national best practice. (Diversity

Audit Status	Audit Opinion	Audit Name	Scheduled	Type of Audit (days)		Description
				Support		and Inclusion Strategy Outcome).
In Progress	-	Occupational Health	Q3-4	Assurance/ Support	20	Audit of OHU services and the outcomes of this activity.
DRAFT	-	Financial Systems Assurance & Testing	Q3-4	Financial Systems	30	Humberside Police was due to implement Oracle Fusion in 2021, the wider Finance systems (excluding Payroll) on 1 June 2021 followed by Payroll in August 2021. However, following the completion of the majority of UAT testing earlier in the year, there continued to be issues in the integrated of CAPITA duty management with HCM (HR) and difficulties around the migration of payroll data. Consequently, the SRO's took the decision to formally pause the project and it is anticipated a revised project plan will be agreed in 2022.
FINAL	Reasonable	Follow-Up: Released Under Investigation (RUI)	Q1-2	Follow-Up	10	Follow up of previous audit to providing assurance to JIAC and Senior Management that actions relied on to address risk are implemented with particular reference to fundamental and significant recommendations in areas of limited assurance. Further interim follow-up work on crime screening now that new Police Crime/ Incident Registrar is in post confirms limited progress in addressing the outstanding recommendations. This will be subject to further follow-up later in 2022.
INTERIM REPORT	Limited	Follow-Up: Crime Screening	Q1-2/ Q4			
FINAL	Reasonable	Follow Up (2): IS Governance & Financial Management	Q3			

([1]) = Audit opinion included in the annual report for 2020/21.

External Quality Assessment (EQA) – Methodology

DRAFT

Methodology and Scope

The methodology adopted by the peer group for the external quality assessments is set out in the table below:

Stage		Detail
1	**Assessment Preparation**	Agreement by all parties regarding: ○ the programme of peer reviews ○ the assessment methodology ○ an appropriate timetable ○ the allocation of external reviewer resources ○ a client sponsor.
2	**Assessment Process**	Assessment will adopt a 5 stage process: ○ the validation of the CAE's (HIA/ AMs) PSIAS self-assessment checklist, including any accompanying evidence and the Quality Assurance Improvement Programme (QAIP); ○ Review of documentation in support of the standards / checklist; ○ Examine a sample of audit engagements according to the PSIAS and procedures; ○ Interview key staff/ stakeholders to confirm effectiveness of audit processes; ○ Undertake an exit meeting with the HIA.
3	**Post Assessment Phase**	The review should conclude with a detailed report providing an opinion on the Internal Audit activity's conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards highlighting any areas of partial conformance or areas which do not conform along with recommendations for improvement, where appropriate.
4	**Reporting Phase**	○ Discussion of the draft report with the HIA to confirm accuracy. ○ Issue of final report for agreed management responses to the HIA and Sponsor. ○ Issue final report to the HIA and Sponsor. ○ HIA / Sponsor to issue final report to their Audit Committee which includes an action plan and implementation dates. ○ HIA (who performed peer review) presenting report to respective Audit Committee when/ where requested.

In addition the peer group agreed that external reviewers should possess the following attributes:

- ✓ A recognised professional qualification;
- ✓ Have appropriate experience of internal audit - at least five years at manager level within the public sector / local government;
- ✓ Have detailed knowledge of leading practices in internal audit
- ✓ Have current, in-depth knowledge of the Definition, the Code of Ethics and the International Standards.

Humberside Police & Crime Commissioner
Joint Independent Audit Committee

Agenda Item 12

Report of the Head of Audit

INTERNAL AUDIT STRATEGY 2022/23

1 PURPOSE OF THE REPORT

1.1 To set out the Internal Audit Strategy for the consideration of the Audit Committee.

2 BACKGROUND

2.1 The Internal Audit Strategy sets out the methodology used by Internal Audit to determine the Internal Audit Plan.

2.2 Internal Audit's annual plan provides the Humberside Police and Crime Commissioner and Chief Constable with an independent opinion and appropriate assurances on the internal control environment.

2.3 The Audit Strategy and Audit Plan defines the strategic approach and establishes audit coverage for 2022/23.

3 OPTIONS, RISKS AND OPPORTUNITIES

3.1 If the Internal Audit function does not provide an efficient and effective risk based audit service the Police and Crime Commissioner and Force will be unable to obtain an appropriate level of assurance regarding the system of internal control operating within both organisations.

4 POLICING PLAN AND PERFORMANCE

4.1 Internal audit is an assurance function that provides an independent and objective opinion on the control environment by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

5 IMPACTS ON OR LINKS TO COLLABORATION

5.1 The Internal Audit function is provided on a collaborative basis to Humberside Police and Humberside Police and Crime Commissioner, by the West Yorkshire Police interna audit function under a collaboration agreement.

6 FINANCIAL IMPLICATIONS

6.1 The basic cost of the Internal Audit function will be included in the budget for the Police and Crime Commissioner for 2022/23.

7 LEGAL IMPLICATIONS

7.1 The Police and Crime Commissioner and Chief Constable are required to ensure that appropriate Internal Audit arrangements are in place.

8 EQUALITY AND DIVERSITY AND HUMAN RIGHTS

8.1 There are none in the context of this report.

9 CONCLUSION

9.1 This report summarises the methodology used by Internal Audit to determine the Internal Audit Plan.

10 RECOMMENDATIONS

10.1 It is recommended that the Audit Committee note the contents of the report and discuss any issues arising.

Contact Officers:
Neil Rickwood, Head of Audit

Background Papers: Appendix A – Internal Audit Strategy

Appendix A

INTERNAL AUDIT STRATEGY (2022/23)

1. STRATEGY STATEMENT

The Internal Audit Strategy establishes the methodology used to determine how Internal Audit will provide assurance on the internal control environment for the Police and Crime Commissioner (PCC) of Humberside and the Chief Constable of Humberside Police. This document outlines the approach used to create the audit plan that provides those legal persons with assurance.

The planning process is risk based, meaning that it is based on the risk assessments of the Chief Constable and the PCC. This includes the risk registers and also areas of concern identified during previous audits, and discussions with the Office of the Police and Crime Commissioner (OPCC) and the Force.

The Internal Audit function was subject to an External Quality Assessment (EQA) in August 2017 in compliance with the requirements of the Public Sector Internal Audit Standards. This assessment provided confirmation and assurance that the audit strategy and planning processes adopted conforms to the International Standards for the Professional Practice of Internal Auditing (IPPF). Another EQA in planned for August 2022 in accordance with PSIAS requirements.

2. OUTPUTS OF STRATEGY

The main aims of the strategy are to put into place arrangements whereby:

- Internal Audit will support the PCC and the Chief Constable by providing them, the Chief Finance Officers and the Joint Independent Audit Committee with reports and any significant findings in relation to the adequacy and effectiveness of the internal control environment.
- Internal Audit contributes to the Annual Governance Statements for both organisations.
- Internal Audit will provide management with recommendations resulting from audit work which are intended to improve the internal control environment.
- Internal Audit will co-operate effectively with the External Auditors and other review bodies. This will include co-operation in relation to any audit and inspection requirements agreed as part of regionalised work programmes.
- Internal Audit will deliver the audit programme in accordance with the required professional standards.

3. STATUTORY BASIS

The current legal basis for the provision of internal audit services is the Accounts and Audit (England) Regulations 2015 for Local Government. These regulations state that, “a relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.”

The Chartered Institute of Public Finance and Accountancy (CIPFA), Chartered Institute of Internal Auditors, Department of Health, Welsh Government, Department for Finance and Personnel (Northern Ireland), HM Treasury and the Scottish Government have come together to issue the Public Sector Internal Audit Standards. These became effective from 1 April 2013 and replace the CIPFA Code of Practice for Internal Audit.

The Standards provide a definition of internal auditing:

"Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

The Home Office Financial Management Code of Practice recommends that PCCs and Chief Constables have a shared internal audit service to cover both bodies, and that the Accounts and Audit Regulations 2015 place a responsibility on both the PCC and the Chief Constable to maintain an effective internal audit of their affairs.

4. INDEPENDENCE OF INTERNAL AUDIT

To be effective, Internal Audit must operate independently and have unrestricted access to all information relevant to the functions of the Chief Constable and PCC which is necessary in the course of our work. In practical terms, this means that auditors should have full access to all records deemed necessary, including information held by or managed by third parties. The Financial Regulations in each organisation provide formal authority for such access.

Internal Audit staff have a right of access to all employees and agents of the Office of Police and Crime Commissioner and Force, including direct access to the Chief Constable and PCC.

The independence of Internal Audit is achieved by reporting in its own name, ensuring that all auditors are free from conflicts of interest and have no direct management responsibility for the development, implementation or operations of systems.

5. SCOPE OF INTERNAL AUDIT

In order to form an opinion on the Internal Control Environment it is necessary that Internal Audit has sufficient coverage of how the organisation is managing risk.

The table below shows an estimated allocation of days for Humberside Police and the Office of the Police and Crime Commissioner (OPCC), by the type of audit.

A majority of the audit plan continues to be both risk based (35%) and provide assurance/ support (27%), with the remainder of the resource devoted to the other categories of audit detailed below.

Audit Days 2020/21	Description
250	**Total Days**
25	Provision of advice, audit planning, committee reporting, progress meetings, external audit liaison, internal control evaluation and annual opinion drafting.
225	**Audit Days**
35%	Risk
27%	Assurance/ Support
20%	Financial Systems
14%	Governance
4%	Follow Up

(approximate percentages based on audit days assigned)

Comprehensive Coverage

Below are listed the different types of audit work that make up the audit plan. In drawing up the plan we have been mindful of the following:

- The needs of the separate legal entities of the OPCC and Chief Constable;
- The need for the PCC and Chief Constable to have assurance over their own organisation; and
- The need for the PCC to have overarching assurance over the Force.

We also seek to gain coverage of a range of areas to ensure that we have a comprehensive picture of internal control. Therefore whilst the bulk of our work will be aimed at achieving assurance over the underpinning systems relied on by the Force and Commissioner, we will also seek to specifically consider elements of assurance that are important operationally and also assurance over expenditure related to assets or their maintenance.

Planning is based on multiple activities, including:

- Strategic Risk Registers
- Audit experience & professional judgement
- Consultation with key stakeholders
- Any previous investigations or irregularities
- Significant local and national issues
- Other external reviews (eg through the force HMICFRS Governance Board).

Types of Audit Work

Internal Audit will undertake the following types of work:

- *Risk Audit* - the Internal Audit plan needs to be aligned to the Organisations' understanding of risk;
- *Financial Systems Audit* – key financial systems which are looked at each year;
- *Follow Up Audit* – previously agreed Internal Audit recommendations;
- *Governance Audit* – the decision making approach, arrangements for accountability and risk management;
- *Assurance/ Support Audit* – to assess compliance against a number of key controls or mandated standards and provide support/advice on the design and implementation of new systems; and
- *Irregularity* - the investigation of any instances of suspected loss, theft etc.

Risk Audit

Public Sector Internal Audit Standards require that the internal audit function be risk based. The need to manage risks is recognised as a core part of corporate governance and organisational activities/ actions to manage and mitigate these risks is essential in maintaining an effective internal control environment.

Where possible internal audit should rely on the organisation's assessment of risk, if deemed to be sufficiently reliable.

Internal audit identify risk audits from a number of sources:

- Risks appearing in the Risk Registers, which by default are those rated most highly, on the basis that management action is required.
- Emergent/ escalating risks that may not yet feature on organisational risk registers which are based on management concerns and audit experience.
- Risks that are regarded as controlled and not requiring further management action. Internal Audit can provide assurance to the PCC and Chief Constable that mitigating controls are effective, operating as prescribed and that they continue to be well managed.

Financial Systems Audit

Unless there is a change in the risk factors, such as the introduction of a new system, staff turnover or previous irregularities, the main financial systems of the Force will typically be considered to be operating effectively and therefore not requiring any special attention from management. However, these systems underpin the financial management of the Force, allowing it to be operationally effective. They are therefore given prominence in internal audit coverage and under normal circumstances are covered through systems audits on a rotational basis and an annual regime of transactional testing.

Coverage of the main financial systems may also allow External Audit to place reliance on those systems and thereby expedite the External Audit of the Chief Constable and PCCs Financial Statements.

Humberside Police were due to implement Oracle Fusion in 2021. However, following the completion of the majority of UAT testing earlier in the year, there continued to be issues in the integrated of CAPITA duty management with HCM (HR) and difficulties around the migration of payroll data. Consequently, the SRO's took the decision to formally pause the project and it is anticipated a revised project plan will be agreed in 2022. As a result a full financial systems audit is planned to be undertaken in 2022/23, including the documentation of new systems/processes and testing of changes to key controls implemented as part of the Oracle Fusion project.

Follow Up Audit

The follow up of agreed recommendations is an important part of the assurance function of internal audit, communicating that actions being relied upon to address particular weaknesses have in fact been taken. This involves obtaining evidence of compliance or substantive improvement, depending on the recommendation that was made. The approach is based on following up recommendations classed as significant or fundamental.

Governance Audit

In order to form an opinion on the internal control environment, internal audit need to consider aspects of governance and risk management processes of the Chief Constable and PCC. The way that an organisation is controlled and directed is a particularly important aspect of the health of an organisation, contributing towards the organisation's culture and treatment of risk. Internal audit therefore reserve some time to look at these important matters.

Assurance/ Support Audit

Internal Audit will also undertake reviews acting as a critical friend, to ensure compliance against a number of key controls or mandated standards. The purpose of such reviews is to provide assurance that risk mitigating actions are operating as prescribed. These audits also include the provision of support/ advice regarding the evaluation of projects, benchmarking services and the design and implementation of new systems. This will include the provision of assurances regarding any remaining joint work being undertaken between Humberside and South Yorkshire police forces and OPCC's.

Irregularity

Irregularity work relates to the investigation of any instances of suspected irregularities, loss, theft etc. The audit work is essentially reactive and variable dependent upon circumstances. No contingency is made for such work and a decision will be made with the two CFOs as to what work will be substituted on the audit plan, should such work become necessary.

Internal Audit will also report to management any systemic weaknesses identified as part of any investigative work, with the intention of preventing a re-occurrence of the incident.

6. REPORTING

The output of Internal Audit primarily comprises:

- Audit reports for each individual assignment
- Follow up reports to report whether recommendations the Chief Constable and PCC considers it has discharged have in fact been implemented
- Irregularity/ Investigation Reports
- Progress reports submitted to the Audit Committee

- An Internal Audit Annual Report
- Reports, where applicable, to the HMICFRS Board

Audit assignments will be the subject of formal reports. Initially a Draft Report will be issued and its factual accuracy will be discussed and confirmed. Reports will identify insufficiently controlled risks and will recommend actions to address these areas. Once the factual accuracy of a report has been agreed a Final Report is issued for a management response. Agreed actions and deadlines are required against the recommendations made in the report.

Management can determine their own risk treatment based on the risks reported in audit reports. However it is a requirement under the PSIAS that the Head of Audit, as the Chief Audit Executive (CAE), will report by exception where they consider, that, in their professional opinion management have made the decision to tolerate an unacceptable level of risk to the organisation.

Each audit is rated with one of the following categories and these are based on a judgement of internal control in respect of the systems examined. This is therefore a relative judgement:

Category	Assurance Level	Description
1	**Substantial Assurance**	Substantial assurance can be provided that arrangements to secure risk management, governance and internal control are being effectively managed. Management action may still be required in a small number of areas where the exposure to residual risk is of low impact in nature.
2	**Reasonable Assurance**	Reasonable assurance can be provided that arrangements to secure risk management, governance and internal control are being effectively managed. Limited management action may be required to address a small number of significant issues.
3	**Limited Assurance**	Limited assurance can be provided that arrangements to secure risk management, governance and internal control are being effectively managed. Significant management action is required to address some important weaknesses.
4	**Inadequate Assurance**	Inadequate assurance can be provided that arrangements to secure risk management, governance and internal control are being effectively managed. Significant weaknesses have been identified which are likely to involve major and prolonged intervention by management. These weaknesses are such that the objectives in this area are unlikely to be met.

Finalised reports are made available to Joint Independent Audit Committee members and are summarised for each meeting.

The Head of Audit prepares an Annual Report which provides an overall audit opinion and a detailed analysis and commentary on the internal control environment. The report also provides detail on overall progress against the audit plan and the performance of the internal audit function.

7. PERFORMANCE MANAGEMENT

The Standards requires that the internal audit function do have a performance management and quality assurance framework in place.

Mechanisms in place include:

- A set of timeliness, quality and output measures to gauge performance (these are subject to regular benchmarking and review);
- Client feedback questionnaires issued for each audit assignment;
- Each assignment subject to supervisory review / quality check as part of audit process;
- PEN entries on PDR system (as post audit review) of audit assignments;
- Annual Stakeholder Survey implemented to assess perception regarding the integrity, professionalism and added value of the audit function;
- Quality Assurance and Improvement in placed based on self- assessment against the Public Sector Internal Audit Standards.

8. RESOURCES & SKILLS

The Internal Audit section comprises of 8 posts, consisting of a Head of Audit, one Audit Manager and 6 Auditors.

These posts have required qualifications, skills and competencies as set out in the respective Role Profiles.

Professional qualifications and ongoing professional development is recognised within the section. All staff are either professionally qualified (CMIIA / CCAB) or are currently undergoing a study programme.

Staff are also encouraged to keep up to date with current auditing developments and regularly attend courses in order to continuously update their professional skills.

A formal Personal Development Review (PDR) process is in place in order that training and development requirements of staff can be regularly assessed and re-evaluated.

Budgets are made available to buy in external specialist services/ skills if required.

9. PROFESSIONAL APPROACH

All staff within the Internal audit section are reminded of their responsibilities to maintain a professional, courteous approach with all staff subject to the audit process, and they will also conduct themselves in accordance with the Seven Principles of Public Life enunciated by the 1995 Nolan Committee.

The commitment of staff will ensure that they:

- Notify the appropriate level of management of the scope of an audit assignment in a timely fashion, offering opportunities for the inclusion of any specific areas of concern
- Discuss any issues found, wherever possible, with the appropriate level of management so that any control issues can be addressed in a timely fashion
- Acknowledge areas of good practice in the audit reporting process
- Share any best practice identified, where relevant, across the client base
- Strive to be both constructive and helpful during the course of an audit assignment.

Ref	Days	Scheduled Start	Type of Audit	Audit Name	Description & Rationale
1st SIX MONTHS					
-	15				Completion of carried forward audit work commenced late in Q4.
1	20	TBC	Assurance/ Support	Management of Offenders	Management of Offenders including IOM and the specific management of sex offenders within the community – including the use of VAST (lie detector technology)
2	20		Risk	VAWG	Audit to evaluate/ provide assurance regarding HP's overall prevention approach to VAWG.
3	20		Risk	Serious Sexual Offences (SSO) investigation quality	Review of the quality of investigations in relation Serious Sexual Offences (SSO) with a key focus on a victim informed approach as part of these investigations. Initial work commenced in 21/22 which has been incorporated in the 22/23 audit programme as an expanded scope.
4	20		Risk	Custody	A review of the management of the risks associated with custody services.
5	15		Assurance/ Support	Force Vetting	A review of the vetting arrangements in place for both police officers and police staff.
6	15		Financial Systems	Overtime Processes	Review of overtime processes – Police Officer and Police Staff
7	15		Assurance/ Support	Logistics	A review of the management and administration of Annual Leave, RDIL and Time Off processes within the logistics function.
8	20		Governance	Victim Code Compliance	Wider audit focussing on the 'harder to measure aspects' not just regularity of victim updates / victim right to review.
10	25	Q1-4	Risk / Governance	IS Audit Universe workstream	IS Department are to commission an ITIL assessment exercise which will identify areas of risk which will provide direction for subsequent audit activity for a shared audit programme of work with SYP IA team.
11	30	Q1-4	Financial Systems	Financial Systems Assurance & Testing	Humberside Police were due to implement Oracle Fusion in 2021. However, following the completion of the majority of UAT testing earlier in the year, there continued to be issues in the integrated of CAPITA duty management with HCM (HR) and difficulties around the migration of payroll data. Consequently, the SRO's took the decision to formally pause the project and it is anticipated a revised project plan will be agreed in 2022. As a result a full financial systems audit is planned to be undertaken in 2022/23, including the documentation of new systems/processes and testing of changes to key controls implemented as part of the Oracle Fusion project.
12	10	Q1-4	Follow-up	Follow-Up Exercise	Follow up of previous audits, providing assurance to JIAC and Senior Management that actions relied on to address risk are implemented with particular reference to fundamental and significant recommendations in areas of limited assurance.
OTHER					
-	25	-	**Audit Management**		Putting together the Annual Opinion, as well as audit planning, committee reporting, progress meetings, external audit liaison and the provision of ad hoc advice.