CUMBRIA POLICE & CRIME COMMISSIONER AND CUMBRIA CONSTABULARY JOINT AUDIT COMMITTEE

Meeting date: 18th March 2020

From: Audit Manager (Cumbria Shared Internal Audit Service)

DRAFT INTERNAL AUDIT PLAN 2020/21

1.0 Executive Summary

1.1 The draft audit plan has been prepared in consultation with senior management and in conformance with the Public Sector Internal Audit Standards (PSIAS).

1.2 The Standards require that the Head of Internal Audit prepares an annual risk based audit plan for review by Senior Management and Joint Audit Committee and approval by the Board.

1.3 The plan continues to include time for advisory / consultancy work. We have taken into consideration the lessons learned from our advisory / consultancy work in 2019/20 and included one larger 25 day review which equates to 9% of overall resources.

1.4 The plan has 10 days contingency which will be allocated during the year following further discussions with management.

1.5 Coverage is considered adequate to provide the annual audit opinions as required under the PSIAS.

1.6 The Internal Audit charter has been updated and is included as an appendix to the audit plan for review by the Joint Audit Committee. The change to the Charter from 2019/20 relates to the updated CIPFA publication on the Role of the Head of Internal Audit.

1.7 Internal Audit will continue to follow up audits receiving ‘partial’ or ‘limited’ assurance.

2.0 RECOMMENDATION

2.1 ***Members are asked to note the draft internal audit plan for 2020/21.***

3.0 BACKGROUND

3.1 The approach to preparing the audit plan has been based around:

- Review of Constabulary and OPCC strategic risk registers
- Consultation with senior management across the Office of the Police and Crime Commissioner and Constabulary
- Review of outcomes of previous audit reviews and other inspections
- Review of priorities in the police and crime plan and;
- Consideration of national, regional or emerging issues.

3.2 The audit plan is closely aligned with the Constabulary and OPCC's strategic risk registers. On a quarterly basis the Joint Audit Committee sees the strategic risk registers which document the key risks facing both organisations and controls and other assurances in place to mitigate these risks.

3.3 The audit plan includes time for advisory / consultancy work. In this year's plan we have considered the lessons learned from our advisory / consultancy work in 2019/20 and included one larger review in 2020/21. Overall 25 days of the plan has been allocated to advisory / consultancy work, equating to 9% of overall resources in the plan, a reduction from the 16% in the 2019/20 plan.

3.4 The plan has 10 days contingency which will be allocated during the year following further discussions with management.

3.5 Planned Internal Audit coverage is considered adequate to provide the annual audit opinions.

3.6 The Internal Audit charter has been reviewed and updated in accordance with the PSIAS and is included as an appendix to the audit plan. There is one minor change which relates to the updated CIPFA publication on the Role of the Head of Internal Audit.

3.7 Internal Audit will continue to follow up all audits resulting in 'Partial' or 'Limited' assurance.

Emma Toyne
Audit Manager

28th February 2019

APPENDICES

Appendix 1: Draft Internal Audit Plan 2020/21
Appendix 2: Internal Audit Charter 2020/21

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Appendix 1

Cumbria Office of the Police and Crime Commissioner

and

Cumbria Constabulary

INTERNAL AUDIT PLAN 2020/21

1. Introduction

1.1 The Internal Audit Plan for 2020/21 has been prepared based on analysis of the strategic risk registers, Police and Crime Plan 2016-2020 and other factors affecting the OPCC and Constabulary in the year ahead.

POLICE AND **CRIME PLAN**

2016-2020

MAKING **CUMBRIA** EVEN SAFER

POLICE AND **CRIME OBJECTIVES**:

1. Your priorities for Cumbria
2. A visible and effective police presence
3. Tackle crime and antisocial behaviour
4. Ensure offenders face a consequence for their crime
5. Always put victims first
6. Focus our police on online and sexual crime
7. Spend your money wisely
8. Supporting young people

2. Developing the Internal Audit Plan

2.1 The OPCC and Constabulary's strategic risk registers have been used as the starting point for the development of the audit plan (see Appendix 1a for the full plan). The documented risks were used as a basis for audit planning discussions with members of the Leadership Team to identify the areas where independent assurance from Internal Audit was most appropriately focused in order to deliver the mandatory annual Internal Audit opinions.

2.2 We also supplemented these planning discussions with other sources of information to inform the audit plan as shown in the diagram below:

2.3 Following on from the approach for the production of the 2019/20 plan, we have sought to align the audit plan with risks documented within the strategic risk registers. On a quarterly basis the Joint Audit Committee sees the strategic risk registers which document the key risks facing both organisations and controls and other assurances in place to mitigate these risks. Risks have also been identified thorough professional networks, review of other OPCC and Constabulary audit plans and attendance at training and development events. These have been considered within our risk assessment process and included within the plan as appropriate.

3. The Internal Audit Service

3.1 Mission

3.1.1 The mission of internal audit is defined within the PSIAS as:

To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

3.1.2 The plan has been prepared in line with the mission to ensure there is adequate audit coverage to deliver the mandatory annual assurance opinions as well as to fulfil the requirement to provide advice and insight to the organisation.

3.2 Resourcing

3.2.1 The internal audit plan will be delivered by the in-house team of internal audit staff. Internal Audit is a shared service between the County Council and the Office of the Police & Crime Commissioner / Cumbria Constabulary. The number of audit days to be delivered for the OPCC and Constabulary is 281, as agreed in the Shared Service agreement. This year we have 10 days contingency which will be allocated during the year following further discussions with management. The current level of resource is appropriate to deliver the planned number of audit days.

3.2.2 We have continued to include time within the plan for advisory / consultancy style work as part of our development of the internal audit service aimed at providing wider support to the Constabulary and OPCC which was an area highlighted as part of the EQA. In this year's plan we have taken into consideration the lessons learned from undertaking advisory / consultancy work in 2019/20 and included one larger review of ‘Front Office Counters’. Overall 25 days of the plan has been allocated to advisory / consultancy work which equates to 9% of overall resources in the plan, a reduction from 16% in the 2019/20 plan.

3.3 Conformance with the PSIAS

3.3.1 Under the PSIAS, internal audit is required to have an external quality assessment (EQA) every five years. The first assessment had to be completed by 31 March 2018. The EQA of the Shared Internal Audit Service was undertaken in October 2017. The review concluded that the service ‘generally conforms’ with the standards (the highest assessment available) and the ‘audit methodology contains all the required elements of the standards’.

3.3.2 Arrangements are in place to address the recommendations arising from the assessment, and where appropriate, recommendations have been addressed in the preparation of this audit plan, e.g. closer linkages with risk registers.

3.3.3 We have a rigorous Quality Assurance and Improvement Programme to ensure a high quality of service is maintained.

Appendix 1a – Draft Internal Audit plan 2020/21

Audit Review	Description	Days
Financial sustainability (Constabulary / OPCC)	Financial pressures remain as risks on both the OPCC and Constabulary strategic risk registers. The audit would provide updated assurance over the ongoing arrangements for financial sustainability during this time of continued financial uncertainty for the Constabulary.	15
Benefits delivery process (Constabulary / OPCC)	There has been significant investment in projects to drive efficiencies within the Constabulary. Governance processes around delivering the benefits from investment in projects have been revised. The audit review would provide assurance that the newly developed processes have the correct level of internal control to identify and report the delivered benefits. The audit will consider the arrangements the Constabulary has in place to manage unanticipated benefits as well as how any negative impacts or non-delivery issues are identified promptly and reported.	20
Risk management and governance (Constabulary / OPCC)	Work to support the annual opinions.	10
Contract management (Constabulary / OPCC)	In the audit environment commissioning, procuring and contract management are seen as high risk areas. A lot of work has been done by the Commercial Solutions department to improve commissioning and procurement activity. However, there is a need to ensure that appropriate contract management arrangements are in place so that the benefits of contracts are fully realised.	25
Sickness management (Constabulary)	The review will provide assurance over the arrangements for managing sickness and will focus on compliance with policies and procedures.	20

Audit Review	Description	Days
Collision Reduction Officers (CROs) (Constabulary)	Identified as a priority by management. The review would provide independent assurance that CROs are providing value for money by delivering the requirements of the original business case.	20
Professional Standards – Practice requires improvement (Constabulary)	Identified as a priority by management. The review will provide independent assurance that the Constabulary's processes are compliant with the new regulations.	20
Property Stores (Constabulary)	Identified as a priority by management. The review will provide assurance that the management of property (evidential and lost and found) complies with the policy.	20
New Business Transformation Project (BTP) Establishment processes (Constabulary)	Identified as a priority by management. The review will provide independent assurance that the newly developed processes have the correct level of internal controls and that data is timely and accurate. We will undertake the work in two phases: 1. Early discussions over whether controls being built in to the system are appropriate and; 2. Review once the system is in place.	20
New Business Transformation Project (BTP) finance (Constabulary)	Identified as a priority by management. The review will provide independent assurance that the newly developed processes have the correct level of internal controls. We will undertake the work in two phases: 1. Early discussions over whether controls being built in to the system are appropriate and; 2. Review once the system is in place.	20

Audit Review	Description	Days
Financial systems – Main Accounting System	The introduction of the new main accounting system in October 2020 means the new system will be introduced part way through the 2020/21 financial year. This review would provide assurance that data has been correctly transferred into the new system and that the new system operates as expected.	15
Financial systems - Pensions	Cyclical financial system audit which will focus on compliance with key controls.	10
Advisory / Consultancy work Front Office Counters	An independent assessment of current demand by volume and type at each of the stations that have a front counter. This piece of advisory work will provide a factual summary and commentary on demand. Management will be able to use our work as part of their consideration of future options for the service.	25
TRIM (Trauma Risk Incident Management) Follow up (Constabulary)	The TRIM audit received 'Partial' assurance in 2019/20 and therefore a follow up audit is undertaken the next year.	5
Contingency	Audit time to be allocated during the year following further discussions with management.	10
Attendance at Police Audit Training & Development event	This is an important part of the development of the internal audit service to the OPCC / Constabulary and provides insights into current issues, risks and audit matters relevant to our police audit work.	2

Audit Review	Description	Days
Internal audit management	Time is built into the plan for the management of the shared service in relation to work undertaken for the constabulary and the Commissioner's Office, to include: Attendance at Joint Audit Committee (5 meetings in year) Preparation of progress reports, annual reports and opinions Audit planning Management liaison Effectiveness of internal audit – Compliance with PSIAS	 4 6 9 4 1
Total		**281**

Cumbria Office of the Police and Crime Commissioner and Cumbria Constabulary

Internal Audit Charter 2020/21

Introduction

1.1 This charter describes the purpose, authority, responsibilities and objectives of Internal Audit. It establishes Internal Audit's position within the entities of the Police and Crime Commissioner for Cumbria and the Chief Constable for Cumbria Constabulary and the nature of the Head of Internal Audit's functional reporting relationships with the board and the Joint Audit Committee. For the Police and Crime Commissioner for Cumbria and the Chief Constable for Cumbria Constabulary the role of the Head of Internal Audit is fulfilled by the Group Audit Manager of the Cumbria Shared Internal Audit Service.

1.2 The charter also provides for Internal Audit's rights of access to records, personnel and physical properties relevant to audit engagements. Final approval of the audit charter rests with the board having been subject to review by the Joint Audit Committee.

1.3 The Cumbria Shared Internal Audit Service is required to conform to the mandatory Public Sector Internal Audit Standards (PSIAS). These standards comprise

- a Definition of Internal Auditing,
- a Code of Ethics and the Standards by which Internal Audit work must be conducted
- the mission of Internal Audit
- core Principles for the Professional Practice of Internal Auditing and
- the standards by which internal audit work must be conducted.

Any instances of non-conformance with the PSIAS must be reported to the board and the Joint Audit Committee and significant deviations must be considered for inclusion within Annual Governance Statements and may impact on the external auditor's value for money conclusion.

1.4 An audit charter is one of the key requirements of the PSIAS. As such, failure to approve an internal audit charter may be considered to be a significant deviation from the requirements of the Standards.

1.5 The charter must be presented to senior management, reviewed by the Joint Audit Committee and must be approved by the Police and Crime Commissioner and the Chief Constable, as the body charged with governance.

1.6 The Public Sector Internal Audit Standards use the terms ‘board’ and ‘senior management’ and require that the audit charter defines these terms for the purpose of the internal audit activity.

For the purposes of this charter the ‘board’ refers to the Police and Crime Commissioner and / or the Chief Constable. The Joint Audit Committee for the Cumbria OPCC and Cumbria Constabulary is an independent Committee fulfilling an assurance role in support of the overall arrangements for governance. The terms of reference of the Committee, in accordance with the recommendations of the CIPFA publication “Audit Committees Practical Guidance for Police and Local Authorities” incorporate review of the Internal Audit Charter. ‘senior management’ refers to the Police and Crime Commissioner, Chief Executive and Joint Chief Finance Officer for the OPCC and for Cumbria Constabulary the Chief Officer Group.

The Role, Mission and Core Principles of Internal Audit

2.1 Internal Audit is an independent, objective assurance and consulting service designed to add value and improve the Commissioner and Chief Constable’s operations. Internal Audit helps the Commissioner and Chief Constable to accomplish their objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. Arrangements for internal audit are secured by the Joint Chief Finance Officer on behalf of the Commissioner and Chief Constable through the Cumbria shared Internal Audit Service.

2.2 The mission of internal audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

2.3 The Cumbria Shared Internal Audit Service (“Internal Audit”) provides an Internal Audit function for Cumbria County Council (the host authority), and Cumbria Constabulary and the Cumbria Office of the Police and Crime Commissioner

2.4 The services provided by Internal Audit are designed to assist the Commissioner and Chief Constable to continually improve the effectiveness of their respective risk management, control and governance framework and processes and to allow an independent, annual opinion to be provided on the adequacy of these arrangements.

2.5 Internal Audit activities in support of this include:

- Planning and undertaking an annual programme of risk-based Internal Audit reviews focusing on risk management, internal control and governance
- Review of arrangements for preventing, detecting and dealing with fraud and corruption
- Review of overall arrangements for risk management and corporate governance
- Review of grant funded expenditure where assurance is required by funding bodies or where risks are considered to be high
- Provision of advice on risk and control related matters
- Consultancy services which may include hot assurance on projects or service and system development (provided the assignment contributes to improved governance, risk management internal control and where relevant value for money, and does not impact on the level of core assurance work)
- Investigation of suspected fraud or irregularity or provision of advice and support to management in undertaking an investigation
- Advice on strengthening controls following such an incident

2.6 The Core Principles, taken as a whole, articulate internal audit effectiveness. The Principles as set out in the PSIAS are:

- Demonstrates integrity.
- Demonstrates competence and due professional care.
- Is objective and free from undue influence (independent).
- Aligns with the strategies, objectives, and risks of the organisation.
- Is appropriately positioned and adequately resourced.
- Demonstrates quality and continuous improvement.
- Communicates effectively.
- Provides risk-based assurance.
- Is insightful, proactive, and future-focused.
- Promotes organisational improvement.

Purpose, Authority, Responsibility and Objectives

Purpose

3.1 Internal audit is described by the Chartered Institute of Internal Auditors as a key component of corporate governance. When properly resourced, positioned and targeted, internal auditors act as invaluable eyes and ears for Senior Management, the Board and Audit Committees inside their organisations, giving an unbiased and objective view on what's happening in the organisation.

3.2 Internal Audit's core purpose is to provide Senior Management, the Joint Audit Committee and the board with independent, objective assurance that their respective organisations have adequate and effective systems of risk management, internal control and governance.

3.3 By undertaking an annual risk assessment and using this to prepare the annual risk-based audit plan, Internal Audit is able to target resources at the areas identified as highest risk to the Commissioner and Chief Constable. This then allows Internal Audit to give an overall opinion on the Commissioner and Chief Constable's systems of risk management, internal control and governance.

3.4 The annual report and opinion is a mandatory requirement and is a key contributor to the Commissioner and Chief Constable's Annual Governance Statements which accompany the annual statement of accounts. The Governance Statement provides assurance that an effective internal control framework is in place.

3.5 Internal Audit supports the Joint Section 151 Officer to discharge his responsibilities under section 151 of the Local Government Act 1972, the Accounts and Audit Regulations 2015 and 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. This Statement places on the Joint Chief Finance Officer, the responsibility for ensuring that the Commissioner and Chief Constable have put in place effective arrangements for internal audit of the control environment and systems of internal control as required by professional standards.

3.6 Internal Audit supports the Chief Executive and Chief Constable in providing high level assurances relating to the OPCC and Constabulary's Governance arrangements.

3.7 Internal Audit also supports the Monitoring Officer in discharging his / her responsibilities for maintaining high standards of governance, conduct and ethical behaviour.

Authority

3.8 This charter provides the authority for Internal Audit's right of access to all activities, premises, records, personnel, cash and stores as deemed necessary to undertake agreed internal audit assignments. In approving this charter, the Commissioner and Chief Constable have approved this right of access and therefore the responsibility of all officers to comply with any reasonable request from members of the Cumbria Shared Internal Audit service.

3.9 This charter delegates to the Audit Manager for the Commissioner and Chief Constable, the responsibility to undertake an annual risk assessment in consultation with each organisation's management, and from this, prepare a risk based plan of audit work for review by the Joint Audit Committee and approval by the board.

3.10 Internal Audit shall have the authority to undertake audit work as necessary within agreed resources so as to achieve audit objectives. This will include determining the scope of individual assignments, selecting areas and transactions for testing and determining appropriate key contacts for interview during audit assignments.

3.11 The charter establishes that the Group Audit Manager and Audit Manager of the Shared Internal Audit Service has free and unfettered access to the board and the Joint Audit Committee and has the right to request a meeting in private with the Commissioner, Chief Constable and/or Chair of the Joint Audit Committee should it become necessary. The Group Audit Manager and Audit Manager will have at least an annual meeting in private with the Joint Audit Committee.

Responsibilities and Objectives

3.12 Internal audit's primary objective is to undertake an annual programme of internal audit work that allows an annual opinion to be provided on the overall systems of risk management, internal control and governance for the Commissioner and Chief Constable.

3.13 The Group Audit Manager and their staff have responsibility for the following areas:

Planning

- Develop an annual internal audit plan using a risk based methodology, based on at least an annual assessment of risk and incorporating risks and concerns identified by senior management

- Submit the annual audit plan to senior management and the Joint Audit Committee for review prior to approval by the board.
- Review agreed audit plans in light of new and emerging risks and report any necessary amendments to agreed plans to the Joint Audit Committee and board as appropriate.

Implementation

- Deliver the approved annual programme of internal audit work and report the outcomes in full to senior management (as agreed at the scoping stage of each engagement) and to the Joint Audit Committee
- Monitor implementation of agreed audit recommendations through follow up process and report the outcomes to Senior Management and the Joint Audit Committee

Reporting

- Any significant issues arising during audit fieldwork will be discussed with management as they are identified
- Draft audit reports will be produced on a timely basis following all audit reviews and these will be discussed with management prior to finalising, to ensure the factual accuracy of the report and incorporate management responses
- Quarterly progress reports will be prepared and reported formally to the Joint Audit Committee
- Internal Audit has a responsibility to report to the board any areas where there is considered that management have accepted a level of risk that may be unacceptable to the organisation
- Internal Audit has a duty to bring to the attention of the board and the Joint Audit Committee should the Group Audit Manager believe that the level of agreed resources will impact adversely on the provision of the annual audit opinion

Relationships with other Inspectorates

- Internal Audit will maintain effective relationships with other providers of assurance and external inspectorates in order to avoid duplication of effort and enable Internal Audit, where appropriate, to place reliance on the work of other providers

Non-Audit / management responsibilities

In order for Internal Audit to maintain its independence and thereby provide an independent and objective opinion, there are a number of areas that internal audit is not responsible for:

- Internal Audit does not have any operational responsibilities
- Internal Audit does not have any part in decision making within the organisations or for authorising transactions
- Internal Audit is not responsible for implementing its recommendations or for ensuring that these are implemented

3.14 The presence of Internal Audit does not in any way detract from management's responsibilities for maintaining effective systems of governance, risk management and internal control.

3.15 Internal Audit does not have responsibilities for preventing or detecting fraud or error, this is the responsibility of the management of the respective organisations. Internal Audit's role is to provide senior management, the board and the Joint Audit Committee with assurance that the management of the organisation have themselves established procedures that allow them to prevent or detect fraud or error and to respond appropriately should this occur.

3.16 It is the responsibility of the Commissioner and Chief Constable's management to maintain adequate systems of internal control and to review their systems to ensure that these controls continue to operate effectively.

3.17 The role of Internal Audit vs the Management of the organisation is summarised in the diagram at appendix A.

Scope of Internal Audit Work

4.1 The scope of Internal Audit work covers the entire systems of risk management, internal control and governance across each participating organisation. This allows Internal Audit to provide assurance that appropriate arrangements are in place to ensure that:

- The organisations risks are being appropriately identified, assessed and managed;
- Information is accurate, reliable and timely;
- Employees' actions are in compliance with expected codes of conduct, policies, laws and procedures;
- Resources are utilised efficiently and assets are secure;
- The organisations plans, priorities and objectives are being achieved;
- Legal and regulatory requirements are being met

Position and Reporting Lines for Internal Audit

5.1 Internal Audit reports operationally to the Joint Chief Finance Officer (S151 Officer). Functional reporting is to the Joint Audit Committee.

5.2 On a day to day basis Internal Audit will report the outcomes of its work to the senior officer responsible for the area under review. Progress and performance of Internal Audit will be monitored by the Joint Chief Finance Officer who is charged with ensuring each organisation has put in place effective arrangements for Internal Audit of the control environment and systems of internal control as required by professional standards.

5.3 Internal Audit reports the outcomes of its work to the Joint Audit Committee on a quarterly basis. This includes as a minimum, a progress report summarising the outcomes of Internal Audit engagements as well as the performance of Internal Audit against the approved plan of work. Where audit activity has raised significant matters with regard to weaknesses in internal control, defined as audit reports providing either only 'limited~~/no~~' or 'partial' assurance or recommendations graded 'High', indicating significant risk exposure identified arising from a fundamental weakness in the system of internal control, reports will be escalated by the Joint Chief Finance Officer to the board.

5.4 On an annual basis, Internal Audit will prepare and present to the board and Joint Audit Committee, an annual report containing:

- The overall opinion of the ~~responsible~~ Group Audit Manager
- A summary of the work undertaken to support the opinion; and
- A statement of conformance with the Public Sector Internal Audit Standards

5.5 Should significant matters arise in relation to the work of Internal Audit; these will be escalated through the management hierarchy to the Commissioner, Chief Constable and/or to the Chair of the Joint Audit Committee as appropriate.

5.6 Where major changes are required to the agreed audit plan or Internal Audit is required to divert resource to urgent non-planned work, this will be agreed with the Joint Chief Finance Officer and reported to the board and Joint Audit Committee. All changes to approved audit plans will be reported to the next meeting of the Joint Audit Committee.

Ethics, Independence and Objectivity

Ethics

6.1 Internal Audit works to the highest standards of ethics and has a responsibility to both uphold and promote high standards of behaviour and conduct.

6.2 All internal auditors working within the UK public sector are now required to comply with the mandatory Code of Ethics contained within the new Public Sector Internal Audit Standards. As such this code has been adopted by the Shared Internal Audit Service and all staff are required to sign up to the Code on an annual basis. Auditors within the shared service are also required to comply with the code of ethics of their professional bodies.

Governance and Independence of the Shared Internal Audit Service

6.3 Internal Audit is a Shared Audit Service between Cumbria County Council and the Office of the Police and Crime Commissioner (representing also Cumbria Constabulary).The host authority for the delivery of the Shared Audit Service is Cumbria County Council.

6.4 The governance of the provision of the Shared Internal Audit Service shall be carried out by the S151 Officer of the County Council and Joint Chief Finance Officer whose role is to:

- Ensure that the Shared Internal Audit Service meets the requirement of the proper practices for Internal Audit
- Reach common agreement over issues such as standards, goals and objectives and reporting requirements
- Agree on the range of audit outputs
- Confirm the scope and remit of the audit function
- Agree reporting and performance arrangements for Internal Audit, including performance measures, delivery of plan, cost and impact tracking

Independence

6.5 Internal Audit is independent of all of the activities it is required to audit which ensures that the board and Joint Audit Committee can be assured that the annual opinion they are given is independent and objective. Whilst the Group Audit Manager reports operationally to the Joint Chief Finance Officer, there is also a functional reporting line to the board and the Joint Audit

Committee and the Group Audit Manager has direct access to the Commissioner, Chief Constable and the Chair of the Joint Audit Committee.

6.6 Internal auditors will not undertake assurance work in areas for which they had operational responsibility during the previous 12 months.

6.7 Internal auditors will report annually to the board and Joint Audit Committee to confirm that the independence of Internal Audit is being maintained.

Resourcing, Proficiency and Due Professional Care

6.8 For Internal Audit to provide an opinion to the Commissioner and Chief Constable there must be a sufficiently resourced team of staff with the appropriate mix of skills and qualifications. Resources must be effectively deployed to deliver the approved programme of work.

6.9 It is the responsibility of each organisation to ensure that it approves a programme of audit work sufficient to provide an adequate level of assurance over their systems of risk management, internal control and governance.

6.10 In line with the requirements of the Standards, in the event that the Group Audit Manager considers that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, the consequences will be brought to the attention of the board and the Joint Audit Committee.

6.11 In line with the requirements of the PSIAS and the CIPFA Statement on the Role of the Head of Internal Audit 2019~~0~~, the Group Audit Manager and Audit Manager are professionally qualified and appropriately experienced.

The Role of Internal Audit in Fraud-related work

6.12 The PSIAS require that the role of Internal Audit in any fraud-related work is defined within the audit charter.

6.13 It is a requirement of the arrangements for Anti-fraud and Corruption within the COPCC and Constabulary that Internal Audit will be made aware of any actual incidence of fraud and corruption and will undertake a review where necessary with regard to providing assurance on any associated weaknesses within internal control. The arrangements for the Commissioner provide for internal audit to undertake any necessary investigation.

Advice / Consultancy work

6.14 Where Internal Audit is requested to provide advice, consultancy or investigatory work, the request will be assessed by the Group Audit Manager. Such assignments will be accepted only where it is considered the following criteria are met:

- The work requested can be accommodated within the agreed audit days and Internal Audit has the skills to deliver the work
- The assignment will contribute to strengthening the control framework and / or improve value for money
- No conflict of interest could be perceived from Internal Audit's acceptance of the assignment

6.15 In line with the PSIAS, approval will be sought from the board for any significant additional consulting services not already included in the audit plan prior to accepting the engagement.

Management Responsibilities

7.1 For Internal Audit to be fully effective, it needs the full commitment and cooperation from the Commissioner and Chief Constable's senior management. In approving this charter, the board is mandating management to cooperate with Internal Audit in the delivery of the service by:

- Attending audit planning and scoping meetings and agreeing terms of reference for individual audit assignments on a timely basis
- Sponsoring each audit assignment at Chief Officer level or above
- Providing Internal Audit with full support and cooperation, including complete access to all records, data, property and personnel relevant to the audit assignment on a timely basis
- Responding to Internal Audit reports and making themselves available for audit closeout meetings to agree draft audit reports
- Implementing audit recommendations within agreed timescales

7.2 Instances of non-cooperation with reasonable audit requests will be escalated through the Joint S151 Officer and ultimately to the board if necessary.

7.3 While Internal Audit is responsible for providing independent assurance to the Commissioner and Chief Constable, it is the responsibility of management to develop and maintain appropriately controlled systems and operations. Internal Audit does not remove the responsibility from management to continually review the systems and processes for which they are responsible and to provide their own assurance to senior management that they are maintaining appropriately controlled systems.

Quality Assurance

8.1 Public Sector Internal Audit Standards require that the Internal Audit function is subject to a quality assurance and improvement programme that must include both internal and external assessments. Internal Audit will report the outcomes of quality assessments to the Joint Audit Committee through its regular reports.

Internal assessments

8.2 All internal audit reviews are subject to management quality review to ensure that the work meets the standards expected for audit staff. Such management review will include:

- Ensuring the work complies with the PSIAS
- Work is planned and undertaken in accordance with the level of assessed risk
- Appropriate testing is undertaken to support the conclusions drawn

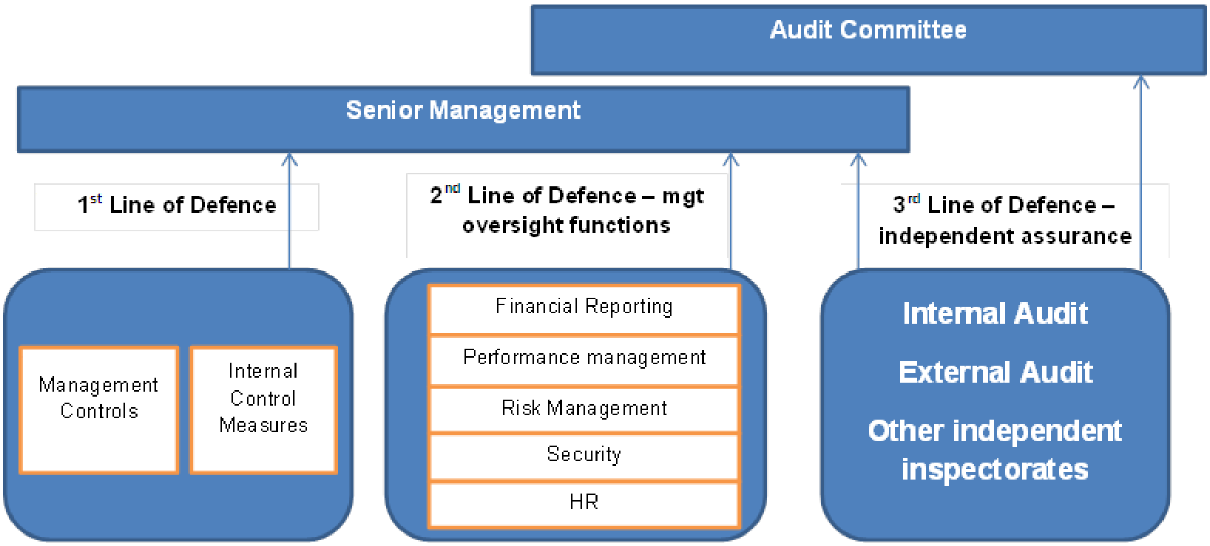
External assessments

8.3 An external assessment must be conducted at least every five years by a qualified, independent assessor from outside the organisation. The Group Audit Manager will discuss options for the assessment with the Shared Services Board before making recommendations for approval by the respective board/Audit Committees.

Review of Audit Charter

9.1 The charter will be reviewed annually and submitted to Senior Management and the Joint Audit Committee for review prior to approval by the board alongside the annual audit plan.

Internal Audit – The Third Line of Defence



The above diagram demonstrates the three lines of defence in ensuring that organisations are adequately managing their risks.

The first line of defence comprises the arrangements that operational management have implemented to ensure risks are identified and managed. These include the controls that are in place within systems and processes together with the management and supervisory oversight designed to identify and correct any issues arising.

The second line of defence refers to the strategic oversight arrangements that are designed to provide management with information to confirm that the controls in the first line of defence are operating effectively. For example the risk management policies and strategies that determines how risks within the organisation will be identified, assessed and managed and the reporting arrangements to confirm that these policies and strategies are being appropriately implements and complied with.

Internal audit forms the third line of defence alongside other independent providers of assurance. The role of internal audit is to provide the senior management and Commissioner and Chief Constable with assurance that the arrangements within the first and second lines of defence are adequate and working effectively to manage the risks faced by their respective organisations.

Internal Audit Performance Measures

KPI	Measure of Assessment	Target (and frequency of measurement)	Why is this important / rationale
Annual Measures to be reported in the Annual Report			
Output Measures			
Compliance with Public Sector Internal Audit Standards	Quality Assurance and Improvement Programme & checklist for assessing conformance with the PSIAS	100%. On-going and annual review to demonstrate conformance with the definition of Internal auditing, code of ethics and standards.	The internal audit service is required to comply with the PSIAS.
Preparation of audit plan	Preparation of risk based audit plan to meet client timetables	100%. Measured annually	Annual agreed audit plan is required to enable delivery for the client.
People Measures			
CPD / Training	Average number of days for skills training per auditor	6 days per person. Reported annually.	CPD is a requirement of the PSIAS. An appropriately skilled workforce will ensure that staff within Internal Audit are continuously improving and adding value to the service provided to clients.

KPI	Measure of Assessment	Target (and frequency of measurement)	Why is this important / rationale
Monthly management measures to be reported to Audit Committees Quarterly			
Output Measures			
Planned audits completed	% of planned audit reviews (or approved amendments to the plan) completed in respect of the financial year.	95% (annual per shared service agreement, 95% target reflects need for audit plans to be dynamic and respond to emerging risks). This indicator will be monitored and reported quarterly to ensure the plan is on track to be delivered.	To enable an annual opinion to be provided on the overall systems of risk management, governance and internal control.
Audit scopes agreed	% of audit scopes agreed with management and issued before commencement of the audit fieldwork	100% Measured monthly Reported quarterly	To ensure the audit is targeted to key risks, has management buy in and adds value.
Draft reports issued by agreed deadline	% of draft internal audit reports issued by the agreed deadline or formally approved revised deadline agreed by Audit Manager and client.	80% (target is a reflection that this is a new way of working and deadlines may be impacted by several factors including client availability) Measured monthly Reported quarterly	Timely reports add impact and provide on-going assurance as the year progresses.
Timeliness of final reports	% of final internal audit reports issued for Chief Officer comments within 5 working days of management response or closeout.	90% (target recognises that there may on occasion be delays in finalising reports, e.g. where further work is required to resolve matters identified at closeout meeting) Measured monthly. Reported quarterly	Timely reports add impact.

KPI	Measure of Assessment	Target (and frequency of measurement)	Why is this important / rationale
Recommendations agreed	% of recommendations accepted by management	95% quarterly benchmark (the benchmark reflects that it is management's responsibility to assess their risks and take final decision on whether risk may be accepted)	Measures the quality and effectiveness of internal audit recommendations
Follow up	% of high priority audit recommendations implemented by target date	100% Quarterly	Indicates that Internal Audit are adding value to the organisation.
Follow up	% of high and medium priority audit recommendations implemented by target date	100% Quarterly	Indicates both that, Internal Audit are adding value to the organisation, and that the organisation is implementing recommendation on a timely basis to improve governance and internal arrangements.
Assignment completion	% individual reviews completed to required standard within target days or prior approved extension by Audit Manager	75% (target reflects that this is a new way of working for the audit service and systems for monitoring time spent on assignments may need to be further developed) Measured monthly. Reported quarterly.	To ensure that all audit plans across the shared service can be delivered.
Quality Assurance checks completed	% QA checks completed	100%. Measured monthly	To ensure compliance with the Public Sector Internal Audit Standards.

KPI	Measure of Assessment	Target (and frequency of measurement)	Why is this important / rationale
		Reported quarterly	Provides on going feedback to the audit team and identifies areas of good practice and areas for improvement
Customer Measures			
Post audit customer satisfaction survey feedback	% of customer satisfaction surveys scoring the service as 'good'	80% (target reflects the need for internal audit to strive to deliver a customer focused service, but that due to the nature of internal audit roles and responsibilities, may not always elicit positive feedback) Measured monthly. Reported quarterly	Gauge customer satisfaction and continuously improve the audit service.
People Measures			
Efficiency	% chargeable time	80% (target takes account of non-chargeable activities such as staff holidays, service development projects and team meetings). Measured monthly. Reported quarterly	Measure of productivity.

CUMBRIA POLICE & CRIME COMMISSIONER AND CUMBRIA CONSTABULARY JOINT AUDIT COMMITTEE

Meeting date: 18th March 2020

From: Audit Manager (Cumbria Shared Internal Audit Service)

QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

1.0 Executive Summary

1.1 The Public Sector Internal Audit Standards require that the 'Chief Audit Executive' must develop and maintain a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit activity'. For the Shared Internal Audit Service the Chief Audit Executive is the Group Audit Manager.

1.2 The QAIP is designed to provide assurance that the work of internal audit is undertaken in conformance with the Public Sector Internal Audit Standards.

1.3 Key elements of the QAIP are:

- Ongoing monitoring of the performance of the internal audit activity
- Periodic self-assessments or assessments by other persons within the organisation with sufficient knowledge of internal audit practices; and
- External assessments conducted in accordance with the PSIAS

2.0 Recommendation

2.1 Members are asked to note the Quality Assurance and Improvement Programme.

3.0 BACKGROUND

3.1 The PCC and Chief Constable must make proper provision for internal audit in line with the 1972 Local Government Act. The Accounts and Audit Regulations 2015 require that the PCC and Chief Constable to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes taking into account public sector internal audit standards or guidance. 'Proper audit practices' are defined as those stated within the Public Sector Internal Audit Standards (PSIAS) which became mandatory for all UK public sector internal auditors from 1st April 2013.

3.2 The PSIAS require that a Quality Assurance and Improvement Programme is in place to provide reasonable assurance that Internal Audit:

- Performs its work in accordance with its Charter, which is consistent with the Public Sector Internal Audit Standards, Definition of Internal Auditing and Code of Ethics;
- Operates in an effective and efficient manner; and
- Is perceived by stakeholders as adding value and continually improving Internal Audit's operations as well as contributing to the organisation achieving its objectives.

3.3 Specific requirements of the PSIAS are that it:

- Monitors the Internal Audit activity to ensure it operates in an effective and efficient manner (1311)
- Assures compliance with the *Standards*, Definition of Internal Auditing and Code of Ethics (1311)
- Includes both periodic and ongoing internal assessments (1311)
- Includes an external assessment at least once every five years (1312)
- Reporting on the results of the QAIP and any improvement plans in the annual report (1320)
- Disclosure of non conformance with the Definition of Internal Auditing, the Code of Ethics or the Standards (1322)
- Helps the Internal Audit activity add value and improve organisational operations (2010)

3.4 A core element of the QAIP is the measures of performance that will allow internal audit to monitor its performance, identify improvements and demonstrate the value it adds to the OPCC and Constabulary. The suite of performance measures is appended to the Cumbria OPCC and Constabulary Internal Audit Charter.

3.5 The QAIP is documented in Appendix 1 and progress with the findings arising from the November 2017 External Quality Assessment is included as Appendix 2.

Emma Toyne
Audit Manager

28th February 2020

APPENDICES

Appendix 1: Quality Assurance and Improvement Programme

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Appendix 1 – Quality Assurance and Improvement Programme

INTERNAL ASSESSMENTS (PSIAS ref: 1311)

On-going reviews conducted through	Elements
Supervision of engagements	• Work is allocated from the annual risk based plan by the internal audit management team across the shared service • Staff are involved in developing audit scope in conjunction with audit clients prior to commencement • Work is supervised to ensure that it complies with the approved methodology for carrying out an audit • Audit Manager / Principal Auditor attend close out meetings to support the auditor and ensure that key messages are relayed appropriately • Internal Audit reports signed off by Audit Manager • Audit reports with less than Reasonable Assurance subject to final review by Group Audit Manager
Regular, documented review of working papers during engagements	Audit Manager / Principal Auditor review each audit file to ensure: • The scope and objectives of the audit have been agreed with clients and adequately documented and communicated • Key risks have been identified • The audit testing strategy has been designed to meet the objectives of the audit and testing undertaken to the extent necessary to provide an audit opinion for each piece of work • Audit has been completed in a thorough, accurate and timely manner • The standard of working papers and evidence collected during the audit are in accordance with audit processes and procedures • The draft audit report fully reflects all findings from the audit and these are properly explained and

On-going reviews conducted through	Elements
	practical recommendations made • The assurance rating is fully supported by the working papers and can be justified by the auditor • The audit has been completed within the time allocation • The audit report has been produced to a good standard in an accurate and timely manner • Training and development needs are identified through the review process. Periodic reviews by the Group Audit Manager to ensure that the quality assurance process is being applied consistently.
Audit manual containing all key policies and procedures to be used for each engagement to ensure compliance with applicable planning, fieldwork and reporting standards	The audit manual contains the risk based audit methodology and key working papers, the code of ethics and performance measures for the shared internal audit service. The audit manual is updated on an on-going basis as required.
Feedback from customer survey on individual assignments	• Customer feedback form is linked to performance measures for internal audit. • Feedback form issued for all risk based internal audit assignments • Feedback from client satisfaction forms passed on to individual auditors. Any areas identified for learning and development are taken forward • Any common issues are identified and action taken where necessary
Analysis of performance measures established to improve internal audit effectiveness and efficiency	• Monthly monitoring of performance measures by the audit management team • Feedback to individuals / teams as appropriate • Reporting to audit committees on a quarterly basis.
All final reports and	Formal sign off and issue of all final reports and

On-going reviews conducted through	Elements
recommendations are reviewed and approved by the Audit Manager	recommendations by Audit Manager. Audit report template includes comments from Director or equivalent.

Periodic reviews conducted through	Elements
Annual risk assessments for the purposes of annual audit planning	• Annual risk assessment of each organisation's audit universe as part of the planning process
Annual assessment of Internal Audit's conformance with its Charter, PSIAS with an improvement plan produced to address any areas of non-conformance identified	• Review of Charter for conformance • Annual completion of CIPFA checklist for assessing conformance with the PSIAS • Improvement plan produced to address areas of non-conformance. • Service development plan identifying actions for service improvement.
Benchmarking with other Internal Audit service providers	• CIPFA benchmarking • Networking at Police Audit Group Conference (national event)
Quarterly reports to audit committees on progress with delivery of the audit plan	• Preparation of progress report for each Joint Audit Committee and attendance at JAC by Group Audit Manager and / or Audit Manager.
Annual sign up to Code of Ethics by all internal audit staff	• Signed declaration from all internal audit staff
Annual completion of declaration of business interests from by all internal audit staff	• Signed declaration from all internal audit staff

EXTERNAL ASSESSMENTS (PSIAS ref: 1312)

External Assessments will be carried out in accordance with the requirements of the PSIAS and reported to Joint Audit Committee as appropriate.

The first External Quality Assessment was carried out in November 2017, in line with the requirement of the PSIAS to have an external assessment at least every five years.

REPORTING ON THE QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME (PSIAS ref: 1320)

The results of the quality assurance programme and progress against any improvement plans must be reported in the annual report.

Internal Assessments – outcomes of internal assessments will be reported to the Joint Audit Committee on an annual basis;

External Assessments – results of external assessments will be reported to the Joint Audit Committee and S151 officer at the earliest opportunity following receipt of the external assessors report. The external assessment report was accompanied by a written plan in response to findings and recommendations contained in the report and was reported to Joint Audit Committee in March 2018. An update was presented to the March 2019 JAC.

Follow up – All audits receiving less than reasonable assurance will be followed up.

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Appendix 2 - EXTERNAL QUALITY ASSESSMENT (EQA) FINDINGS UPDATE

Finding	Action	What we have done	Status
Nature of internal auditing (Standard 2100 Nature of internal audit work)			
Finding 1 Risk based internal audit is most effective when the organisation has a clear definition of its strategic risks with detailed identification of the controls and monitoring arrangements designed to mitigate the risks to an acceptable level. From this it is then possible to match who is best placed to provide assurance mitigation is working (an assurance map based on the 3 lines of defence) to prevent gaps or duplication in assurance. The annual internal audit plan can then be derived from the assurance map and include review of those other forms of assurance. Our recommendations below are designed to achieve this objective and will further facilitate general conformance to professional internal auditing standards. However, we would ask the Joint Audit & Standards Committee to consider its overall aim for risk based auditing and how a risk based culture will be reinforced.	Action 1 – OPCC and Constabulary action Both the OPCC and Constabulary consider their approach to risk management is robust and meets the needs of the organisations. The OPCC and Constabulary consider that the current Internal Audit approach to planning gives a broader base than focusing solely on strategic risks.	No action required.	Complete as reported in March 2019

Finding	Action	What we have done	Status
Coordination and reliance (Standard 2010 Planning – non-conformance)			
Finding 2 We acknowledge the work to date to develop strategic risk management processes. As part of this progress management should begin to map who is best placed to provide assurance that the risk mitigation for strategic risks is reliable and working. Active participation by the Group Audit Manager to achieve a coordinated approach will help to maximise assurance resources and achieve conformance to the standard.	Action 2 – OPCC, Constabulary and Internal Audit action Internal Audit set time aside in the 2018/19 audit plan to support the OPCC and Constabulary in undertaking an assurance mapping exercise.	We provided information on assurance mapping to the Constabulary and OPCC. The Constabulary produced a document setting out the 'Assurance Landscape for Policing' which was appended to the updated risk management policy approved in May 2019.	Complete
Responsibilities regarding governance and risk management (Standard 2110 Governance and Standard 2120 Risk management – partial conformances)			
Finding 3 The aim of the internal audit plan is to provide a broad range of assurance to enable the board to deliver an annual statement of control. In support of this aim we suggest that the Group Audit Manager gives an annual opinion upon: a) The development of an effective risk culture and risk maturity through specific governance audits and risk management	Action 3 – Internal Audit action Provision has been included within the 2018/19 audit plan for additional liaison with Risk Management colleagues to fulfil this requirement. In addition, regular audits will continue to include an assessment of risk management arrangements where appropriate. Future audit plans will also include provision for reporting an opinion on risk management.	The annual opinion for 2018/19 included specific commentary on the areas suggested. Work is underway to deliver the 2019/20 opinion. Time has been included in the 2020/21 internal audit plan to report an opinion on risk management.	Complete

audits. b) The application of corporate risk management arrangements, including implementation of processes, management of emerging risks, and the effectiveness of training. c) The development of operational risk management based upon specific assessment of risk processes in individual audits. d) Progress towards assurance mapping and the coordination of assurance arising from specific assurance audits.			
Direct interaction with the Joint Audit & Standards Committee (Standard 1111 – partial conformance)			
Finding 4 The recommendations above regarding coordination and planning will be challenging and we feel further interaction with the Joint Audit & Standards Committee, along with senior management consultation, is needed to explore how they will be delivered and monitored, particularly with regard to annual priorities.	Action 4 – Internal Audit action This action plan together with a longer term plan for the Internal Audit service will be reported to Joint Audit & Standards Committee on a regular basis to give clear oversight of the actions planned to further develop the service.	As part of the production of the 2020/21 Internal Audit Plan we have had more discussion at Collaborative Board level. This update provides Joint Audit Committee with progress on delivery of improvement actions identified through the EQA and the continuous improvement of the Shared Internal Audit Service	On-going

Finding	Action	What we have done	Status
Overall planning of audit assignments (Standard 2200 Engagement planning, Standard 2201 Planning considerations, Standard 2210 Engagement objectives, Standard 2220 Engagement scope – partial conformances)			
Finding 5 Individual audits need closer alignment to specific risks (identified during the development of the audit plan) to reaffirm their specific purpose and include definition of the key risks and controls associated with that subject as opposed to reference to wider more generic risks. In some cases, this may prompt sessions with management so auditors can assess the adequacy of controls and monitoring as opposed to the current practice of internal audit documenting 'expected controls' in advance of the audit. We note the most successful audits involve consultation with senior managers as sponsors to fine tune and tighten the objectives and scope to specific risks and we encourage this practice. Realistic timetables need to be set for interviews, testing and reporting in advance with the sponsor to help the achievement of such targets. We also recommend the introduction of shorter 3 – 5 day specific reviews that focus on key controls within systems and procedures where risks	Action 5 – Internal Audit action A project will be established to take this recommendation forward. Some audits within the 2018/19 audit plan have been included with the intention of focusing in on key controls (eg main financial systems). All audits have a scoping meeting with a Chief Officer to agree the scope. This will continue to be an important part of our audit process. The audit plan for 2018/19 includes a number of shorter audits than in previous years. We will continue to develop our approach during 2018/19 with the aim of reducing these further if possible in 2019/20.	We have continued to hold scoping meeting with relevant Senior Officers. This continues to be an important part of our audit process which allows us to focus on specific risks. Key controls testing takes place on main financial systems.	Complete

and controls are known and established.			
Use of resources (Standard 2030 Resource management – partial conformance)			
Finding 6 The current audit methodology was developed when the team included staff with little or no experience of risk based internal auditing. This has resulted in several supervision points in the process with extensive documentation requirements. As a result many audits often overrun and audit managers do not have time available to undertake audit work. There is now the opportunity to review the audit methodology to streamline the process. For example, revisiting the documentation standards and supervision stages to reduce time spent on these activities. In doing so a target should be set to increase the number of days available to the plan, which may involve assigning more audits to the most senior audit managers thus ensuring the allocation of challenging audits to the most experienced people.	Action 6 – Internal Audit action The risk based approach was a significant change in audit approach and a detailed methodology was appropriate at the time. Joint Audit & Standards Committee were briefed at the time about the changes and the challenges the new approach presented. Over runs are not considered to be an issue in delivery of our work for the Constabulary and OPCC. Our approach to overruns has been addressed though the Shared Service host authority's EQA report and action plan. We will review our audit approach during 2018/19 to identify efficiencies in the process, including where appropriate the management and supervision stages. Audits are assigned according to skills, experience, development needs and availability of team members.	Supervision points are in line with the PSIAS and are defined within the QAIP. We continually seek to identify efficiencies in the process whilst ensuring a quality product through management and supervision. During 2019/20 we set up some working groups to look at refining our processes further. One outcome from this is an updated follow up audit methodology.	On-going

Tracking audit recommendations (Standard 2500 Monitoring progress – partial conformance			
Finding 7 At present follow up of audit actions is limited and therefore may undermine the overall benefit of internal audit work. Once audit follow-up of partial or limited assurance assignments has been undertaken the responsibility for further progress reporting is handed over to management and there is a risk that some important issues may remain outstanding. We understand that senior managers in some areas have recognised this and have been initiating monitoring and reporting. We recommend that management in all areas are asked to undertake such monitoring and that the Joint Audit & Standards Committee receive regular updates.	Action 7 Internal Audit considers that this is already in place at the OPCC / Constabulary. All audit recommendations are reported to and monitored by JAC at each meeting until they are implemented.	No action required.	Complete

Peter McCall

Capital Strategy 2020/21

Office of the Police and Crime Commissioner Report

Joint Audit Committee 18 March 2020

Title: Capital Strategy 2020/21

Report of the Joint Chief Finance Officer

Originating Officers: **Roger Marshall, Joint Chief Finance Officer;**
Lorraine Holme, Financial Services Manager

1. Purpose of the Report

1.1. This capital strategy was a new report for 2019/20, intended to give a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability.

1.2. The aim of this report is to provide enough detail to allow non-financial decision makers to understand how stewardship, value for money, prudence, sustainability and affordability will be secured without repeating in detail the information that is contained in other documents presented as part of this suite of capital and treasury management reports (agenda items 10b & 10c)

1.3. These reports meet the reporting requirements of the Charted Institute of Public Finance and Accounting (CIPFA) Prudential Code for capital finance in Local Authorities 2017 updated guidance.

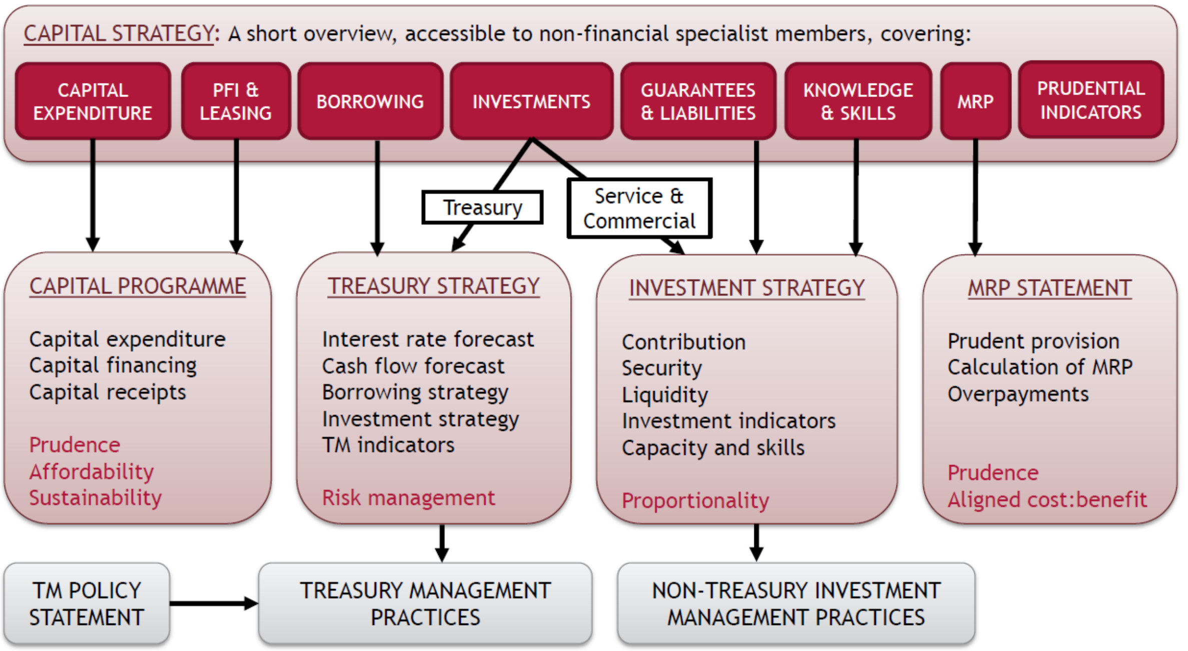
2. Recommendations

2.1. The Joint Audit Committee are asked to note the contents of the report.

3. Introduction

3.1. The CIPFA Prudential Code (the code) and guidance notes were originally issued in 2002 and were later fully revised in 2009, 2011 and again in 2017. This new code requires the Commissioner to look at capital expenditure and investment plans in light of the overall strategy and resources and ensure that the decisions are being made with sufficient regard to the long run implications and potential risks to the Commissioner.

3.2. This capital strategy report summarises the purpose and governance over a range of activities associated with capital investment and financing, which are reported on in detail elsewhere on this agenda item. The diagram below provides an overview of the scope of these activities, their inter-dependencies and reporting structures:



*The MRP Statement, Investment Strategy and the Prudential Indicators of the Commissioner are encompassed into the Treasury Management Strategy.

4. Capital Expenditure and Financing

4.1. Capital expenditure is the term used to describe expenditure on assets, such as property, vehicles and ICT equipment, that will be used (or have a life) of more than 1 year. There is some limited discretion on what is to be treated as capital expenditure and assets costing less than £25k will be charged to the revenue account in accordance with the Financial Rules and Regulations (this is known as the deminimis level).

4.2. Capital expenditure plans are under-pinned by asset strategies, which are developed by respective service leads linked to delivery of the Commissioner's Police and Crime Plan and the Constabulary's overall Vision 2025. The principal asset strategies and their objectives are

- The ICT Strategy, which has six key themes
    - On-going provision of trusted and reliable ICT services. Business as Usual
    - A cost effective and affordable ICT service
    - Actively supporting the delivery of Cumbria Vision 25
    - To implement national ICT systems
    - To meet local demand to renew and replace Core Systems and Applications
    - Collaboration
- The Estates Strategy, which aims to maintain an Estate which is fit for purpose whilst reducing overhead expenditure and maximising and exploiting existing assets.
- The Vehicle Strategy, which aims to satisfy the Constabulary's vehicle needs within a sustainable financial model.

4.3. Each strategy is refreshed annually. The updated financial implications are distilled early in the financial planning process and subsequently consolidated to produce a ten year capital programme. The overall capital programme is then subject to a process of financial scrutiny in the context of both available capital funding resources and the overall revenue budget position. The financial approval process includes specific challenge at a Capital Star Chamber chaired by the Deputy Chief Constable. The final capital programme and associated asset strategies are subject to approval by both the Constabulary Chief Officer Group and the Commissioner at his Public Accountability Conference.

4.4. The capital expenditure estimates for the current year and four year medium term are shown below:

Capital Expenditure	2018/19 Actual £m	2019/20 Forecast £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Capital Expenditure	5.21	7.10	7.55	8.00	10.88	8.36

4.5. The profile of capital expenditure fluctuates annually. Across the current four year programme, annual average expenditure typically comprises £1.5m to replace fleet vehicles, £1.5m on estate schemes (although by their nature these investments tends to be more lumpy) and around £3.0m for replacement of ICT systems and equipment.

4.6. The 2020/21 capital programme includes ICT expenditure, completion of the replacement of a number of control room systems with a single integrated solution, the national programme to replace the Police Radio System (Airwave) with an Emergency Services Network (ESN), continued development of mobile working solutions, consideration of options for ICT infrastructure and storage and the replacement of business systems. Expenditure on Estates schemes over the 4 years is dominated by the need to evaluate options and provide a territorial headquarters in the west of the county. Smaller rolling replacement schemes including CCTV are also included in all sections.

4.7. Before the commencement of each financial year the schemes for that year are revisited to be assigned an approval category. Large schemes which have previously been approved by the Commissioner following submission of a business case and the smaller rolling replacement schemes are approved on a firm basis or delegated to the Joint Chief Finance Office for future approval. Schemes requiring business cases, option appraisals and financial appraisals are given the status of indicative until they have been thoroughly scrutinised by all relevant business leads before being passed to the Police and Crime Commissioner for final approval.

4.8. The capital programme must be financed from a combination of capital grants, capital receipts, reserves, direct support from the revenue budget and, unlike, the revenue budget borrowing is permitted. Whilst it is a statutory requirement that the Commissioner agrees a balanced revenue budget, the Prudential Code requires the capital programme to be demonstrated as 'Affordable, Prudent and Sustainable'', it is up to each authority how it determines these criteria. Cumbria defines an 'Affordable, Prudent and Sustainable' programme as being fully funded (from the sources outlined above) for the medium term financial forecast period of 4 years. The revenue budget and MTFF must also fully reflect any revenue implications of the capital programme including servicing costs of borrowing.

4.9. The difficulty facing Cumbria is that capital grants have been reduced to a negligible level, the potential to generate future capital receipts is low and capital reserves are likely to be extinguished in the next four years. Whilst some additional capital borrowing is planned to finance long lived estates projects, this is not a viable option for shorter life assets such as vehicles and ICT. Collectively this means that the Capital Programme is increasingly reliant on contributions from the revenue budget to fund it. This is reflected in the revenue budget and MTFF where revenue support for capital have increased from an annual figure of £1.8m to £3.5m by the end of the forecast period.

4.10. When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debts. The capital financing has been forecast assuming that all capital receipts will be used to finance new assets rather than reduce existing debt.

4.11. Full details of the 10 year programme and associated financing can be found in the separate report 'Capital Programme 2020/21 to 2029/30' (item 10b on this agenda).

5. Treasury Management

5.1. Treasury management is concerned with keeping sufficient but not excessive cash available to meet spending needs while managing the risks involved. Surplus cash is invested until required while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Police and Crime Commissioner is generally cash rich in the short term due to the level of reserves currently held and revenue grants being received in advance of spend, but cash poor in the long term due to capital expenditure being incurred in advance of being financed.

5.2. Treasury Management involves the management of large sums of money and is therefore inherently risky. Accordingly, treasury activities are strictly controlled and managed in accordance with CIPFA's Prudential Code. The Treasury Management Strategy is approved annually by the Commissioner at his Public Accountability Conference, with activities being reported upon a periodic basis through the same meeting. The Joint Audit Committee also provides scrutiny of treasury management activities. Responsibility for treasury activities is delegated to the Joint Chief Finance Officer, who delegates responsibility for day to day management to the Head of Financial Services. The Treasury Management Strategy incorporates subsidiary investment and borrowing strategies, which are summarised below.

5.3. **Investment strategy** - Treasury investments arise from receiving cash before it is paid out again. The Commissioner makes investments because he has a cash surplus as a result of his day-to-day activities, for example when income is received in advance of expenditure (known as treasury management investments). The Commissioner does not make investments to support local public services by lending to or buying shares in other organisations (service investments), or to earn investment income (known as commercial investments where investment income is the main purpose).

The Commissioner's policy on treasury investments is to prioritise **security** and **liquidity** over **yield**; that is to focus on minimising risk rather than maximising returns. The risk that an investment counter-party defaults is very real as illustrated by the BCCI and, more recently, Icelandic Banks scandals, which impacted on public sector bodies. The investment strategy seeks to mitigate this risk by only investing in high quality, trusted counter-parties and spreading the investment portfolio across organisations. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy (subject to strict criteria) and the Commissioner may request his money back at short notice.

Whilst the Commissioner has historically held significant investments, these balances are being reduced as the Commissioner has undertaken internal borrowing to support the capital programme (see below) and reserves are drawn down to support the revenue budget.

Further details on treasury investment strategy are on pages 10 to 13 of the treasury management strategy (agenda item 10c).

5.4. **The Borrowing Strategy** – As indicated the Commissioner currently holds no external debts, other than a PFI arrangement described in section 6 of this report, with all external borrowing with the PWLB (Public Works Loans Board) having been repaid during 2012/13. However, there is an underlying need to borrow, known as the Capital Financing Requirement (CFR), arising from historical decisions to finance capital expenditure from borrowing within prudent limits. To date this has been met from internal borrowing.

5.5. The capital financing requirement (CFR) is a measure of the amount of capital spending that has not yet been financed by capital receipts, grants or contributions, it is in essence the amount of internal debt finance of the Police and Crime Commissioner. The CFR increases each time there is new capital expenditure financed by debt and decreases with MRP repayments, capital receipts assigned to repay debt or by making additional voluntary contributions. The CFR for the 31 March 2020 is forecast to be £22.15m.

Internal Borrowing – the practice of using reserves and provisions that have been set aside for future use to fund capital expenditure plans now. External borrowing comes with interest payments of currently 3%+ where investments are barely making 1% return in terms of interest, therefore there is an incremental cost to borrow in advance of need (known as cost of carry). This is therefore discouraged if there are cash reserves available that can be drawn down as an alternative to borrowing.

5.6. The main objectives when borrowing are to achieve a low but certain cost of finance, while retaining flexibility should plans change in future. These objectives are often conflicting, and the Commissioner would therefore have to strike a balance between low cost short-term loans (currently available at around 0.75%) and long-term fixed rate loans where the future cost is known but higher (currently 3.0%+). Current forecasts show that a small amount of short term borrowing, probably from other local authorities, may be required at the start of 2021/22 to bridge a shortfall in cash in advance of receipt of the new financial year's revenue grants.

It is unlikely that the Commissioner will actually exercise long term external borrowing until there is a change in the present structure of investments rates compared to the costs of borrowing, as this would result in a significant net interest cost to the revenue account in the short term. Nevertheless, such financing decisions have long term consequences and should be taken in this context. Long term interest rates will therefore be carefully monitored with the aim of deciding the most advantageous time to take on long term liabilities.

Liability Benchmark - The 2017 code encourages Authorities to define their own 'Liability Benchmark' which will provide a basis for developing a strategy for managing interest rate risk. On the basis that Link Asset Services (the Commissioner's treasury advisors) are not forecasting significant interest rate movements in the short term and that the Commissioner has no plans to make any long term external borrowing decisions over the next financial year, because of the 'cost of carry', development of a liability benchmark at this point would not provide added value. However, the Commissioner will actively develop indicators to manage interest rate risk in due course once there is more clarity over borrowing intentions.

As an assurance that borrowing is only undertaken for capital purposes and is sustainable, the Commissioner is required to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with the statutory guidance a lower 'operational boundary' is also set as a warning level should debt approach the limit.

Further details on the borrowing strategy are on pages 8 to 9 of the treasury management strategy (agenda item 10c).

6. Other Liabilities

6.1. In relation to other external liabilities the Commissioner's balance sheet currently shows debt of £4.75m in relation to a private finance initiative (PFI) scheme for the provision of the Territorial Police HQ in West Cumbria. This debt is scheduled to reduce gradually through annual unitary charge payments met from the revenue account, until 2026 when the primary arrangement comes to an end. At this point a decision on the provision of future policing facilities in West Cumbria will need to be made. Options are currently being evaluated.

6.2. The Commissioner's balance sheet also shows long term liabilities totalling £1.229bn in respect of the Local Government and Police Officer Pension Scheme deficits. These will be met through a combination of payments from the revenue budget over a long period and support from central Government. A sum of £1.4m has been set aside to cover risks from legal claims and insurance liabilities. The Commissioner is also at risk of having to pay for an unlawful discrimination claim arising from the transitional provisions in the Police pension Regulations 2015 but has not put aside any money because there has been no firm outcome to the case, no clarity of the scale of the claim and no certainty over who will bear the costs at this time.

6.3. The risk of liabilities crystallising and requiring payment is monitored by the Finance Services team. Further details on liabilities and guarantees are on page 96 of the 2018/19 statement of accounts.

7. Prudential Indicators

7.1. Both capital expenditure plans and treasury management are supported by a range of Prudential Indicators, whose purpose is to act as an early warning system that these activities are falling outside prescribed limits and may no longer be affordable, prudent or sustainable. Prudential Indicators, other than those using actual expenditure taken from audited statements of accounts must be set prior to the commencement of the financial year to which they relate. Indicators may be revised at any time, and must, in any case, be revised for the year of account when preparing indicators for the following year. The Joint Chief Finance Officer has a prescribed responsibility under the Code to ensure that relevant procedures exist for monitoring and reporting of performance against the indicators. The Prudential Indicators when initially set and whenever revised, must be approved by the body which approves the budget, i.e. The Commissioner at his Public Accountability Conference. Details of Prudential indicators are set out on pages 15-21 of the treasury management strategy (agenda item 10c).

8. Revenue Budget Implications

8.1. Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable.

8.2. The Commissioner is also required to set aside a sum each year from the revenue budget to repay borrowing, which is linked to the life of the asset being financed. This is known as the minimum revenue payment (MRP) and can be likened to the minimum repayment on a credit card debt. The estimates for the repayment of internal borrowing from the revenue budget is shown below:

Minimum revenue provision	2018/19 Actual £m	2019/20 Forecast £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Minimum revenue provision for the financial year	0.43	0.49	0.61	0.63	0.65	0.68

8.3. The net annual charges to the revenue account are collectively known as financing costs; which are compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants as a key prudential indicator of the affordability, prudence and sustainability of capital expenditure plans see below.

Ratio of Financing Costs to Net Revenue Stream	2018/19 Actual £m	2019/20 Forecast £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Investment income	0.15	0.14	0.10	0.07	0.05	0.01
MRP	0.43	0.49	0.61	0.63	0.65	0.68
Financing Costs	**0.29**	**0.35**	**0.51**	**0.55**	**0.60**	**0.67**
Net Revenue Stream	104.02	111.14	118.76	120.04	124.44	126.84
Ratio	0.27%	0.32%	0.43%	0.46%	0.48%	0.53%

The ratios of financing costs to the revenue budget above are considered sustainable.

Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred over the MTFF period may extend for up to 50 years into the future. The Joint Chief Finance Officer is satisfied that the proposed capital programme is **prudent, affordable and sustainable.**

9. Knowledge and Skills

9.1. The Commissioner employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Joint Chief Finance Officer is committed to the Governments apprenticeship levy scheme and currently has a number of key employees studying at Level 3/4 (AAT) and Level 7 (CIPFA).

9.2. Where employees do not have the knowledge and skills required, use is made of suitably qualified external advisers. The Commissioner currently employs Link Asset Services Limited as treasury management advisers. This approach is more cost effective than employing such staff directly, and ensures that the Commissioner has access to knowledge and skills commensurate with his risk appetite.

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CUMBRIA

Peter McCall

Cumbria Office of the Police and Crime Commissioner

Title: Capital Programme 2020/21 & Beyond

Joint Audit Committee: 18 March 2020

Report of the Joint Chief Finance Officer

Originating Officers: Michelle Bellis, Deputy Chief Finance Officer

Lorraine Holme, Financial Services Manager

1. Purpose of the Report

1.1. The purpose of this report is to provide information on the proposed capital programme for 2020/21 and beyond, both in terms of capital expenditure projections and the financing available to fund such expenditure. The capital programme is developed in consultation with the Constabulary who are the primary user of the capital assets under the ownership of the Commissioner.

2. Recommendations

2.1. The Joint Audit Committee is asked to note the capital programme for 2020/21 and beyond as part of the overall budget process for 2020/21.

3. Capital Funding and Expenditure

3.1. Local Authorities (including Police and Crime Commissioners) determine their own programmes for capital investment in non-current (fixed) assets that are essential to the delivery of quality public services. The Commissioner is required by regulation to have regard to The Prudential Code when carrying out his duties in England and Wales under part 1 of the Local Government Act 2003. The Prudential Code establishes a framework to support local strategic planning, local asset management planning and proper option appraisal. The objectives of the Prudential Code are to ensure: "within a clear framework, that the capital investment plans of local authorities are **affordable, prudent and sustainable**". To meet these requirements, all schemes within the 4-year medium term capital programme are only approved on the basis that they are fully funded either through capital grants, capital reserves, capital receipts, revenue contributions or planned borrowing.

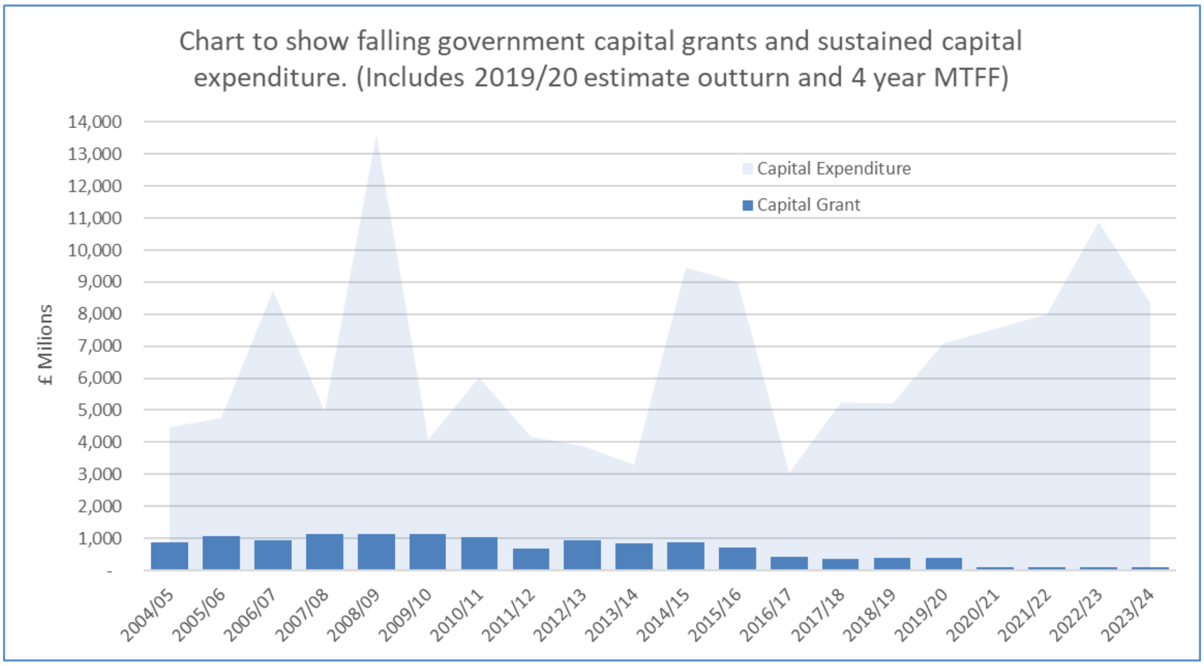
3.2. There are three main recurring elements to the Commissioner's capital programme namely: Fleet Schemes, Estates Schemes and ICT Schemes. In addition to these there are currently a small number of "other schemes" which do not fall into the broad headings above and in particular includes the replacement of taser and firearms equipment and replacement of the countywide CCTV system in the longer term.

3.3. The table below provides a high-level summary of the proposed capital programme and associated capital financing over the four-year timeframe of the medium term financial forecast (2020/21 to 2023/2024).

Capital Expenditure	Yr 0 2019/20 £	Yr 1 2020/21 £	Yr 2 2021/22 £	Yr 3 2022/23 £	Yr 4 2023/24 £
ICT Schemes	1,933,562	4,268,364	4,425,573	3,530,115	1,786,977
Fleet Schemes	934,404	2,846,820	776,021	1,469,690	971,136
Estates Schemes	3,324,393	282,625	2,075,000	5,885,000	5,600,000
Other Schemes	907,081	155,167	720,000	0	0
Total Capital Expenditure	7,099,440	7,552,976	7,996,594	10,884,805	8,358,113
Capital Receipts	0	0	(1,287,881)	(1,541,164)	0
Contributions from Revenue	(1,114,900)	(3,491,179)	(3,421,021)	(3,418,641)	(3,415,221)
Capital Grants	(941,440)	(4,061,797)	(1,712,692)	(100,000)	0
Capital Reserves	(1,758,449)	0	(1,575,000)	(2,425,000)	0
Borrowing	(3,284,652)	0	0	(3,400,000)	(5,600,000)
Total Capital Financing	(7,099,440)	(7,552,976)	(7,996,594)	(10,884,805)	(9,015,221)
(Excess)/Shortfall	0	0	0	0	(657,108)

3.4. The profile of capital expenditure fluctuates annually. Across the current ten year programme, annual average expenditure typically comprises £1.5m to replace fleet vehicles, £1.5m on estate schemes and around £3.0m for replacement of ICT systems and equipment. ICT Expenditure reflects the Constabulary Strategy to invest in technology along with the national programme to replace the Police Radio System (Airwave) with an Emergency Services Network (ESN).

3.5. In relation to the financing of the capital programme, the Government's grant settlement for 2020/21 included additional funding for the recruitment of 20,000 additional Police Officers, known as Operation Uplift. The headline figures included an additional £5.9m of revenue funding, whilst capital grants were reduced by £272k (73%), from £372k to £100k per annum. The Policing Minister's statement, which accompanied the settlement, made it clear that the additional revenue funding included a non-recurring element to cover the capital infrastructure costs associated with the recruitment of the additional officers. The money was deliberately directed to the revenue budget to provide forces with maximum flexibility to spend their budgets to support Operation Uplift. The resulting downward revision of capital grant funding to £100k p.a. has been factored into the capital funding assumptions going forward. The graph below illustrates the falling capital grant against the backdrop of capital expenditure:



3.6. The capital costs associated with operation uplift for Cumbria have still to be fully determined. The temporary repurposing of the Eden Deployment Centre to provide training facilities has, to some degree, mitigated the additional accommodation costs, which would have otherwise been incurred to train the new recruits. However, it is still likely that additional estates and vehicle costs will emerge in relation to Operation Uplift and will need to be included into future capital programmes.

3.7. A summary of the 10-year capital programme is provided for information at **Appendix 1**. The appendix shows that the capital programme is fully funded over the medium term four-year period to 2023/24. The appendix also shows that in years 5-10 of the programme there are some shortfalls and excesses that amount to a combined net shortfall of £1.8m. The estimates for 5-10 years are built on a number of assumptions, which, particularly in rapidly changing sectors such as ICT, are difficult to accurately predict. This means that project costs in the later years of the capital programme become increasingly indicative and should be treated with caution.

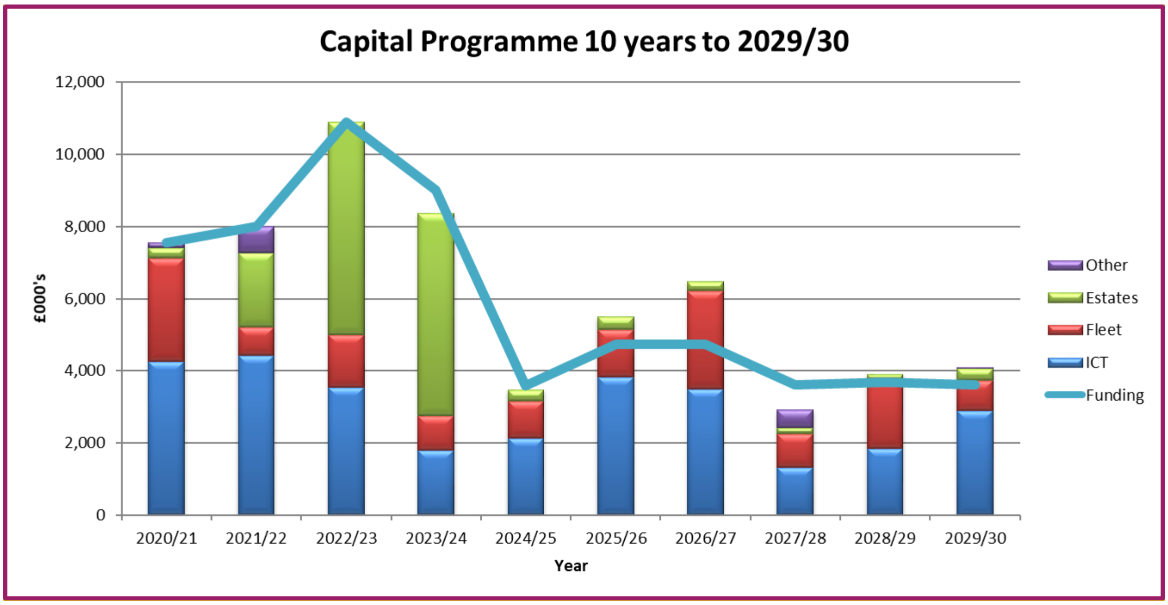
3.8. By the end of 2021/22 historic capital grant and general capital reserves will have been fully utilised. This, in combination with the reduced level of capital grant, means that the capital programme becomes more reliant on revenue contributions to support capital expenditure. Historically, the annual contribution from the revenue budget was set at £1.2m. The following increases have been approved since then

- PCP Jan 2017 - Increase of £0.5m to £1.7m for 2018/19 and 2019/20
- PCP Jan 2017 – Increase of £1.3m to £3.0m for 2020/21 onwards - as accumulated capital reserves and grant are fully extinguished.
- PCP Jan 2019 – Increase £0.3m to £3.3m from 2020/21.
- PCP Feb 2020 – Increase £0.3m to £3.5m from 2020/21 (to replace lost grant –see above)

This means that revenue support for the capital programme has had to increase by over £2.3m in 2020/21 compared to the previous year and will now be required to annually remain at or around this higher level for the foreseeable future. This puts a significant additional strain on the revenue budget.

3.9. As a result of the majority of capital expenditure being in relation to relatively short lived assets (e.g. ICT and fleet of up to 10 years' life), choices for financing the capital expenditure are fairly limited. Borrowing for short-lived assets is not a viable consideration due to the requirement to set aside funds from the revenue budget for the repayment of debt over the life of the asset. Therefore, any future borrowing would have to be in relation to building projects with a life of 50 years. It can be seen in **Appendix 1** that during 2022/23 and 2023/24 it is estimated that the Commissioner will need to borrow £9m. This is linked to an indicative scheme to improve the Commissioner's estate in the west of the county. A full options evaluation exercise and formal report will be required before any firm decisions are made in relation to this project.

The chart below illustrates capital expenditure and funding over the ten-year period:



3.10. **ICT Schemes**

The ICT Capital Programme primarily provides for the cyclical replacement and improvement of the full range of ICT equipment, hardware and application software to meet the strategic and operational needs of the Constabulary. However, over the period of the medium term financial forecast it also supports the Constabulary strategy to invest in technology to modernise the police service that is delivered to our communities. The Policing Vision 2025 issued by the APCC and NPCC seeks to transform the delivery of policing services and positions ICT as a key enabler of change. These plans for the future will be developed and managed locally within the work streams of Cumbria Vision 2025.

The ICT capital programme is supported by the ICT strategy, an annual refresh of which will be presented to the Commissioner for approval at the Public Accountability Conference in March 2020.

The ICT Capital Programme also makes provision for a large number of national ICT programmes, which include changes of major strategic importance the programme to replace the Police Radio System (Airwave) with an Emergency Services Network (ESN). The ESN scheme is included in the capital programme at the estimated cost of £4.2m over the four years of the MTFF and £8.6m over 10 years. Details of requirements are still emerging and it won't be clear as to the financial commitment needed locally until the Home Office release further information and devices are developed. There is slippage being reported by the national ESN programme and it is likely to be the new financial year before we get any further clarity. These prudent commitments in the strategy place the Commissioner in a good position for any announcements. The replacement Airwave handsets will use different technology to the old radios and the Constabulary's control room infrastructure has been upgraded so it is ready to support the connection to ESN.

The largest replacement in 2020/21 is for the converged infrastructure – this is a consolidation of server infrastructure for running virtual machines in our data centre – also referred to as a private cloud. Future options for this scheme are currently being considered.

If these two large schemes are discounted, the programme shows that the ICT capital programme presented remains broadly flat over the 10 years at an average of £1.9m per annum. This provides for the cyclical replacement and improvement of the full range of ICT services: the networks and security and that ensures information can be moved securely between the different systems and device end points through which it is entered, processed and stored. It also covers local and mandated national police systems such as the main crime and intelligence system, command and control, forensics management, prisoner information systems, case and custody, including digital files for sharing with Criminal Justice partners and the police national data base that supports the sharing of information between forces.

The Constabulary also maintains a range of ICT systems to manage corporate functions including financial transactions, human resources, payroll, fleet management, estates management, ICT support systems and training and learning systems. Over recent years significant investment in mobile and digital ICT has been undertaken, the capital strategy presented includes for the subsequent replacement of existing mobile devices as they reach end of life. Budgets for devices also provide for the costs of all the different technology used to access systems, including traditional desktop computers, laptops, tablets as well as the smartphones that use application technology (police apps), but importantly provide end user access to all systems and applications.

Appendix 2 provides a high-level analysis of the ICT capital programme.

3.11. **Fleet Schemes**

The constabulary fleet replacement programme consists of around 300 vehicles. The capital programme provides for the replacement and kit out of these vehicles on a periodic basis at the end of their useful life. The fleet schemes are supported by the fleet strategy, an annual refresh of which will be presented to the Commissioner for approval at the Public Accountability Conference in March 2020. The fleet strategy sets out the constabulary fleet requirements over the coming years. The main aim of the fleet strategy is to provide a cost effective fleet service to meet the needs of operational policing. The majority of vehicles are procured through a national framework agreement which ensures value for money is achieved.

During 2014/15 a large number of marked operational policing vehicles (e.g. ford focus estates, dogs vans and transit vans) were replaced with a single vehicle platform (SVP) which is based on a one size fits all model, this SVP vehicle provided a single fit for purpose vehicle type to meet the majority of requirements. These vehicles have now reached the end of life and those with the highest mileage are becoming expensive to maintain. The territorial policing teams, in conjunction with driver training and Fleet, have been testing a number of possible replacement vehicles. The conclusion has now been reached that there is no longer a single vehicle that will meet the needs of these teams and that a mix of cars and cell vans will be the most appropriate option. Taking into account the whole life costs for the vehicle, after sales support and warranty lengths the preferred vehicle (on paper) is now undergoing, further testing, including fully loaded with operational equipment and initial phase pursuit testing. In the programme presented half of the single vehicle platform vehicles were initially to be replaced in 2019/20 but these have all been moved into 2020/21, whilst the correct mix of vehicles is determined.

Appendix 3 provides a high-level analysis of the fleet capital programme.

3.12. **Estates Schemes**

The Commissioner’s estate currently consists of 30 premises (including police headquarters, larger police stations/Territorial Policing Area HQ, which include custody suites, smaller police stations, one police house, leased in and leased out property together with surplus assets subject to disposal). The estates schemes are supported by the estates strategy, an annual refresh of which will be presented to the Commissioner for approval at the Public Accountability Conference in March 2020. The estates strategy aims to provide a link between the strategic objectives of the organisation and priorities for the estate. The strategy outlines the current and future requirements of the estate and documents the changes that are required to meet these.

The estates capital programme presented in February 2017 included the development of a new Eden Deployment base and replacement hostel accommodation on the HQ site at Penrith. In response to the Government announcement of investment in additional Police Officers (Operation Uplift) the property will be temporarily utilised as a Learning and Development Centre to support the increased level of police officer recruitment.

The Learning and Development Centre accounted for the vast majority of the estates programme for 2019/20 which has left the cyclical replacement schemes e.g. roof repairs at Whitehaven and Kendal along with replacement of the Uninterrupted Power Supply (UPS) at the HQ site in Penrith for 2020/21.

Further into the medium term there is budget allocated to provide improved premises in the west of the county in response to major flooding incidents in recent years, options for which will be developed over 2020/21. Beyond this in the 10 year plan, the estates capital budget reduces significantly once the west scheme is complete, to leave on average £240k per year for replacement schemes.

Appendix 4 provides a high-level analysis of the estates capital programme.

3.13. **Other Schemes**

Other schemes include cross cutting or operational programmes of work and include the replacement of Tasers and Firearms, works to expand and replace the Countywide CCTV system.

Appendix 5 provides a high-level analysis of the 'other' schemes.

4. Capital Receipts

4.1. **Appendix 7** provides details of property disposals and the proceeds of those sales over recent years. The table shows total receipts of £4,769m. At 31 March 2019 there was a balance of capital receipts unapplied of £2.096m, this means that £2.673m have already been applied to the capital programme. The majority of the sales resulted from an estates rationalisation programme and those sale proceeds were used to finance the South Area Headquarters in Barrow.

4.2. The remainder of the capital receipts will be applied to the capital programme from 2021/22 as reserves and grants are extinguished.

5. Supplementary information

<u>Attachments</u>

Appendix 1	Capital Expenditure and Financing 10 years 2020/21 to 2029/30
Appendix 2	ICT Schemes
Appendix 3	Fleet Schemes
Appendix 4	Estates Schemes
Appendix 5	Other Schemes
Appendix 6	Analysis of the change in Capital Strategy between February 2019 and February 2020
Appendix 7	Capital Receipts Breakdown 2009/10 to 2019/20

Appendix 1

Capital Expenditure and Financing 10 years 2020/21 to 2029/30

Capital Expenditure	Yr 0 2019/20 £	Yr 1 2020/21 £	Yr 2 2021/22 £	Yr 3 2022/23 £	Yr 4 2023/24 £	Yr 5 2024/25 £	Yr 6 2025/26 £	Yr 7 2026/27 £	Yr 8 2027/28 £	Yr 9 2028/29 £	Yr 10 2029/30 £	Yr 1-10 Total £
ICT Schemes	**1,933,562**	**4,268,364**	**4,425,573**	**3,530,115**	1,786,977	2,132,347	3,837,124	3,488,368	1,323,505	1,838,428	2,897,060	29,527,861
Fleet Schemes	**934,404**	**2,846,820**	**776,021**	**1,469,690**	971,136	1,035,540	1,304,240	2,732,352	924,520	1,906,644	839,570	14,806,533
Estates Schemes	**3,324,393**	**282,625**	**2,075,000**	**5,885,000**	5,600,000	310,000	350,000	245,000	170,000	155,000	320,000	15,392,625
Other Schemes	**907,081**	**155,167**	**720,000**	**0**	0	0	0	0	500,000	0	43,000	1,418,167
Total Capital Expenditure	**7,099,440**	**7,552,976**	**7,996,594**	**10,884,805**	**8,358,113**	**3,477,887**	**5,491,364**	**6,465,720**	**2,918,025**	**3,900,072**	**4,099,630**	**61,145,186**
Capital Receipts	**0**	**0**	**(1,287,881)**	**(1,541,164)**	0	0	(886,761)	(1,066,363)	0	0	0	(4,782,169)
Contributions from Revenue	**(1,114,900)**	**(3,491,179)**	**(3,421,021)**	**(3,418,641)**	(3,415,221)	(3,579,136)	(3,546,247)	(3,575,421)	(3,511,069)	(3,579,580)	(3,508,824)	(35,046,339)
Capital Grants	**(941,440)**	**(4,061,797)**	**(1,712,692)**	**(100,000)**	0	0	(300,000)	(100,000)	(100,000)	(100,000)	(100,000)	(6,574,488)
Capital Reserves	**(1,758,449)**	**0**	**(1,575,000)**	**(2,425,000)**	0	0	0	0	0	0	0	(4,000,000)
Borrowing	**(3,284,652)**	**0**	**0**	**(3,400,000)**	(5,600,000)	0	0	0	0	0	0	(9,000,000)
Total Capital Financing	**(7,099,440)**	**(7,552,976)**	**(7,996,594)**	**(10,884,805)**	**(9,015,221)**	**(3,579,136)**	**(4,733,007)**	**(4,741,784)**	**(3,611,069)**	**(3,679,580)**	**(3,608,824)**	**(59,402,997)**
(Excess)/Shortfall	**0**	**0**	**0**	**0**	**(657,108)**	**(101,249)**	**758,357**	**1,723,935**	**(693,044)**	**220,492**	**490,806**	**1,742,189**

A more detailed analysis of capital expenditure is provided at Appendices 2-5.

ICT Schemes

ICT Summary	Yr 0 2019/20 £	Yr 1 2020/21 £	Yr 2 2021/22 £	Yr 3 2022/23 £	Yr 4 2023/24 £	Yr 5 2024/25 £	Yr 6 2025/26 £	Yr 7 2026/27 £	Yr 8 2027/28 £	Yr 9 2028/29 £	Yr 10 2029/30 £	Yr 1-10 Total £
ICT End User Hardware Replacement (002x)	982,280	590,177	1,635,627	339,781	238,116	928,442	214,419	1,483,635	532,515	279,389	738,880	6,980,982
ICT Core Hardware Replacement (003/004x)	1,619,191	3,352,887	498,302	837,000	1,168,050	573,448	2,699,766	440,093	798,748	1,245,899	631,750	12,245,943
ICT Core Infrastructure Replacement (projects)	0	1,047,015	186,809	2,615,383	382,378	99,325	1,210,336	1,416,831	106,397	308,750	1,250,695	8,623,919
ICT Infrastructure Solution Replacement (Projects)	202,395	407,982	104,835	106,827	449,573	622,950	360,788	477,804	117,488	495,376	786,981	3,930,604
Savings Target - 15% Year 5-10 (linked to ICT tech advances)	0	0	0	(368,876)	(451,139)	(91,818)	(648,184)	(329,996)	(231,644)	(490,987)	(511,246)	(3,123,890)
General Prudent Slippage (linked to workloads and staffing levels)	(870,303)	(1,129,697)	2,000,000	0	0	0	0	0	0	0	0	870,303
Total ICT Summary	***1,933,562***	***4,268,364***	***4,425,573***	***3,530,115***	***1,786,977***	***2,132,347***	***3,837,124***	***3,488,368***	***1,323,505***	***1,838,428***	***2,897,060***	***29,527,861***

Status - The ICT schemes within the capital programme above consolidate a significant number of complex and interrelated projects. The status of schemes is subject to agreement between the Commissioner and Constabulary. It is recommended that delegated approval is given to the Joint Chief Finance Officer to agree the status of schemes on the basis of the following principles:

Firm Schemes

- Schemes that are either routine cyclical upgrade of existing systems/hardware/software
- Schemes which have been approved by the Commissioner following submission of a business case/decision report

Delegated Schemes

- Schemes agreed in principle by decision report, where the detail of the financial profile/procurement/implementation plans are still to be developed
- Schemes within the Joint Chief Finance Officer’s virement authorisation limits for which there is a clear business case
- Schemes above the Joint Chief Finance Officer’s virement authorisation limits, but which are nationally mandated and supported by a business case.

Schemes not meeting the principles for firm or delegated schemes will be classed as indicative and will require a business case or decision report to the Commissioner before approval is given to commence with the scheme. The status of schemes applies to the funding for the four years 2020/21 to 2023/24, covering the period for which the capital programme is fully funded.

Fleet Schemes

Fleet Summary Proposed	*Number of Vehicles in Category*	Yr 0 2019/20 £	Yr 1 2020/21 £	Yr 2 2021/22 £	Yr 3 2022/23 £	Yr 4 2023/24 £	Yr 5 2024/25 £	Yr 6 2025/26 £	Yr 7 2026/27 £	Yr 8 2027/28 £	Yr 9 2028/29 £	Yr 10 2029/30 £	Yr 1-10 Total £
Covert	**14**	135,649	20,400	82,861	27,560	81,000	94,600	22,400	91,884	30,160	88,500	70,800	610,165
Neighbourhood Policing	**92**	81,400	1,683,000	0	660,380	388,800	0	168,000	1,808,040	722,680	424,800	0	5,855,700
Specialist Vehicles	**28**	206,946	222,360	109,200	120,840	119,880	123,200	285,600	190,380	121,800	256,060	218,300	1,767,620
Dog Vehicles	**10**	70,000	214,200	72,800	0	0	115,500	196,000	79,800	0	41,300	82,600	802,200
Motor Cycles	**8**	0	0	0	0	16,200	0	141,120	0	0	17,700	0	175,020
Pool Cars	**29**	93,000	13,260	121,680	15,900	128,736	40,040	20,160	129,618	15,080	164,964	17,700	667,138
Protected personnel Carriers	**9**	0	183,600	0	254,400	0	0	0	136,800	0	212,400	0	787,200
Roads Policing Vehicles	**19**	0	408,000	336,960	106,000	0	440,000	362,880	114,000	0	472,000	382,320	2,622,160
Crime Command	**39**	104,000	15,300	31,200	0	196,560	118,800	75,040	118,560	34,800	0	0	590,260
Crime Scene Investigators	**10**	0	0	21,320	284,610	0	0	0	0	0	0	24,190	330,120
Garage	**6**	0	0	0	0	0	0	0	0	0	159,300	0	159,300
Chief Officer Pool	**2**	0	0	0	0	39,960	38,500	0	0	0	0	43,660	122,120
Above Strength Vehicles	**15**	0	0	0	0	0	0	0	0	0	0	0	0
Rechargable Vehicles	**15**	243,409	86,700	0	0	0	64,900	33,040	63,270	0	69,620	0	317,530
Total Fleet Summary	***296***	***934,404***	***2,846,820***	***776,021***	***1,469,690***	***971,136***	***1,035,540***	***1,304,240***	***2,732,352***	***924,520***	***1,906,644***	***839,570***	***14,806,533***
Number of Vehicles Replaced Each Year		***37***	***85***	***32***	***41***	***43***	***38***	***40***	***84***	***32***	***55***	***20***	***470***

Status - Fleet Replacement - It is recommended that all fleet replacement schemes are approved as firm for 2020/21 only. This provides authority to procure on the basis of the currently approved fleet strategy. The strategy will be reviewed during 2020/21 to inform the status of the capital programme in future years.

Estates Schemes

Estates Schemes	Yr 0 2019/20 £	Yr 1 2020/21 £	Yr 2 2021/22 £	Yr 3 2022/23 £	Yr 4 2023/24 £	Yr 5 2024/25 £	Yr 6 2025/26 £	Yr 7 2026/27 £	Yr 8 2027/28 £	Yr 9 2028/29 £	Yr 10 2029/30 £	Yr 1-10 Total £
Existing Schemes												
Roof Repairs - Various												
Whitehaven Police Station	0	37,625	0	0	0	0	0	0	0	0	0	37,625
Kendal Police Station	0	55,000	0	0	0	0	0	120,000	0	0	25,000	200,000
Roof Repairs - HQ Dog section	0	70,000	0	0	0	250,000	0	0	0	0	0	320,000
Heating, Ventilation & Cooling Plant - Various												
Police Headquarters	0	0	0	0	0	0	300,000	0	0	0	200,000	500,000
Barrow HVAC	0	0	0	0	0	0	0	0	60,000	0	0	60,000
Other Existing Schemes												
UPS Durranhill	0	0	0	0	0	60,000	0	0	0	0	0	60,000
UPS HQ	0	100,000	0	0	0	0	0	0	0	30000	0	130,000
UPS Barrow	0	0	0	0	0	0	0	0	60,000	0	0	60,000
North Resilience Flood Management - NPT/Hostel	3,284,652	0	0	0	0	0	0	0	0	0	0	0
Garage Provision	0	0	500,000	0	0	0	0	0	0	0	0	500,000
Durranhill - Replacement CCTV system and cell call	11,822	0	0	0	0	0	50,000	0	0	0	0	50,000
Kendal CCTV and Cell Call	0	0	0	0	0	0	0	0	50,000	0	0	50,000
West Resilience Flood Management	0	0	1,575,000	5,825,000	5,600,000	0	0	0	0	0	0	13,000,000
Roof Repairs & Glazing - Durranhill	0	0	0	0	0	0	0	75,000	0	0	0	75,000
HQ Static invertor	0	0	0	0	0	0	0	0	0	50000	0	50,000
HQ window conservation	0	0	0	0	0	0	0	50,000	0	0	0	50,000
Durranhill heat and vent plant	27,920	0	0	0	0	0	0	0	0	0	0	0
Gas suppression cylinder replacements	0	20,000	-	0	0	0	0	0	0	0	25,000	45,000
Barrow CCTV camera replacement	0	0	0	0	0	0	0	0	0	35,000	0	35,000
Kendal M&E plant	0	0	0	0	0	0	0	0	0	20,000	0	20,000
Carlisle M&E plant (area 2)	0	0	0	60,000	0	0	0	0	0	20,000	0	80,000
Sub Total Existing Estates Schemes	***3,324,393***	282,625	***2,075,000***	***5,885,000***	***5,600,000***	***310,000***	***350,000***	***245,000***	***170,000***	***155,000***	***250,000***	***15,322,625***
New Estates Schemes 2020/21												
Comms Centre Cooling plant life cycle replacement											70000	70,000
Sub Total New Estates Schemes	***0***	0	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***70,000***	***70,000***
Total Estates Schemes	***3,324,393***	***282,625***	***2,075,000***	***5,885,000***	***5,600,000***	***310,000***	***350,000***	***245,000***	***170,000***	***155,000***	***320,000***	***15,392,625***

Appendix 4 (continued)

Estates Scheme Status Recommendations*

- It is recommended that all schemes, with the exception of the West Area Flood Resilience and Garage Workshop provision, be approved as firm, these being routine cyclical replacement, upgrade of existing facilities or continuation of previously agreed schemes.
- It is recommended that the scheme to provided West Area Flood Resilience and Garage Workshop provision be agreed in principle as indicative schemes and subject to a business case being approved by the Commissioner.

*scheme status applies to the financial profile between 2020/21 and 2023/24 only unless otherwise stated.

Other Schemes

Other Schemes 2020/21 onwards	Yr 0 2019/20 £	Yr 1 2020/21 £	Yr 2 2021/22 £	Yr 3 2022/23 £	Yr 4 2023/24 £	Yr 5 2024/25 £	Yr 6 2025/26 £	Yr 7 2026/27 £	Yr 8 2027/28 £	Yr 9 2028/29 £	Yr 10 2029/30 £	Yr 1-10 Total £
CCTV	23,890	0	500,000	0	0	0	0	0	500,000	0	0	1,000,000
New CED migration (currently Taser X26)	0	110,000	220,000	0	0	0	0	0	0	0	0	330,000
Glock Pistol Replacement	0	45,167	0	0	0	0	0	0	0	0	0	45,167
Portable Ballistic Protective Equipment	0	0	0	0	0	0	0	0	0	0	43,000	43,000
Laser Scanning	58,191	0	0	0	0	0	0	0	0	0	0	0
Business Transformation	825,000	0	0	0	0	0	0	0	0	0	0	0
Total Other Schemes	**907,081**	**155,167**	**720,000**	**0**	**0**	**0**	**0**	**0**	**500,000**	**0**	**43,000**	**1,418,167**

Other Scheme Status Recommendations*

- It is recommended that the remainder of the original CCTV scheme remains approved as firm, but that the wholescale replacement of the system in 2021/22 be subject to a business case.
- It is recommended that the Glock Pistol Replacement and Taser replacement schemes be approved on an indicative basis subject to a business case from the Territorial Policing Commander being presented to the Commissioner for approval.

*scheme status applies to the financial profile between 2020/21 and 2023/24 only unless otherwise stated.

Appendix 6

Analysis of the change in Capital Strategy between February 2019 and the February 2020 position.

	Yr 0 2019/20 £	Yr 1 2020/21 £	Yr 2 2021/22 £	Yr 3 2022/23 £	Yr 4 2023/24 £	4 Year Total TOTAL £
Capital Strategy - Approved (February 2019)	8,708,787	9,466,499	5,354,575	8,342,236	12,025,397	35,188,707
Capital Strategy - Proposed (February 2020)	7,099,440	7,552,976	7,996,594	10,884,805	8,358,113	34,792,488
Difference (decrease)/Increase	(1,609,347)	(1,913,523)	2,642,019	2,542,569	(3,667,284)	(396,219)
Difference by Type						
- ICT Schemes	(2,069,800)	(2,692,645)	2,092,502	2,546,169	(3,543,084)	(1,597,058)
- Fleet Schemes	(556,849)	974,100	(170,483)	(63,600)	(124,200)	615,817
- Estates Schemes	360,222	(307,375)	500,000	60,000	0	252,625
- Other Schemes	657,081	112,397	220,000	0	0	332,397
Difference (decrease)/Increase	(1,609,347)	(1,913,523)	2,642,019	2,542,569	(3,667,284)	(396,219)
Explanation of the Difference by Type						
- ICT Schemes						
ANPR	0	49,450	50,439	51,397	52,374	203,660
Device Growth Replacement	(15,817)	60,000	2,000	2,040	2,081	66,121
Body Worn Growth	0	0	22,484	0	0	22,484
Slippage/B-Fwd	(6,612)	(175,219)	0	(36,750)	36,750	(175,219)
Control Room - reprofile	(706,325)	406,199	100,000	356,000	84,900	947,099
Business Transformation B-Fwd	0	0	0	0	(201,500)	(201,500)
Bus Transformation Removed	(825,000)	0	0	0	(1,266,491)	(1,266,491)
General Slippage	675,612	(2,675,612)	2,000,000	0	0	(675,612)
Purchase of Storage	(243,900)	243,900	0	(387,679)	197,716	53,937
ESN	(76,970)	(915,363)	(82,421)	2,561,161	(2,448,914)	(885,537)
- Fleet Schemes						
Peugeot Expert Slippage	(690,000)	690,000	0	0	0	690,000
18/19 Slipped to 19/20 and future	(74,849)	103,000	19,074	0	(37,000)	85,074
Write Off	61,000	75,000	(33,000)	(60,000)	(43,000)	(61,000)
Sellafield Replacements B-Fwd	80,000	(59,000)	0	0	0	(59,000)
Re-profile & increase for Green Fleet Vehicles	67,000	(39,000)	0	0	0	(39,000)
Territorial Policing Transit Jumbo's B-Fwd	0	180,000	(180,000)	0	0	0
Dog Vehcile B-Fwd due to change in operational use	0	75,000	(40,000)	0	(35,000)	0
Dogvehcile life Extended	0	(70,000)	70,000	0	0	0
Inflation	0	19,100	(6,557)	(3,600)	(9,200)	(257)
2029/30 added in	0	0	0	0	0	0
- Estates Schemes						
Carlisle M&E plant (area 2)	0	0	0	60,000	0	60,000
General Slippage	(192,625)	(307,375)	500,000	0	0	192,625
- Other Schemes						
X2 Taser migration	(250,000)	110,000	220,000	0	0	330,000
Glock Pistol Replacement	0	2,397	0	0	0	2,397
Difference (decrease)/Increase	(1,609,347)	(1,913,523)	2,642,019	2,542,569	(3,667,284)	(396,219)
Difference left to explain	**0**	**0**	**0**	**0**	**0**	**0**

Property Disposals – Details of Sale Proceeds

Year	Premises Sold	Sale Proceeds £	Costs of Disposal £	Net Capital Receipts £
2019/20	At the time of writing this report there had been no funds received for any premises sold.			
2018/19	Police House -39 Liddle Close Carlisle	159,000	2,546	156,454
2018/19	Ulverston Police Station	500,000	9,037	490,963
2017/18	Cleator Moor Police Station	105,000	1,939	103,061
2017/18	Barrow Police Statation	450,000	10,361	439,639
2016/17	Police House - 21 Thornleigh Road	266,200	5,570	260,630
2016/17	Maryport Police Station	80,500	1,995	78,505
2015/16	Police House 11-12 The Green, Penrith	60,000	2,006	57,994
2015/16	Wigton Police Station	187,500	4,545	182,955
2015/16	Ambleside Police Station	321,500	6,131	315,369
2013/14	Dalton in Furness Police Station	121,000	2,756	118,244
2013/14	Keswick Police Station	327,000	-	327,000
2012/13	Kirkby Stephen Police Station & House	150,000	857	149,143
2012/13	Police House - 3 Centurians Walk, Carlisle	175,500	2,827	172,673
2012/13	Police House - 4 Allan Court, Workington	173,500	2,100	171,400
2012/13	Alston Police Station	166,000	1,123	164,877
2012/13	Ambleside Police Station	141,000	1,753	139,247
2012/13	Cockermouth Police Station	241,000	2,613	238,387
2012/13	Millom Police Station	45,600	1,644	43,956
2012/13	Milnthorpe Police Station	140,500	1,260	139,240
2012/13	Sedbergh Police Station	90,000	1,328	88,672
2011/12	Police House - Durdar	150,000	2,070	147,930
2011/12	Police House - 12 Derwent Drive Kendal	183,500	1,943	181,557
2011/12	Police House - 10 Clifton Court, Workington	125,000	1,320	123,680
2010/11	Police House - 52 Whitestiles, Seaton	115,500	1,924	113,576
2010/11	Police House - 6 Helsington Road, Kendal	216,000	2,668	213,332
2009/10	Police House - 3 Derwent Drive, Kendal	155,000	4,857	150,143
Please note there were no property disposals in 2014/15				-
Total		**4,845,800**	**77,175**	**4,768,625**

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Public Accountability Conference
19 February 2020
Agenda Item No 10c

Joint Audit Committee
18 March 2020
Agenda Item No 14c

Office of the Police and Crime Commissioner Report

Title: Borrowing, Treasury Management, Investment and MRP Strategies 2020/21 (including Prudential Indicators)

Report of the Joint Chief Finance Officer

Originating Officers: **Michelle Bellis, Deputy Chief Finance Officer;**
Lorraine Holme, Financial Services Manager

Purpose of the Report

The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the CIPFA TM Code) and the Prudential Code require Local Authorities (including PCCs) to determine the Treasury Management Strategy Statement (TMSS) on an annual basis.

These codes were originally issued in 2002, revised in 2009, 2011 and again in 2017. The TMSS presented here complies with the 2017 codes and accompanying guidance notes. The TMSS also incorporates the Investment Strategy which is a requirement of the Ministry of Housing, Communities and Local Government's Investment (MHCLG) Investment Guidance 2018.

This report proposes a strategy for the financial year 2020/21.

Treasury Management in Local Government continues to be a highly important activity. The Police and Crime Commissioner ("The Commissioner") adopts the CIPFA definition of Treasury Management which is as follows:

> *'the management of the organisation's 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.'*

Recommendations

The Commissioner is asked to:

1. Approve the Borrowing Strategy for 2020/21 as set out on pages 8-9
2. Approve the Investment Strategy for 2020/21 as set out on pages 10-13
3. Approve the Treasury Management Prudential Indicators as set out on pages 15-16
4. Approve the other Prudential Indicators set out on pages 17 to 21
5. Approve the Minimum Revenue Provision Policy Statement for 2020/21 as set out on page 22
6. Note that the detailed Treasury Management Practices (TMPs) have been reviewed and updated as required by the Code of Practice and will be published alongside the TMSS on the Commissioner's website.
7. Delegate to the Joint Chief Finance Officer any non-material amendments arising from scrutiny of the strategy by the Joint Audit Committee.

The Joint Audit Committee are asked to review the Treasury Management Strategy Statement and Treasury Management Practices to be satisfied that controls are satisfactory and provide advice as appropriate to the Commissioner.

CUMBRIA

Peter McCall

Borrowing, Treasury Management, Investment, and MRP Strategies 2020/21 (Including Prudential Indicators)

Treasury Management Strategy Statement 2020/21

Contents

Key Messages

Approval of an Annual Treasury Management Strategy is a statutory requirement of the Commissioner.

This Strategy aims to provide the Commissioner with a low risk, yet suitably flexible, approach to Treasury management.

General Principles

The Commissioner is required to approve an annual Treasury Management Strategy Statement in accordance with the CIPFA Code of Practice on Treasury Management, which also incorporates an Investment Strategy as required by the Local Government Act 2003 and which is prepared in accordance with the Ministry of Housing, Communities and Local Government's Investment Guidance 2018. Together, these cover the financing and investment strategy for the forthcoming financial year.

The Treasury Management Strategy has been prepared in line with the model guidance produced by Link Asset Services Ltd, who provide specialist treasury management advice to the Commissioner. It should however be noted that all treasury management decisions and activity are the responsibility of the Commissioner and any such references to the use of these advisors should be viewed in this context.

Treasury management activities involving, as they do, the investment of large sums of money and the generation of potentially significant interest earnings have inherent risks. The Commissioner regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks. The main risks to the Commissioner's treasury activities are outlined below:

- Credit and Counterparty Risk (Security of Investments)
- Liquidity Risk (Inadequate cash resources)
- Market or Interest Rate Risk (Fluctuations in interest rate levels)
- Re-financing risks (Impact of debt maturing in future years)
- Legal & Regulatory Risk.
- Fraud, error and corruption Risk

Details of the control measures the Commissioner has put in place to manage these risks are contained within the separate Treasury Management Practices (TMPs).

Key Messages

The Commissioners priority for investments will **always** be ranked in the order of:

General Principles (Continued)

The Commissioner acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management. However, the high profile near failure of major banks in 2008 highlighted that this objective must be sought within a context of effective management of counter-party risk. Accordingly, the Commissioner will continue to search for optimum returns on investments, but at all times the **security** of the sums invested will be paramount. This is a cornerstone of the CIPFA Code of Treasury Management Practice which emphasises "**Security, Liquidity, Yield** in order of importance at all times". The security of the sums invested is managed by tight controls over the schedules of approved counter-parties, which are continually reviewed to take account of changing circumstances, and by the setting of limits on individual and categories of investments as set out at **Appendix A**.

The strategy also takes into account the impact of treasury management activities on the Commissioner's revenue budget. Forecasts of cash balances, interest receipts and financing costs are regularly re-modelled. The revenue budget for 2020/21 and forecasts for future years have been updated in light of the latest available information as part of the financial planning process.

The guidance under which this strategy is put forward comes from a variety of different places. Principally, however, the requirement to produce an annual Treasury Management Strategy is set out in the CIPFA Code of Practice on Treasury Management published in 2011 and recently updated in 2017. There is, in addition, a further requirement arising from the Local Government Act 2003 (Section 15) and the 2018 Ministry of Housing, Communities and Local Government's Investment Guidance, to produce an investment strategy as part of the wider Treasury Strategy. This is set out below, starting at page 10. Finally, the Commissioner's current treasury advisor's Link Asset Services Ltd have provided some advice about possible future trends in interest rates and advice on best practice in relation to the format of the TMSS.

In accordance with The Code of Practice for Treasury Management, the Commissioner will approve the Annual TMSS, receive, a quarterly summary of treasury activity, a mid-year update on the strategy and an annual report after the close of the financial year.

Key Messages

Scrutiny of the Commissioners treasury activities is the responsibility of the Joint Audit Committee, including:

- Quarterly Reports
- Year End Report
- Treasury Risk Management
- Review of Assurances

As a minimum a rolling 12 month cash flow forecast is maintained and is audited as part of the statutory accounts to support the principle that the Commissioner is operating as a 'going concern'

General Principles (Continued)

The Joint Audit Committee will be responsible for the scrutiny of treasury management policy and processes. The Joint Audit Committee terms of reference in relation to treasury management are:

- Review the Treasury Management policy and procedures to be satisfied that controls are satisfactory.
- Receive regular reports on activities, issues and trends to support the Committee's understanding of Treasury Management activities; the Committee is not responsible for the regular monitoring of activity.
- Review the treasury risk profile and adequacy of treasury risk management processes.
- Review assurances on Treasury Management (for example, an internal audit report, external or other reports).

The MHCLG Guidance on investments states that publication of strategies is now formally recommended, the full suite of strategy documents will be published on the Commissioner's website once approved.

The Commissioner complies with the provisions of section 32 of the Local Government Finance Act 1992 to set a balanced budget. This report fulfils the legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and MHCLG Guidance.

Treasury Management Cash Flow Forecast

Treasury Management activity is driven by the complex interaction of expenditure and income flows, but the core drivers within the Commissioner's balance sheet are the underlying need to borrow to finance its capital programme, as measured by the capital financing requirement (CFR), which is explored in detail on page 8 of this report, and the level of reserves and balances. In addition, day-to-day fluctuations in cash-flows due to the timing of grant and council tax receipts and out-going payments to employees and suppliers have an impact on treasury activities and accordingly are modelled in detail. The Commissioner's level of debt and investments is linked to the above elements, but market conditions, interest rate expectations and credit risk considerations all influence the Commissioner's strategy in determining exact borrowing and lending activity.

Key Messages

Investment returns and borrowing rates are likely to remain low by historical standards during 2020/21 but to be on a gently rising trend over the next few years. However many factors can impact that forecast.

The Commissioner continues to utilise reserves in place of new borrowing to fund the capital programme.

Treasury Management Cash Flow Forecast (Continued)

The estimated treasury position at 31st March 2020 and for the following financial years are summarised below:

Estimated Treasury Position	Estimate 2020/21 £m	Estimate 2021/22 £m	Estimate 2022/23 £m	Estimate 2023/24 £m
External Borrowing	0.00	0.00	0.00	0.00
Interest Payments	0.00	0.00	0.00	0.00
Investments (average)	11.876	7.353	4.353	0.625
Interest Receipts	0.096	0.074	0.054	0.008

The figures in the table above are based on the approval of the proposed revenue budget and capital programme presented to the Commissioner elsewhere on this agenda and are based on the interest rate assumptions as outlined on page 7 below.

The Commissioner's underlying need to borrow, as measured by the Capital Financing Requirement (CFR), is estimated to be £22.15m at the start of the 2020/21 financial year. This includes £4.58m which is the capital value of the PFI contract as required by changes to proper accounting practices introduced in The Code of Practice on Local Authority Accounting 2009. The capital programme paper elsewhere on this agenda (see item 10b) indicates that the Commissioner will need to borrow to deliver the agreed capital programme, specifically to provide a fit for purpose territorial policing HQ in the west of the county. This investment is still indicative and would be subject to a full business case decision process.

Under current market conditions, where short term interest receipts are forecast to remain low in the immediate future, and there are continuing general uncertainties over the credit worthiness of financial institutions, it is assumed that the most prudent borrowing strategy for the present is to meet the capital funding requirement from within internal resources. This has the effect of reducing the cash balances available for investment. Advice will continue to be sought from our treasury advisors as to the most opportune time and interest rate to undertake external borrowing.

The estimate for interest receipts in 2020/21 is £96k (latest forecast for 2019/20 is £135k). The low level of receipts reflects the historically low level of investment returns currently available where the Bank of England base rate stands at 0.75%.

Key Messages

The uncertainty over Brexit and the ability to broker an EU trade deal continues to impact the markets, keeping interest rates and growth predictions low.

Interest Rates are forecast to remain at 0.75% with perhaps a small rise in quarter 4 of 2020/21 and again in 2022/23.

Treasury Management Interest Rate Forecast

The below forecasts (provided by Link Asset Services Ltd) have been based on an assumption that there is an agreed deal on Brexit, including agreement on the terms of trade between the UK and EU, at some point in time. The result of the general election has removed much uncertainty around this major assumption. However, it does not remove uncertainty around whether agreement can be reached with the EU on a trade deal within the short time to December 2020, as the Prime Minister has pledged.

It has been little surprise that the Monetary Policy Committee (MPC) has left the Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit and the outcome of the general election. In its meeting on 7 November, the MPC became more dovish due to increased concerns over the outlook for the domestic economy if Brexit uncertainties were to become more entrenched, and for weak global economic growth: if those uncertainties were to materialise, then the MPC were likely to cut the Bank Rate. However, if they were both to dissipate, then rates would need to rise at a "gradual pace and to a limited extent". Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. There is still some residual risk that the MPC could cut the Bank Rate as the UK economy is still likely to only grow weakly in 2020 due to continuing uncertainty over whether there could effectively be a no deal Brexit in December 2020 if agreement on a trade deal is not reached with the EU. Until that major uncertainty is removed, or the period for agreeing a deal is extended, it is unlikely that the MPC would raise the Bank Rate. It should be noted that these forecasts are based on information as at January 2020. The quarterly treasury activities reports will contain updated information in respect of interest rate forecasts.

Base Rate Estimates	2019/20	2020/21	2021/22	2022/23	2022/23
Quarter 1	0.75%	0.75%	1.00%	1.25%	1.25%
Quarter 2	0.75%	0.75%	1.00%	1.25%	1.25%
Quarter 3	0.75%	0.75%	1.00%	1.25%	1.25%
Quarter 4	0.75%	1.00%	1.00%	1.25%	1.25%

Key Messages

The PCC has an increasing Capital Financing Requirement due to the capital programme, but has modest investments, and will therefore need to borrow in the near future.

Borrowing Strategy

Long Term Borrowing

The Commissioner's underlying need to borrow for capital purposes is measured by reference to the Capital Financing Requirement (CFR), which is one of the Prudential Indicators and represents the cumulative capital expenditure of the Commissioner that has not been financed from other sources such as capital receipts, capital grants, revenue contributions or reserves. To ensure that this expenditure will ultimately be financed, authorities are required to make a provision from their revenue accounts each year for the repayment of debt. This sum known as the Minimum Revenue Provision (MRP) is intended to cover the principal repayments of any loan over the expected life of a capital asset. The CFR together with Usable Reserves, are the core drivers of the Commissioner's Treasury Management activities.

Actual borrowing may be greater or less than the CFR, but in order to comply with the Prudential Code, the Commissioner must ensure that in the medium term, net debt will only be for capital purposes. Therefore the Commissioner must ensure that except in the short term, net debt does not exceed the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. In compliance with this requirement the Commissioner does not currently intend to borrow in advance of spending need.

The table below shows the Commissioner's projected capital financing requirement for 2020/21 and beyond.

Capital Financing	2018/19 Actual £m	2019/20 Forecast £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Balance B/fwd	17.98	19.35	22.15	21.54	20.91	23.66
Plus Capital Expenditure financed from borrowing	1.80	3.28	0.00	0.00	3.40	5.60
Less MRP for Debt Redemption	-0.43	-0.48	-0.61	-0.63	-0.65	-0.68
Balance C/Fwd	**19.35**	**22.15**	**21.54**	**20.91**	**23.66**	**28.58**

The above table shows only capital expenditure that is required to be financed from borrowing. The full capital programme and associated financing is reported in summary within the capital programme elsewhere on the agenda (see item 10b).

Key Messages

Diversification of investments continues to provide a level of liquid cash that is suitable for the Commissioners expenditure profile whilst total investment balances remain high. This will continue to be monitored as levels of investments fall and if necessary a minimum level of liquid cash to be maintained will be set.

Short term borrowing from other Local Authorities may be needed in the future to manage short term cash flow shortfalls.

Borrowing Strategy (Continued)

The Commissioner is not expected to have any external borrowing at the start of 2020/21. Given that the CFR is forecast to be £22.15m this effectively means that the Commissioner will be funding over £17.57m of capital spend from internal resources (CFR £22.15m less £4.58m in relation to the PFI).

Currently, there is a significant differential between investment rates at 1.00% and the rate at which long term finance can be procured, which despite standing at historically low levels, will still cost over 3.00+% pa. Consequently, at this juncture, undertaking long term borrowing is likely to have a prohibitively high short term cost to the revenue account. However, such funding decisions may commit the Commissioner to costs for many years into the future and it is therefore critical that a long term view is taken regarding the timing of such transactions.

It should also be recognised that by funding internally, there is an exposure to interest rate risk at the point that actual borrowing is undertaken. Accordingly, the Commissioner, in conjunction with its treasury advisor, will continue to monitor market conditions and interest rate prospects on an on-going basis, in the context of the Commissioner's capital expenditure plans, with a view to minimising borrowing costs over the medium to long term.

The Commissioner's predecessors had previously raised all of its long term borrowing from the PWLB but other sources of finance are now available and being investigated, such as local authority loans and bank loans, that may be available at more favourable rates.

<u>Short Term Borrowing</u>

Short term loans will be used to manage day to day movements in cash balances, or over a short term period to enable aggregation of existing deposits into longer and more sustainable investment sums. Short term borrowing would probably be from another Local Authority.

Key Messages

The Investment Strategy for 2020/21 remains broadly the same as in previous years as there has been little change in the markets or counterparties.

The updated investment guidance emphasises “Security, Liquidity, Yield in order of importance at all times”.

The appropriate balance between risk and return is sought but with returns so low there is nothing to be gained from exposing the Commissioner to extra risk.

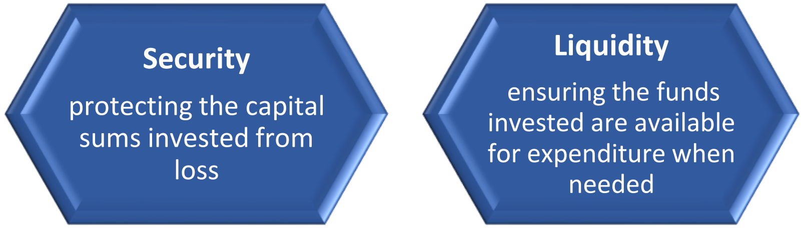
Investment Strategy

Local Authorities (which include the Commissioner) invest their money for three broad purposes:

- because they have surplus cash as a result of their day-to-day activities, for example when income is received in advance of expenditure (known as treasury management investments),
- to support local public services by lending to or buying shares in other organisations (service investments), and
- to earn investment income (known as commercial investments where this is the main purpose).

The Local Government Act 2003, Section 15(1) (a) requires the Commissioner to approve an investment strategy which must also meets the requirement in the statutory investment guidance issued by the Ministry of Housing, Communities and Local Government in January 2018. The Commissioner does not currently have, and does not intend to invest in, service investments or commercial investments so the detail below focuses on a Treasury Management Investment Strategy.

The CIPFA Code requires funds to be invested prudently, and to have regard for:



The generation of yield is distinct from these prudential objectives. Once proper levels of security and liquidity are determined, it is then reasonable to consider what yield can be obtained consistent with these priorities. The objective when investing surpluses is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the aim would be to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

In the past the treasury management investment strategy has operated criteria based on credit ratings to determine the size and duration of investments it is willing to place with particular counterparties. The credit worthiness of counterparties is reviewed on an ongoing basis in conjunction with the Commissioner’s treasury advisors.

Key Messages

In accordance with guidance from the MHCLG and CIPFA, and in order to minimise the risk to investments, the commissioner applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk.

The key ratings used to monitor counterparties are the Long Term ratings.

Investment Strategy (Continued)

The Commissioner holds significant balances of invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2019/20, the Commissioner's investment balance has ranged between £8.46m and £33.97m. The larger sum was due to the receipt in July 2019 of £19.9m pension top up grant from the Home Office, which is drawn down steadily over the remainder of the year. Balances in 2020/21 are forecast to slowly reduce as expenditure on large capital schemes continues. It is anticipated that, at the peak, when the pensions grant is received in July, balances for investment could approach £30m.

Credit Rating - Investment decisions are made by reference to the lowest published long-term credit rating from credit agencies such as, Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. In addition to credit ratings, the Commissioner and its advisors, select countries and financial institutions after analysis and ongoing monitoring of:

- Economic fundamentals (e.g., net debt as a % of GDP)
- Credit default swap prices (a CDS is a financial derivative or contract that allows an investor to "swap" or offset credit risk with that of another investor)
- Sovereign support mechanisms
- Share prices
- Corporate developments, news, articles, market sentiment and momentum
- Subjective overlay – or, put more simply, common sense.

The investment strategy for 2015/16 was opened up slightly to include some additional classes of investment to allow more flexibility and diversification. The strategy for 2020/21 remains the same. The decision to enter into a new class of investment is delegated to the Joint Chief Finance Officer. The strategy allows for investments in pooled funds such as money market funds or property funds. Following Brexit information and advice will be sought regarding the use of property funds to further diversify the Commissioners' portfolio, provide a longer-term investment and increase yield whilst maintaining security. A full explanation of each class of asset is provided in **Appendix A** together with a schedule of the limits that will be applied.

Key Messages

The Joint Chief Finance Officer (subject with consultation with the Commissioner) will be granted delegated authority to amend or extend the list of approved counterparties should market conditions allow.

No plans to use derivatives – this would require explicit approval.

Investment Strategy (Continued)

The Treasury Management Strategy is designed to be a dynamic framework which is responsive to prevailing conditions with the aim of safeguarding the Commissioner's resources. Accordingly, the Commissioner and his advisors will continuously monitor corporate developments and market sentiment with regards to counterparties and will amend the approved counterparty list and lending criteria where necessary. Whilst credit ratings are central to the counterparty risk evaluation process, other factors such as the prevailing economic climate are taken into consideration when determining investment strategy. It is proposed to continue the policy, adopted in 2017/18 that the Joint Chief Finance Officer, subject to consultation with the Commissioner, be granted delegated authority to amend or extend the list of approved counterparties should market conditions allow.

The Joint Audit Committee will be updated on any changes to policy. The performance of the Commissioner's treasury advisors and quality of advice provided is evaluated prior to the triennial renewal of the contract. Meetings with the advisors to discuss treasury management issues are held on a regular basis.

The use of Financial Instruments for the Management of Risks

Currently, Local Authorities (including PCC's) legal power to use derivative instruments remains unclear. The General Power of Competence enshrined in the Localism Act is not sufficiently explicit.

In the absence of any explicit legal power to do so, the Commissioner has no plans to use derivatives during 2020/21. Should this position change, the Commissioner may seek to develop a detailed and robust risk management framework governing the use of derivatives, but this change in strategy will require explicit approval. A derivative is a financial security with a value that is reliant upon or derived from, an underlying asset or group of asset. The derivative itself is a contract between two or more parties, and the derivative derives its price from fluctuations in the underlying asset.

Liquidity of investments

The investment strategy must lay down the principles which are to be used in determining the amount of funds which can prudently be committed for more than one year i.e. what MHCLG's defines as a long term investment.

Key Messages

The cash flow forecast is maintained for a minimum rolling 12 months. This allows assessment of the ability to invest longer term and identifies areas where short term borrowing may be required.

Investment Strategy (Continued)

The Financial Services team uses a cash flow forecasting spreadsheet to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Commissioner being forced to borrow on unfavourable terms to meet his financial commitments. For the Commissioner, the total of investments over one year in duration are limited to £2m with a maximum duration of three years. This policy balances the desire to maximise investment returns, with the need to maintain the liquidity of funds.

Under current market conditions there is still little opportunity to generate significant additional investment income by investing in longer time periods over one year. However, as always, investment plans should be flexible enough to respond to changing market conditions during the year. The estimate of investment income for 2020/21 amounts to £96k (£135k 2019/20) and actual investment performance will be reported regularly to the Commissioner and will be provided to members of the Joint Audit Committee as background information to provide guidance and support when undertaking scrutiny of Treasury Management procedures.

Key Messages

The 'Treasury Management Practices' statement is updated for each year, scrutinised by the Joint Audit Committee and published on the Commissioner's website alongside this strategy.

Treasury Risk and Treasury Management Practices

The Commissioner's approach to risk is to seek optimum returns on invested sums, taking into account at all times the paramount security of the investment. The CIPFA Code of Practice and Treasury Management Practices sets out in some detail defined treasury risks and how those risks are managed on a day to day basis. The CIPFA Code of Practice on Treasury Management recommends the adoption of detailed Treasury Management Practices (TMPs). As outlined above, the Treasury Management Code and Prudential Code were updated and additional guidance notes have now been received. The TMP's have been updated. The guidance from CIPFA recommends that TMPs should cover the following areas:

- Risk Management
- Performance Management
- Decision Making and Analysis
- Approved Instruments
- Organisation, Segregation of duties and dealing arrangements
- Reporting and Management Information requirements
- Budgeting, Accounting and Audit
- Cash and cash flow management
- Money laundering
- Training & Qualifications
- Use of external service providers
- Corporate Governance

Treasury Management is a specialised and potentially risky activity, which is currently managed on a day-to-day basis by the Financial Services Team under authorisation from the Joint Chief Finance Officer as part of a shared service arrangement for the provision of financial services. The training needs of treasury management staff to ensure that they have appropriate skills and expertise to effectively undertake treasury management responsibilities is addressed on an ongoing basis. Specific guidance on the content of TMPs is contained within CIPFA's revised code of Practice for Treasury Management. Accordingly, the TMPs have been reviewed in detail and where necessary minor amendments have been made to bring the TMPs into line with The Code.

Key Messages

The PCC currently has no external debt and does therefore not need to set limits on the maturity of debt in each period.

Treasury Management Prudential Indicators

The key objectives of The Code are to ensure, within a clear framework, that Capital investment plans are affordable, prudent and sustainable (or to highlight, in exceptional cases, that there is a danger this will not be achieved so that the Commissioner can take remedial action). To demonstrate that Authorities have fulfilled these objectives, the Prudential Code sets out the Indicators that must be used. The indicators required by The Code are designed purely to support local decision making and are specifically not designed to represent comparative performance indicators.

The treasury management Indicators are not targets to be aimed at, but are instead limits within which the treasury management policies of the Commissioner are deemed prudent. These cover three aspects:

1. **Maturity Structure of Borrowing** - It is recommended that upper and lower limits for the maturity structure of borrowings are calculated as follows:

Period of Maturity	Upper Limit %	Lower Limit %
Under 12 months	100.00	0
12 months and within 24 months	100.00	0
24 months and within 5 years	100.00	0
5 years and within 10years	100.00	0
10 years and above	100.00	0

This indicator is primarily applicable to organisations, which have undertaken significant levels of borrowing to finance their capital programmes in which case it is prudent to spread the profile of repayments to safeguard against fluctuations of interest payments arising from having to refinance a large proportion of the debt portfolio at any point in time. During 2012/13 the Commissioner repaid all outstanding external borrowing and as a result there is currently no requirement to apply stringent limits to the maturity profile of existing debt.

Key Messages

Compliance with the indicators will be presented to the PCC Public Accountability Conference and the Joint Audit Committee in the quarterly Treasury Activities report.

Treasury Management Prudential Indicators (Continued)

2. **Principal sums invested for periods longer than a year** – The purpose of this indicator is to contain the Commissioner's exposure to the possibility of loss that might arise as a result of having to borrow short term at higher rates or losses by seeking early repayment of its investments.

Price Risk Indicator	2019/20	2020/21	2021/22	2022/23	2023/24
Limit on principal invested beyond one year	£3m	£2m	£2m	£2m	£2m

3. **Exposure to interest rate changes** - The 2017 code encourages Authorities to define their own 'Liability Benchmark' which will provide a basis for developing a strategy for managing interest rate risk. On the basis that Link Asset Services Ltd are not forecasting significant interest rate movements in the short term and that the Commissioner has no plans to make any long term external borrowing decisions over the next financial year, because of the 'cost of carry', development of a liability benchmark at this point would not provide added value. However, the Commissioner will actively develop indicators to manage interest rate risk in due course once there is more clarity over borrowing intentions.

Setting, Revising, Monitoring and Reporting

Prudential Indicators, other than those using actual expenditure taken from audited statements of accounts must be set prior to the commencement of the financial year to which they relate. Indicators may be revised at any time, and must, in any case, be revised for the year of account when preparing indicators for the following year. The Joint Chief Finance Officer has a prescribed responsibility under The Code to ensure that relevant procedures exist for monitoring and reporting of performance against the indicators. The Prudential Indicators when initially set and whenever revised, must be approved by the body which approves the budget, i.e. The Commissioner at his Public Accountability Conference.

Key Messages

Other Prudential Indicators 2020/21

As per the 2017 CIPFA Prudential Code for Capital Finance and the accompanying guidance notes the Commissioner is required to produce a number of indicators to assist understanding and to evaluate the prudence and affordability of the capital expenditure plans and the borrowing and investment activities undertaken in support of this.

Capital Expenditure and Capital Financing

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on council tax.

Capital Expenditure	2018/19 Actual £m	2019/20 Forecast £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Capital Expenditure	5.21	7.10	7.55	8.00	10.88	8.36

Capital Financing	2018/19 Actual £m	2019/20 Forecast £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Capital Receipts	0.00	0.00	0.00	1.29	1.54	0.00
Government Grants	0.57	0.95	4.06	1.71	0.10	0.00
Revenue Contributions	2.84	2.87	3.49	5.00	5.84	2.76
Total Financing	**3.41**	**3.82**	**7.55**	**8.00**	**7.48**	**2.76**
Borrowing	1.80	3.28	0.00	0.00	3.40	5.60
Total Funding	**1.80**	**3.28**	**0.00**	**0.00**	**3.40**	**5.60**
Total Financing and Funding	**5.21**	**7.10**	**7.55**	**8.00**	**10.88**	**8.36**

Key Messages

Capital Finance Requirement – 'The mortgage you are yet to take'

Minimum Revenue Provision – 'Annual Mortgage repayments'

The Authorised Limit is a statutory limit (Local Government Act 2003) above which the Commissioner has no authority to borrow.

Other Prudential Indicators 2020/21 (Continued)

Capital Financing Requirement

The Capital Financing Requirement (CFR) shows the difference between the capital expenditure and the revenue or capital resources set aside to finance that spend. The CFR will increase where capital expenditure takes place and will reduce with the Minimum Revenue Provision (MRP) made each year from the revenue budgets.

Capital Financing	2018/19 Actual £m	2019/20 Forecast £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Balance B/fwd	17.98	19.35	22.15	21.54	20.91	23.66
Plus Capital Expenditure financed from borrowing	1.80	3.28	0.00	0.00	3.40	5.60
Less MRP for Debt Redemption	-0.43	-0.48	-0.61	-0.63	-0.65	-0.68
Balance C/Fwd	**19.35**	**22.15**	**21.54**	**20.91**	**23.66**	**28.58**

Authorised Limit

The represents a control on the maximum level of external debt. Whilst not desired it could be afforded by the authority in the short term, but is not sustainable in the longer term. The Authorised Limit gauges events that may occur over and above those transactions which have been included in the Operational Boundary. The Authorised Limit must not be breached.

Authorised Limit for External Debt	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
External Borrowing	21.10	24.06	23.64	23.22	26.20	31.38
Other Long Term Liabilities	4.75	4.59	4.40	4.20	3.97	3.70
Total Authorised Limit	25.85	28.65	28.04	27.41	30.16	35.08

Key Messages

The Operational Boundary limit is not an absolute limit of external debt and may be exceeded temporarily.

Currently the Commissioner has no external borrowing.

Other Prudential Indicators 2020/21 (Continued)

Operational Boundary

The Operational Boundary is a limit beyond which external debt is not normally expected to exceed. This limit is not an absolute limit but it reflects the expectations of the level at which external debt is not normally expected to exceed.

Occasionally, the Operational Boundary may be exceeded (but still not breach the Authorised Limit) following variations in cash flow. Such an occurrence would follow controlled treasury management action and may not have a significant impact on the prudential indicators when viewed all together. Consistent with the Authorised Limit, the Joint Chief Financial Officer has delegated authority, within the total Operational Boundary, to effect movement between the separately identified and agreed figures for External Borrowing and Other Long Term Liabilities. Any such changes will be reported to the Commissioner and the Joint Audit Committee meeting following the change.

Operational Boundary for External Debt	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2021/22 £m	2022/23 £m
External Borrowing	19.60	22.56	22.14	21.72	24.70	29.88
Other Long Term Liabilities	4.75	4.59	4.40	4.20	3.97	3.70
Total Operational Boundary	24.35	27.15	26.54	25.91	28.66	33.58

Actual External Debt

The Commissioner's actual external debt as at 31 March 2020 will be £4.58m, comprising only of other long term liabilities of £4.58m in relation to the PFI. It is unlikely that the Commissioner will actually exercise external borrowing until there is a change in the present structure of investments rates compared to the costs of borrowing. It should be noted that all previous external borrowing with the PWLB (Public Works Loans Board) was repaid during 2012/13.

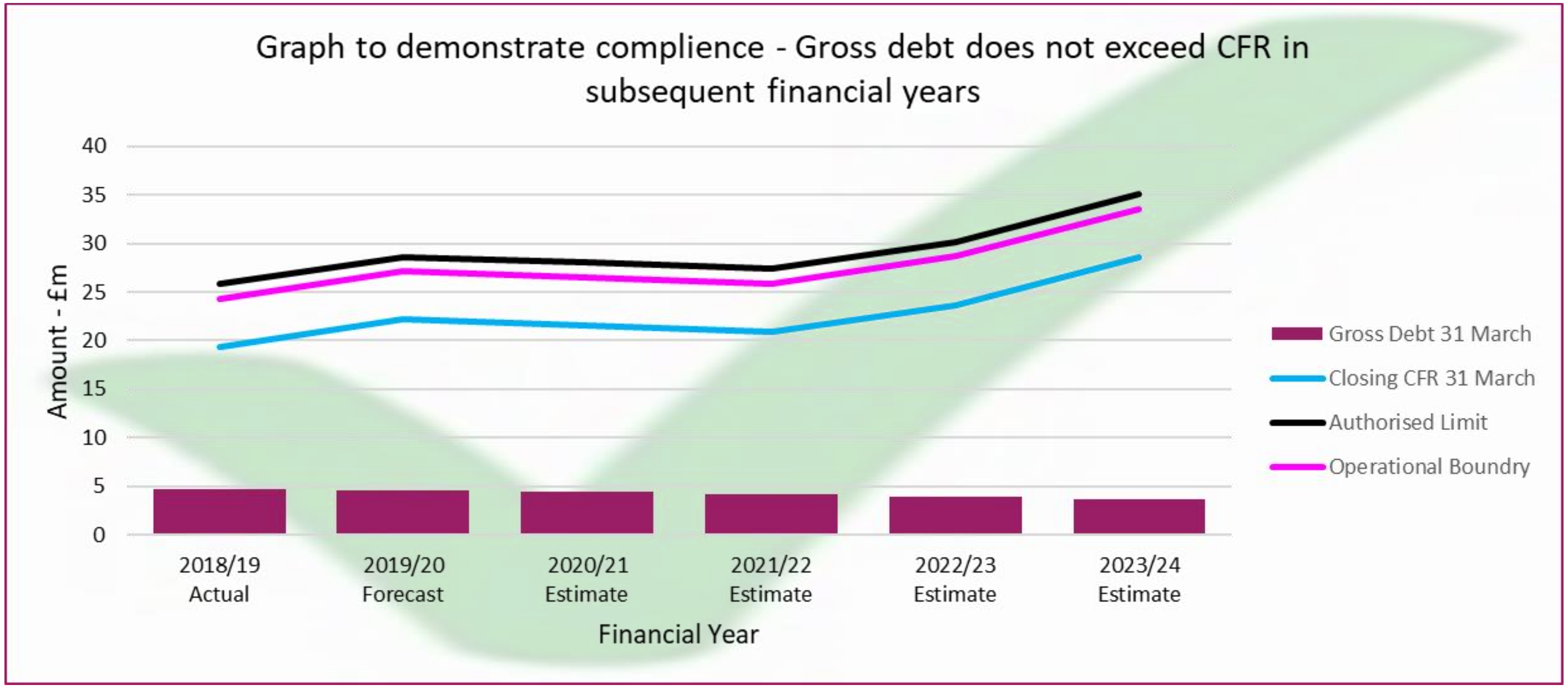
Other Prudential Indicators 2020/21 (Continued)

Gross Debt and the Capital Financing Requirement

The Commissioner should only borrow to support a capital purpose, and borrowing should not be undertaken for revenue or speculative purposes. Gross debt, except in the short term, should not exceed CFR in the preceding year plus the estimates for CFR for the three subsequent years.

Gross Debt and Capital financing requirement	2018/19 Actual £m	2019/20 Forecast £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Closing CFR 31 March	19.35	22.15	21.54	20.91	23.66	28.58
Gross Debt 31 March	4.75	4.58	4.40	4.20	3.96	3.70

Using the figures from the above stated indicators the graph below demonstrates compliance as gross debt remains below CFR, authorised and operational limits for all years presented:



Key Messages

Other Prudential Indicators 2020/21 (Continued)

Ratio of financing costs

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the Prudential Code.

Financing Costs include the amount of interest payable in respect of borrowing or other long term liabilities and the amount the Commissioner is required to set aside to repay debt, less interest and investments income. The Commissioner's financing costs can be both positive and negative dependent on the relative level of interest receipts and payments.

The actual Net Revenue Stream is the 'amount to be met from government grants and local taxation' taken from the annual Statement of Accounts, budget, budget proposal and medium term financial forecast. These figures are purely indicative and are, in particular, in no way meant to indicate planned increases in funding from Council Tax.

Ratio of Financing Costs to Net Revenue Stream	2018/19 Actual £m	2019/20 Forecast £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Investment income	0.15	0.14	0.10	0.07	0.05	0.01
MRP	0.43	0.49	0.61	0.63	0.65	0.68
Financing Costs	**0.29**	**0.35**	**0.51**	**0.55**	**0.60**	**0.67**
Net Revenue Stream	104.02	111.14	118.76	120.04	124.44	126.84
Ratio	0.27%	0.32%	0.43%	0.46%	0.48%	0.53%

Key Messages

The broad aim of the Minimum Revenue Provision is to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

In relation to the commissioner this would be over 50 years as borrowing is only used to finance Land and Building schemes.

Calculation will be based on Option 1 for pre 2008/9 debt and option 3 thereafter.

The Commissioner is also permitted to make additional voluntary payments if required (voluntary revenue provision VRP) although there are no plans to make any in the medium term forecasts.

Annual MRP Statement for 2020/21

The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414) place a duty on authorities to make a prudent provision for debt redemption, this is known as the Minimum Revenue Provision (MRP). The Local Government Act 2003 requires the Authority to "have regard" to The Ministry of Housing, Communities and Local Government's Guidance on Minimum Revenue Provision most recently issued in 2018. This sum known as the MRP is intended to cover the principal repayments of any loan over the expected life of a capital asset.

The Ministry of Housing, Communities and Local Government's Guidance recommends that before the start of the financial year, The Commissioner approves a statement of MRP policy for the forthcoming financial year. This is now by agreement encompassed within the TMSS. The broad aim of the policy is to ensure that MRP is charged over a period that is reasonably commensurate with the period over which the capital expenditure, which gave rise to the debt, provides benefits.

The four options available for calculating MRP are set out below:

- Option 1 – Regulatory Method based on 4% of the CFR after technical adjustments.
- Option 2 – CFR Method, based on 4% of the CFR with no technical adjustments.
- Option 3 – Asset Life Method, spread over the life of the asset being financed.
- Option 4 – Depreciation Method, based on the period over which the asset being financed is depreciated.

It is proposed that The Commissioner's MRP policy for 2020/21 is unchanged from that of 2019/20 and that The Commissioner utilises option 1 for all borrowing incurred prior to the 1st April 2008 and option 3 for all borrowing undertaken from 2008/09 onwards, irrespective of whether this is against supported or unsupported expenditure. This policy establishes a link between the period over which the MRP is charged and the life of the asset for which borrowing has been undertaken. It is proposed that a fixed instalment method is used to align to the Commissioner's straight line depreciation policy. MRP in respect of PFI and leases brought on to the balance sheet under the 2009 accounting requirements will match the annual principal repayment for the associated deferred liability. This will not result in an additional charge to the Commissioner's revenue budget as this is part of the capital repayment element of the PFI unitary charge. There have been some additional voluntary contributions of MRP made in previous years that are available to reduce the revenue charges in later years. No such overpayments or withdrawals are planned for 2020/21.

Counterparty Selection Criteria and Approved Counterparties

The lending criteria set out below are designed to ensure that, in accordance with The Code of Practice, the security of the funds invested is more important than maximising the return on investments. Following consultation with the Commissioner's treasury advisors there are no amendments to the criteria used in determining approved investment counterparties for 2020/21 compared to those in operation for 2019/20.

Counterparty Selection Criteria

The agreed changes to the selection criteria for investment counterparties for 2015/16 included changes to the investment categories, a reduction in the maximum amount and duration lengths for investments. This was to encourage diversification and to increase the security of those funds invested. These principles apply to the 2020/21 strategy. The investment limits and duration are linked to the credit rating and type of counterparty at the time the investment is made.

The credit worthiness of counterparties is monitored on an ongoing basis in conjunction with the Commissioner's treasury management advisors Link Asset Services Ltd who provide timely updates and advice on the standing of counterparties. Whilst credit ratings are central to the counterparty risk evaluation process, other factors such as the prevailing economic climate are taken into consideration when determining investment strategy and at the time when individual investment decisions are made. In the event that this ongoing monitoring results in a significant change to counterparty selection during the year, the Commissioner and the Joint Audit Committee will be advised through the quarterly activities report.

The approved investment counterparties for the 2020/21 investment strategy are summaried as follows:

Category	Description	Comments
Category 1	Banks Unsecured	Includes building societies
Category 2	Banks Secured	Includes building societies
Category 3	Government	Includes other Local Authorities
Category 4	Registered Providers	Includes providers of social housing e.g. Housing Associations
Category 5	Pooled Funds	Includes Money Market Funds and property funds

Key Messages

Whilst these limits also apply to councils own bankers in the ordinary course of business, if that bank's lowest rating falls below 'A-' balances will be maintained for operational purposes only and minimised on a daily basis. A non-investment limit of £1m will apply in such circumstances

Changes to accounting rules mean that certain financial instruments need to be valued at year end and paper gains/losses at the balance sheet date charged to the Statement of Comprehensive Income and expenditure Account. Such instruments are not currently key to our strategy.

A more detailed explanation of each of these counter party groupings in provided in Schedule B (page 26).

Counterparty Groupings / Limits

The criteria for approving investment counterparties have been devised, grouped, graded and investment limits attached as detailed in Schedule A (page 25). The limits are based on a percentage of the potential maximum sums available for investment during the year of up to £40m. The counterparty limits for 2020/21 are the same as the limits for 2019/20. Pooled funds are in essence the same as AAA money market funds but they require 3 days' notice for the return of our funds. This slight reduction in cash flow is rewarded by a slightly increased interest rate. Link Asset Services Ltd suggest that these funds are used for longer term investments and the ordinary money market funds to manage cash flow.

Description of Credit Ratings

As outlined above the credit worthiness of counterparties is monitored on an ongoing basis in conjunction with the Commissioner's treasury management advisors Link Asset Services Ltd.

Key Messages

The UK Government is considered the safest place to invest as it has never defaulted and therefore minimum credit ratings do not apply.

The Commissioner has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AA.

All investments are Sterling. Therefore the Commissioner is not exposed to any foreign exchange / currency risk.

Schedule A – Counterparty Groupings and Associated Limits

		Investment Limits				
Credit Rating	Maximum	1 Banks Unsecured	2 Banks Secured	3 Government	4 Registered Providers	5 Pooled Funds
Category Limit 2020/21	*Amount*	*£20m*	*£20m*	*Unlimited*	*£10m*	*£20m*
	Duration					
Individual Institution/Group Limits						
UK Government	Amount	N/A	N/A	£ unlimited	N/A	N/A
	Duration			50 Years		
AAA	Amount	£2m	£4m	£4m	£2m	£4m per fund (Pooled funds are generally not rated but the diversification of funds equate to AAA credit rating)
	Duration	5 years	20 years	50 years	20 years	
AA+	Amount	£2m	£4m	£4m	£2m	
	Duration	5 years	10 years	25 years	10 years	
AA	Amount	£2m	£4m	£4m	£2m	
	Duration	4 years	5 years	15 years	10 years	
AA-	Amount	£2m	£4m	£4m	£2m	
	Duration	3 years	4 years	10 years	10 years	
A+	Amount	£2m	£4m	£2m	£2m	
	Duration	2 years	3 years	5 years	5 years	
A	Amount	£2m	£4m	£2m	£2m	
	Duration	13 months	2 years	5 Years	5 years	
A-	Amount	£2m	£4m	£2m	£2m	
	Duration	6 months	13 months	5 years	5 years	
None	Amount	N/A	N/A	£2m	£2m	
	Duration			25 years	5 years	

Note, individual, group and category limits for 2020/21 are based on the potential maximum available for investment during the year of up to £40m. It should also be noted that as outlined on page 23 above, counterparty credit rating is not the only factor taken into consideration at the time of placing investments.

The maximum of all investments with outstanding maturities greater than one year will be £2m.

Key Messages

The Commissioners priority for investments will **always** be ranked in the order of

Schedule B – Explanation of Counterparty Groupings

Class of Investment
Category 1 - Banks Unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.
Category 2 - Banks Secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.
Category 3 - Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.
Category 4 - Registered Providers: Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.
Category 5 - Pooled Funds: Shares or units in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods. Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

Joint Audit Committee

CUMBRIA
Peter McCall

Title: OPCC Risk Management Strategy

Date: 6 March 2020
Agenda Item No: 15(i)
Originating Officer: Joanne Head
CC:

Executive Summary:
The Office of the Police and Crime Commissioner provides policing services for Cumbria in a constantly changing and challenging environment. The Risk Management Strategy sets out the OPCC responsibility for risk management and how risks are managed.

Recommendation:
That the Joint Audit Committee review and provide comment to inform the final version of the strategy to be approved by the Police and Crime Commissioner.

1. Introduction & Background

1.1 The risk management strategy sets out the governance arrangements in respect of the management of risk including arrangements for holding to account the Chief Constable for the management of risks within the force. The strategy is currently reviewed on an annual basis.

2. Issues for Consideration

2.1 The strategy sets out the commissioner's objectives in respect of risk management and the arrangements in place for meeting those objectives through a risk management framework. The framework incorporates clear roles and responsibilities for risk management and a methodology for assessing risk and mitigating actions. The strategy provides the framework to enable the Commissioner to achieve the requirements within the approved financial rules and financial regulations.

2.2 In previous reviews the strategy has seen a number of changes to reflect the understanding and appetite for risk that the OPCC has developed since its inception in November 2012.

2.3 Having undertaken an annual review of the OPCC risk strategy there has been an update to the name of the Joint Audit Committee; and an addition of accountability and governance within the risk management framework. This identifies that the OPCC has an accountability framework. The remainder of the strategy adequately reflects the way in which the OPCC considers and deals with all risks.

2.4 The strategy is reviewed on a three year cycle, which aligns with similar review periods for other OPCC policies and strategies, including their Risk Management Strategy. Should there be any significant changes either within the OPCC or external influences the strategy would be reviewed and updated out with the three year cycle. The risk registers would continue to be reviewed at the appropriate intervals denoted by their risk scores.

2.5 Mr Jack Jones, of the Joint Audit Committee has been consulted regarding updating the Risk Management Strategy. He has provided some comments and guidance which have been incorporated within the final version being presented.

2.6 Following any comments by the Joint Audit Committee the Police and Crime Commissioner will review the Risk Management Strategy and approve it. The updated strategy will be implemented from 1 April 2020.

3. Implications

3. 1 **Financial**
Effective risk management practices supports the reduction of risks that may have financial implications.

3.2 **Legal**
Risk management strategy supports the overall arrangements for governance and is underpinned by strategic and operational risk registers that seek to manage the risks pertaining to legal and governance within operational practice.

3.3 **Risk**
The risk management strategy ensures risks are identified, assessed and managed with clear ownership of the risk and activity to mitigate its impact. The strategy seeks to encourage risk taking where this has clear positive benefits.

3.4 **HR / Equality**
Key staff roles are identified within the strategy with responsibility for areas of risk management.

4. Supplementary information

Appendix 1 – OPCC Risk Management Strategy

Cumbria Office of the Police and Crime Commissioner

Risk Management Strategy 2020 - 2023

Version – February 2020 draft v1

Contents

Introduction

The Office of the Police and Crime Commissioner for Cumbria (OPCC) is committed to providing the highest quality of policing services to the people of Cumbria. We do this in a constantly changing and challenging environment. This strategy is about the approach and arrangements we have in place to manage the risks we encounter in doing this.

Risk management involves the identification, assessment and prioritisation of risks and taking action to control, minimise and monitor them. Risks are threats that have potential to impact on our organisation and the delivery of our objectives and services. Sometimes they can be positive as well as negative. Risk management activity ensures we protect against negative threats whilst recognising and taking advantage of positive opportunities.

Our strategy sets out responsibilities for risk management, what we do and how we do it. It incorporates a number of key objectives and what we aim to achieve from the arrangements we have in place. In doing so our strategy provides assurance and contributes to the overall arrangements we have for governance.

Our Approach to Risk Management

Police and Crime reduction services are delivered in a high risk environment. Like many public service organisations we are continually challenged to change the way we do things, to improve and to reduce cost. In doing this the level of risk we take as an organisation increases. Our approach to risk management recognises this by seeking to ensure we have a structured approach to manage those risks. Our approach seeks to ensure that our people and organisation are protected without stifling innovation or adversely restricting the taking of risks where we can see there are positive benefits from doing so. We describe this as being risk aware. This strategy sets out the things we have in place to embed a risk aware culture. These are:

- **Risk Management Objectives:** Our overall aims that set out what we want to achieve from the arrangements we have in place for risk
- **Risk Management Methodology:** The way we review our risks to understand their impact and decide how we will manage them
- **Risk Management Framework:** The specific things we have in place that supports the delivery of our objectives
- **Risk Management Responsibilities:** Specific responsibilities for different areas of risk for which our Commissioner, chief officers, staff, committee and auditors are accountable

The rest of this strategy sets out more information on or objectives, framework, methodology, responsibilities and sets out how we record our risks on our risk register.

Risk Management Objectives

Risk management makes an important contribution in helping to achieve our aims and deliver better services. Through being aware of risk and having an understanding of its impact we can make better decisions about what and how we do things. Risk management works best when we have a culture that is risk aware. Our strategy aims to achieve this by providing a framework that helps to integrate and embed risk management into our day to day business. To do this we have identified a number of objectives that we are committed to. This section of our strategy sets out what they are and what we will do to achieve them.

Objective 1: We will ensure that Risk management is part of the process for delivering policing and crime reduction in Cumbria through the Constabulary and our wider Partners. We will do this by:

- Maintaining an effective risk management strategy, a framework through which the strategy is implemented and a risk register to manage risks
- Holding the Constabulary and wider Partners to account in respect of their arrangements for risk management

Objective 2: We will ensure that our organisation is risk aware and that arrangements for risk management comply with best practice. We will do this by:

- Providing communications and guidance through our website to spread good practice
- Ensuring our officers are appropriately trained in risk management practice
- Subjecting our risk management arrangements to annual review

Objective 3: We will ensure that there is clear ownership and accountability for risks. We will do this by:

- Establishing clear roles and responsibilities in relation to risk management within our strategy
- Ensuring all risks on our risk register has a risk owner and an action owner

Objective 4: We will provide a framework for evaluating and responding to risks that is easy to understand and supports decision making. We will do this by

- Setting out a framework for risk management
- Including within the framework a methodology for scoring risks and timescale for risk review based on the risk score.

Risk Management Framework

Our risk management framework sets out the things we have in place to manage risk and who is responsible for them. They form the substantive part of what we do to achieve our risk management objectives. The framework comprises:

RISK MANAGEMENT FRAMEWORK

Risk Register

Our risks are recorded on a risk register. The register holds key information about each risk including a description of the risk, a score for the risk, what we are doing to manage the risk currently and any further actions we plan to take. It identifies the risk owner and the score determines how frequently that owner will review the risk to ensure we are taking appropriate action. The risk register groups risks into three risk categories; strategic risks, operational risks and project risks.

RISK MANAGEMENT FRAMEWORK

Risk Classification

Risks are grouped on our risk register into one of three classifications. The classification determines who is responsible for managing the risk and how those risks are managed. The classifications are:

- Strategic Risks – risks that threaten the achievement of strategic objectives such as those in our policing plan and other core strategies.
- Operational Risks – these are risks to our operating systems, service delivery and the objectives in our business plans.
- Project Risks – risks identified as being significant to the projects being undertaken by the Commissioner.

RISK MANAGEMENT FRAMEWORK

Risk Methodology

Risk Methodology is about how we score our risks. Our strategy sets out a consistent way to do this that takes account of the impact of the risk and likelihood of it occurring. The higher the risk score the more frequently we will assess the actions that we have in place to mitigate the risk. We score both the inherent risk and the mitigated risk. The inherent risk score tells us what the impact of the risk could be if we took no action whilst the mitigated score tells us how much we have reduced the risk as a result of things we do to manage it.

RISK MANAGEMENT FRAMEWORK

Police & Crime Plan

The Police and Crime Commissioner has a Police and Crime Plan which identifies the work to be undertaken by the Commissioner, the Office of the Police and Crime Commissioner; and how policing will be delivered in Cumbria. The development of the plan informs our work in relation to strategic risks. Strategic risks are incorporated within the strategic risk register which is approved by the Police and Crime Commissioner and presented to the Joint Audit ~~and Standards~~ Committee for scrutiny. Operational risks are included within the operational risk register and are actively managed through the Commissioner's Office under the direction of the ~~Chief~~ Executive Team.

RISK MANAGEMENT FRAMEWORK

Project Risks

Project risks are managed very dynamically due to the more limited timescale across which projects are typically delivered. They are reviewed prior to each project board and presented to each meeting. This means that the pace of the project and the frequency of meetings are aligned to the review of risks. The terms of reference for all project boards includes responsibility for managing project risks.

RISK MANAGEMENT FRAMEWORK

Partnership Risks

Partnership Risks may be identified through the collaboration or commissioning work undertaken by the Police and Crime Commissioner and their office. Where either are the lead or commissioning body and which impact upon the OPCC or require mitigation these would be added to the strategic, operational or project risk register as appropriate.

RISK MANAGEMENT FRAMEWORK

Risk Review

Our overall arrangements for risk are reviewed annually by the ~~Chief~~ Executive Team as part of the review of wider governance arrangements. The review is reported in the Annual Governance Statement alongside our Statement of Accounts, which is approved by the Police and Crime Commissioner. The statement is subject to external audit and presented with the Accounts to our Joint Audit ~~and Standards~~ Committee.

RISK MANAGEMENT FRAMEWORK

Risk Appetite & Tolerance

Risk appetite is developed in the context of the organisation's risk management capability. It is not a single, fixed concept and there will be a range of appetites for different risks which need to align. Risk appetite must take into account differing views at a strategic and operational level and these may vary over time. If a level of risk is not acceptable then it must be managed accordingly. Risk tolerance allows for variations in the amount of risk the OPCC is prepared to tolerate for a particular activity or project. How the OPCC will deal with risk tolerance for all its risks and this is addressed within the methodology section of this strategy.

The OPCC will strive to manage strategic, operational and project risks to a level which is acceptable or where it is negated, taking into account the costs of any mitigations which are required. Depending upon the circumstances it may be necessary to set a different risk appetite for a particular area of business or project but the general default position for the OPCC will be medium/cautious.

The OPCC has a Risk Matrix which illustrates assessments of the likelihood and impact scores which are plotted onto a (4 x 4) Risk Matrix. This determines the level of inherent risk and, later, to demonstrate the residual position after the application of controls to mitigate and reduce risk

LIKELIHOOD						
	Very High	4	*4*	*8*	*12*	*16*
	High	3	*3*	*6*	*9*	*12*
	Medium	2	*2*	*4*	*6*	*8*
	Low	1	*1*	*2*	*3*	*4*
			1 Low	**2** Medium	**3** High	**4** Catastrophic
			Magnitude of Impact			

Key

Risk Management Action Level	**Low Priority No additional action needed Maximum review time frame 12 months**	**Some additional activity may be necessary Maximum review time frame 6 months**	**Activity required in current year Maximum review time frame 3 months**

RISK MANAGEMENT FRAMEWORK

Risk Responsibility

Our strategy allocates specific roles and responsibilities to officers for Risk Management. This ensures there is clarity and accountability for ensuring our practices are embedded and our objectives are achieved.

RISK MANAGEMENT FRAMEWORK

Fraud Risk Assessment

Fraud risk assessment is used to assist staff to identify and deal with any suspected risk of fraud and ensure that adequate and effective internal control arrangements are in place. As part of the preparation process for the financial statements of accounts, evidence and assurances are provided for scrutiny to the external auditors. This information is then assessed and incorporated into the final statement of accounts. Our independent Joint Audit ~~and Standards~~ Committee is provided with a copy of the final statement of accounts for consideration and can monitor any fraud issues which are raised.

We have an Anti-Fraud and Corruption Policy which provides staff with information on fraud and corruption including contact details for the reporting of any concerns. Our Joint Audit ~~and Standards~~ Committee reviews the policy on a cyclical basis and ensures that it meets recommended practices. Also in place is a Confidential Reporting (Whistleblowing) Policy which provides effective mechanisms for `open' and `confidential' reporting of wrongdoing.

RISK MANAGEMENT FRAMEWORK

Internal Audit

Our arrangements for risk management and those of the Constabulary are subject to internal audit provided as part of a shared internal audit service within Cumbria. The service has adopted the Public Sector Internal Audit Standards (PSIAS) which ensures that they undertake risk based internal auditing. This methodology is used to help our organisation accomplish its objectives. Our Joint Audit ~~and Standards~~ Committee receives the findings of audit work and monitors the implementation of actions following any audit recommendations.

RISK MANAGEMENT FRAMEWORK

Decision Making and Risk

Our reporting formats include a section on the risk implications of any decision and course of action. This ensures that decisions are taken on an informed basis and agreement can be reached on how risks should be managed.

RISK MANAGEMENT FRAMEWORK

Lead Officer for Risk

Our Governance Manager is designated as lead officer for risk. This means that one of our staff has specific responsibility for maintaining an up to date awareness of risk management practices and ensuring we embed a risk aware culture. Our lead officer attends risk management meetings with the Constabulary to assure their arrangements and that our risk registers are aligned where it is appropriate. This is one of the ways we hold the Constabulary to account for their risk management arrangements.

RISK MANAGEMENT FRAMEWORK

Accountability & Governance

The Police and Crime Commissioner has an Accountability Framework which aims to:

- Provide a robust system for holding the Chief Constable to account for the services delivered by the Constabulary.
- Provide information on performance in delivering the Police and Crime Plan.
- Focus on the priority developments whilst still maintaining oversight of key outcomes and day-to-day policing.
- Provide a balance between the policing service provided, the quality of that service and value for money.

Collectively the risk management framework ensures that we have a systematic approach to managing our risks. It facilitates proper consideration of the implications of decisions and actions and provides a mechanism through which we can evaluate how well our approach is working in practice. Internal and external audit provide a further layer of validation and scrutiny of our arrangements.

The Head of Communication and Business Services meets quarterly with the Constabulary's Director of Corporate Improvement to ensure both organisation's strategic risk registers reflect the purpose and key objectives of their respective organisations and that the identified strategic risks are being effectively managed.

Risk Management Methodology

This strategy adopts a risk management methodology to assess the impact of a risk should it materialise and the likelihood of this happening. This methodology plays an important part in determining how much attention we need to give to managing specific risks through helping us to consider the implications should they arise. The methodology involves scoring risks based on the likelihood of the risk happening and the impact. It uses a 4x4 matrix that produces a risk score of between 1 and 16.

RISK MATRIX : LIKELIHOOD		
Likelihood Score	**Description of likelihood over the next 4 years**	
4	Very High	Will undoubtedly happen, possibly frequently
3	High	Will probably happen, but not a persistent issue
2	Medium	May happen occasionally
1	Low	Not expected to happen, but is possible

RISK MATRIX: IMPACT

IMPACT SCORE	DESCRIPTION					
		IMPACT ON SERVICE OBJECTIVES	FINANCIAL IMPACT	IMPACT ON PEOPLE	DURATION OF IMPACT	IMPACT ON REPUTATION
4	Very High	Unable to function, inability to fulfil obligations – total failure of at least 2 areas of activity	Severe financial impact (Above £5m / budget implications)	Internally – wholesale resignation, unable to staff OPCC Externally – service user death	In excess of 1 year to recover pre event position	Severe damage to reputation Sustained and prolonged national media interest PCC resignation
3	High	Significant impact on service provision – total failure of at least 1 area of activity with impact across all areas of business	Significant financial impact (over £1m)	Internally – increased staff turnover/ shortage Externally – general/systemic poor user experience	Between 6 months to 1 year to recover to pre event position	Significant damage to reputation Short term national / longer term local media interest
2	Medium	Material impact on service objectives – at least 2 areas of business / several personal objectives	Material financial impact (over £250k - £1m)	Internally – high level of staff absences Externally – multiple poor service user experience	Between 2 to 6 months to recover to pre event position	Adverse publicity, noticeable damage to reputation. Short term local media interest
1	Low	Some impact on service objectives – single area of business/ individual objectives	Some financial impact (up to £250k)	Internally - low morale Externally – some poor service user experience	Up to 2 months to recover	Some damage to reputation 1 day local media interest

RISK MANAGEMENT METHODOLOGY

Using the Methodology

There are a number of steps to using our methodology to ensure that risks are effectively considered and appropriate controls are put in place to manage them. By identifying the OPCC's risk appetite or tolerance will enhance the ability to score and RAG rate each identified risk.

Firstly the inherent or base risk score is calculated. This is the risk score that would result if there is no action taken to manage the risk. Using the matrix above a score would be calculated by multiplying the likelihood score with the impact score. It is important to understand this base risk as it helps us to assess what might happen if the measures we put in place to manage the risk fails or if we put nothing in place. It supports decision making on the level of effort that should be directed towards reducing the risk.

Once the base risk has been scored, consideration is given to what we can do and what we are doing to reduce the risk. These are our risk control measures. The risk is then scored again, taking into account the effects of our actions. This produces a mitigated risk score against which we can then decide to do one of four things:

- *Tolerate* - We decide to accept the risk and take no further measures
- *Transfer* - We transfer all or part of the risk, for example through insurance or to other agencies/contractors
- *Treat* - We introduce additional control measures to reduce the risk
- *Terminate*– We aim to eliminate (avoid) the risk, for example by ceasing to provide a service or by doing something a different way

If we choose to transfer, treat or terminate the risk we then update our mitigated risk score once these actions have been taken. The overall inherent and mitigated risks scores are reviewed cyclically with the score determining how often we do the review. Risks with scores of between 8 and 16 are reviewed on a quarterly basis; and those scoring between 4 and 6 are reviewed every 6 months. All other risks are reviewed at least annually. The exception is project risks that are reviewed at each project board meeting due to the limited life of project activity and the impact of risk on project delivery.

The inherent and mitigated risk score, control measures and any additional planned control measures are documented within our risk register. We assign a `RAG' rating (Red, Amber and Green) to identify whether a risk is Acceptable (Green); Tolerable with actions (Amber); or Unacceptable with urgent action required (Red) to each of the OPCC risks. This assists in the easy identification of those risks which require urgent attention or close monitoring to those which can be reviewed on a less frequent basis.

The register identifies the review frequency and the officer responsible for managing the risk. Strategic risks under the direction of Police and Crime Commissioner are presented to the Joint Audit Committee three times during the year in line with the Constabulary's reporting. This will provide the opportunity for the Committee to review both registers at the same time. An annual risk management monitoring report will also be presented which will include the arrangements for holding the Chief Constable to account for Constabulary risk management.

Risk Management Responsibilities

Our strategy allocates specific responsibilities to key individuals, and any OPCC committees and boards to ensure clear lines of accountability for managing risk. This section of our strategy sets out those responsibilities.

RISK MANAGEMENT RESPONSIBILITIES

The Police and Crime Commissioner

The Police and Crime Commissioner has strategic responsibility for the overall arrangements for risk management. An annual governance statement is approved annually by the Commissioner which includes a commentary on the effectiveness of risk management arrangements by the Commissioner's Chief Internal Auditor.

The Commissioner is responsible for strategic risks as identified within the strategic risk register and for understanding and challenging risks as part of their processes for developing policy and decision making.

The Commissioner has responsibility for holding the Constabulary and wider partners to account for their arrangements in respect of risk management and providing public assurance of such. The Commissioner annually approves the risk management strategy and takes overall responsibility for the strategic risk register.

RISK MANAGEMENT RESPONSIBILITIES

~~Chief Officers~~ OPCC Executive Team

The OPCC ~~Chief~~ Executive Team has responsibility for maintaining comprehensive systems of internal control including risk management processes. They ~~Chief Executive~~ also have responsibility for ensuring an operational risk register is maintained to support the management of those risks that may impact on the delivery of the OPCC business plan.

The Chief Executive/Executive Team reports on the effectiveness of arrangements for risk management within the Annual Governance Statement to the PCC and to the Joint Audit ~~and Standards~~ Committee. The Joint Chief Finance Officer has responsibility for ensuring appropriate internal audit arrangements are maintained and for insurance in respect of those risks which are to be treated.

RISK MANAGEMENT RESPONSIBILITIES

OPCC Managers and Staff

Managers and staff - have responsibility for the strategic and operational risks arising in their service areas. Managers must ensure teams carry out risk assessments to inform control measures and mitigating action. Staff are responsible for ensuring risks that may impact on the delivery of their business objectives are recorded in the strategic and operational risk register and actively managed.

Where a risk is identified by a manager or member of staff which affects another part of the OPCC's business then this will be highlighted to the appropriate manager or member of staff for inclusion within the register. A risk which is considered to have a significant effect on medium to long term objectives can be escalated to the Executive Team for consideration, inclusion within the strategic risk register and appropriate action identified and instigated. Following their consideration it may be reported to the Commissioner to appraise them of the issues.

OPCC staff are able to receive direction and instruction regarding their responsibilities for operational risk from a number of sources. These include – information contained within policy/strategy and procedure manuals; as part of their induction process; from their line manager; the lead officer for risk and specific training courses where required.

RISK MANAGEMENT RESPONSIBILITIES

Project Managers

Project managers are responsible for ensuring any project risks are actively recorded on a project risk and issues log. All risks should be scored in line with the agreed risk methodology within this risk strategy and reported to the project board to ensure appropriate action is taken. As part of updates or project reports any identified risks should be reported upon, with particular attention to those which may disrupt or halt the project.

RISK MANAGEMENT RESPONSIBILITIES

Joint Audit ~~and Standards~~ Committee

The Office of the Police and Crime Commissioner and the Constabulary have in place a Joint Audit ~~and Standards~~ Committee which has independent membership.

The Committee will examine evidence provided by internal and external audit and other governance areas to ensure that we demonstrate we are actively managing our risks. This provides independent assurance to the Commissioner, ~~Chief~~ Executive Team and Joint Chief Finance Officer.

The relevant terms of reference of the Joint Audit ~~and Standards~~ Committee are:

- Monitor the effective development and operation of risk management, review the risk profile, and monitor progress of the Police and Crime Commissioner and the Chief Constable in addressing risk-related issues reported to them.
- Consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- Review arrangements for the assessment of fraud risks and potential harm from fraud and corruption and monitor the effectiveness of the counter-fraud strategy, actions and resources.
- Consider the framework of assurance and ensure that it adequately addresses the risks and priorities of the OPCC and Constabulary.

RISK MANAGEMENT RESPONSIBILITIES

Internal and External Audit

Internal audit are responsible for periodically reviewing the effectiveness of risk management processes including the verification that controls are operating as intended. This source of independent assurance is a fundamental part of the evidence used to discharge our accountability for reviewing the effectiveness of our governance arrangements. External auditors review the annual governance statement that sets out how we have complied with our arrangement for risk management and will test a number of financial controls that mitigate against financial risks as part of their audit work on the financial statements

RISK MANAGEMENT RESPONSIBILITIES

Lead Officer for Risk

The OPCC Governance Manager is the lead officer for risk. This responsibility includes:

- Pro-actively driving forward the management of risk
- Liaison with the Constabulary, other partners and major contractors to monitor compliance with and the effectiveness of their risk management arrangements and reporting thereon to the Police and Crime Commissioner
- Monitoring the implementation of the risk management action plans of both the OPCC and Constabulary
- Bring to the attention of the Police and Crime Commissioner and/or Audit and Standards Committee any concerns about the arrangement for risk management
- The provision of a risk register system to aid the recording, review, analysis and reporting of strategic and operational risks
- Maintaining an up to date awareness of risk management practice and leading on communications and guidance to support the embedding of a risk aware culture

Risk Register Template

Risk No:	Risk Title:	

Risk Mitigation Strategies:	
Avoid	Stop the risk completely or stop it having an impact.
Reduce	Reduce the likelihood and/or impact of the risk
Transfer	Outsource, use contractors or insure against things going wrong
Accept	The risk is tolerable/accepted

Risk Score		Likelihood – over the next 4 years
1	Low	Not expected to happen, but is possible
2	Medium	May happen occasionally
3	High	Will probably happen, but not a persistent issue
4	Very High	Will undoubtedly happen, possibly frequently

		Unmitigated Score			Mitigated Score				Actions				
What is the cause of the risk? **(Lack of …..failure to ….)**	**What is the consequence of the described risk?** **(Results in…….leads to………)**	Impact	Likelihood	Risk Score	Impact	Likelihood	Risk Score	**Risk Owner &** Mitigation Strategy (Avoid, reduce, transfer, accept)	**Current Controls in Place to Mitigate the Risk**	**Assurances**	**Future or further actions to be taken**	**Action Owner**	**Review Date**

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Policy:	Risk Management Policy
Approved by which board (or Chief Officer) and date:	Chief Officer Group May 2019
Owner	Director of Corporate Improvement
For release under Freedom of Information?	*Yes*
Supporting procedures	*No*
Contact for advice	*Performance Consultant, Corporate Improvement*
Review date	*May 2022*

If changes have been made to an existing policy, you must complete the boxes below

Amendments made	*Updated to reflect revised corporate objectives, core policing deliverables, Vision 25 and revised corporate governance structure; inclusion of diagram showing risk management mechanisms across the organisation; inclusion of assurance landscape for policing organisations; updated risk management definitions and recommendations from any good practice identified through research. Updated to reflect new annual requirement for audit to review risk management arrangements. New Constabulary crest to replace previous one.* *Addition of statement enabling potential adoption of open risk appetite for specific pieces of work/projects Addition of Information Risk Appetite Statement for completeness*
Date and Version Number	*May 2019* *Version 3*

1. Equality Analysis

This section of the policy must be completed <u>before</u> the policy is developed.

1. **What is the potential impact in relation to the General Duty of this proposal on each of the protected groups below?**

Protected characteristics	**Positive Impact** **Does the proposal:**				**Negative Impact (provide details and mitigating actions taken or proposed)**	**No Impact (√)**
	eliminate unlawful discrimination (provide details)	**advance equality of opportunity (provide details)**	**Foster good relations (provide details)**	**Other positive impact (provide details)**		✓
Age						✓
Disability						✓
Sex						✓
Sexual orientation						✓
Gender reassignment						✓
Marriage and civil partnership						✓
Pregnancy and maternity						✓
Race						✓
Religion and belief including non-belief						✓

If there is no potential impact (positive or negative) please provide a brief explanation why this is the case, e.g. the data utilised in arriving at the decision, summary of responses to consultation etc.

Brief explanation of the 'no impact' decisions above
This policy defines the Constabulary's internal risk management governance and processes and the roles and responsibilities of staff and departments in ensuring that identified risks are effectively managed.

2. Aim

The challenging environment the Constabulary operates in requires it to not only consider the context for managing risk but to continually identify new risks that emerge, and make allowances for those risks that no longer exist.

This policy communicates the Constabulary's overall approach to risk management and sets out what is already in place to embed a risk aware culture. It recognises that effective management of risk enhances the Constabulary's ability to:

- Deliver strategic and operational objectives successfully.
- Safeguard the Constabulary's assets.
- Protect the Constabulary's reputation.
- Improve planning and prioritisation of resources.
- Anticipate the impact of problems before they occur and plan appropriate action(s).
- Ensure that relevant staff have the skills to identify and manage risk within their respective areas of work.
- Take a proactive approach to uncertainty that avoids knee-jerk reactions.
- Increase stakeholder confidence.
- Identify and take advantage of opportunities.

This policy also recognises that effective risk management requires widespread understanding of and commitment to risk management principles.

Chief officers, directors, commanders senior police officers and senior police staff managers need to be familiar with this policy.

All staff including the Special Constabulary and volunteers need to be aware of it. **(See Roles and Responsibilities section for full details).**

3. Terms and Definitions

Risk is the threat that an event or action will affect the Constabulary's ability to achieve its organisational aims and objectives.

Strategic risks are those affecting the medium to long term objectives of the Constabulary.

Operational risks are those encountered in the course of the day to day operational and business procedures we use to deliver effective policing services.

Risk Appetite

Risk appetite is the amount and type of risk that the Constabulary is prepared to take or accept to achieve its objectives.

Risk Tolerance

Risk tolerance allows for variations in the amount of risk the Constabulary is prepared to tolerate for a particular activity or project and this may change over time.

4. The Policy

The Chief Constable has determined the strategic direction for the Constabulary 'To deliver an outstanding police service to Keep Cumbria Safe'. Following public consultation, the annual reviews of the Constabulary's Strategic Assessment (based on operational intelligence), performance results, recommendations from independent inspections and audits and a review of the organisation's strategic risks, the Chief Constable has identified the core policing objectives that are key in reducing 'threat, risk and harm' and tackling our communities' concerns. These are:

- Responding to the public
- Prevention and deterrence
- Investigation
- Protecting vulnerable people
- Monitoring dangerous and repeat offenders
- Disrupting organised crime and,
- Responding to major incidents

In addition, there are a number of strategic objectives across the five elements of Cumbria Vision 25- local policing, specialist capabilities, business support, workforce and digital policing.

The purpose of risk management is to identify potential problems before they occur so that activities can be planned and implemented to mitigate adverse impacts on achieving organisational objectives and to maximise opportunities.

Risk can be categorised in many different ways. The Constabulary intends to use two categories; strategic and operational. The categories should lead to a sufficiently broad set of issues being considered but on the other hand will not impose too great an administrative burden.

Strategic risks are the key top level and most critical risks that the Constabulary faces. Best practice indicates that there should be between 5 and 10 strategic risks to manage. Robust risk management at strategic level can help protect the reputation of the constabulary, safeguard against financial loss and minimise service disruption. Each risk is managed at the level where the control to manage the risk resides. Therefore strategic risks are managed by the Chief Officer Group.

Operational risks are the top critical risks that commanders, directors, V25 board chairs and heads of departments should manage at that level because they pose a risk to their ability to deliver effective policing or department services or objectives.

Significant and cross cutting operational risks are managed by Local Policing and Specilaist Capbilities Board, significant strategic business risks are managed in the relevant business departments and via the other Cumbria Vision 25 governance boards (Workforce, Business Support and Digital Policing). Projects and programmes also have their own risks that are managed by the relevant project / programme teams. Generally, the cause of the risk determines the type of risk it is and where it should be managed.

Risk Appetite

If the level of risk is not acceptable to the Constabulary then the risk must be managed. The Constabulary will always strive to manage Strategic and Operational risks *downwards* as long as the cost of mitigation does not exceed the expected loss or the associated benefits.

The following criteria will be used to describe the risk appetite:

Acceptable level of risk	Risk appetite	Description
Very high	Hungry	Eager to be innovative and to choose options based on potential higher rewards (despite greater inherent risk).
High	Open	Willing to consider all options and choose the one that is most likely to result in successful delivery while also providing an acceptable level of reward.
Medium	Cautious	Preference for safe options that have a low degree of residual risk and may only have limited potential for reward.
Low	Minimalist	Preference for ultra-safe options that have a low degree of inherent risk and only have potential for limited reward.
Very low	Averse	Avoidance of risk and uncertainty is a key objective.

The default risk appetite for the Constabulary is 'Cautious'. However, depending on circumstances it may sometimes be beneficial to set an open risk apprettie for a particular department, project or other piece of work Where this is the case, the rationale should be explained in the business case, the risk appetite documented and the benefits articulated. This should be notified to the relevant board or senior management for approval and copied to Strategic Development as part of the regular four monthly review process. This is also the process required where any risk appetite other than cautious is proposed.

The scale of low to high refers to a willingness to accept risks of either:

- **inherent** risk (defined as 'the exposure arising from a specific risk <u>before</u> any action has been taken to manage it')
- or **residual** risk (defined as 'the exposure arising from a specific risk <u>after</u> action has been taken to manage it and making assumption that the action is effective').

These five levels of risk (published by HM Treasury) can be applied to a broad range of corporate risks, e.g. reputational, financial, compliance, etc.

Risk Tolerance

Tolerance is the difference between what is acceptable and what is unacceptable. The parameter of the area between these two is what is tolerable. It is common practice to assign a 'RAG' rating (Red, Amber, and Green) with the following generally accepted definitions:

Status	**Meaning**	**Required Action**
Green	Acceptable	No action is required but continue monitoring.
Amber	Tolerable risks but action is required to avoid a Red status.	Investigate to verify and understand underlying causes and consider ways to mitigate or avoid within a specified time period.
Red	Unacceptable. Urgent attention is required.	Investigate and take steps to mitigate or avoid within a specified short term.

This approach can be applied across the complete risk management framework and provides a clear indication of proportional response to the perceived materiality of the associated risk. Specifying a timescale for resolution emphasises the perceived urgency and significance of the underlying cause. This makes good business sense and promotes a consistent understanding across the Constabulary.

Where the risk is confined to the relevant business or operational area and mitigating action(s) can be identified at this level, the risk should be assessed for likelihood and impact and an appropriate owner identified. Any mitigating action(s) and/or contingency measures should be identified to be completed within defined timescales. The risk can then be added to the relevant operational, departmental, board or programme/ project risk register for monitoring and review.

Where any risk identified has a cross cutting impact or if mitigating action is required by another business or operational area the risk should be referred to the appropriate commander, director, board or head of department to discuss the likelihood and impact assessment, identify an appropriate owner and agree mitigating action(s) and contingency measure(s). The risk should then be added to the relevant operational, departmental or board programme/ project risks register for monitoring and review.

A risk can be escalated to the Chief Officer Group for consideration as a strategic risk at any time. Where any risk identified is considered to be significant enough to affect the medium to long term objectives of the Constabulary then it should be referred *via Corporate Improvement* for submission to the Chief Officer Group for consideration and inclusion in the strategic risk register.

To support the decision making process, Corporate Improvement maintain a tracking database to provide an audit trail of the risks that are removed or remitted to the Chief Officer Group for inclusion on the Strategic Risk Register.

The benefits of this approach to the Constabulary are that it enables Chief Officers, Boards, Chief Superintendents and Directors to:

- Exercise appropriate oversight and corporate governance by defining the nature and levels of risk they consider acceptable (and unacceptable) and so set boundaries for business activities and behaviours
- Provide a means of expressing their attitudes to risk which can then be communicated as appropriate to promote a risk aware culture
- Establish a framework for business risk/decision making (which risks can be accepted/retained, which risks should be mitigated and by how much) which ensures an appropriate balance between being risk seeking and risk averse
- Improve the allocation of resources where appetite thresholds are under threat
- Encourage more conscious and effective risk management practices, e.g. prioritising risk related issues for escalation and for response.

Risk Categories

The following headings can help to categorise strategic and operational risks:

- Political – arising from change of government policy.
- Economic/ Financial – arising from the financial structure, from transactions with third parties and the financial systems in place.
- Social – arising from changing communities and new communities.
- Technological - arising from infrastructure failure or lack of business continuity arrangements.
- Environmental – arising from storms/flooding or pollution incidents.
- Legal and regulatory (including Health and Safety risks) – deriving from the necessity to ensure compliance with legislation, regulations and customer expectations which if infringed can damage the Constabulary’s reputation.
- Organisational/Management/Human Factors - arising from inadequate adoption of management practices or lack of operational support.

These categories are not mutually exclusive. The purpose of categorising risk is to ensure that risk is considered across a broad range of issues.

Risk Management Methodology

Once a risk has been identified the following methodology should be implemented to assess the impact of the risk should it materialise and the likelihood of it happening. This will ensure that risks are effectively considered and appropriate controls are put in place to manage them.

The methodology involves scoring risks using a 5x5 matrix that produces a risk score of between 1 and 25. Please see Appendix 1 for the 5x5 scoring matrix to be used.
Using the matrix a score is calculated by multiplying the likelihood score with the impact score, to calculate the base or inherent risk score. This is the risk score that would apply if no action is taken to manage the risk. It is important to understand this base risk. It supports decision making on the level of effort that is required to reduce the risk.

Once the base risk has been scored, consideration is given to what can be done immediately and in the future to reduce the risk. These are the risk control measures. Once these have been established, the risk is then scored again, taking into account the mitigating actions. This score represents the residual risk to the Constabulary.

Once this has been calculated a mitigation strategy should be adopted with regard to the residual risk. There are four strategies to consider:

- Avoid –the aim is to eliminate the risk, for example by ceasing to provide a service or by doing something a different way.
- Reduce - introduce additional control measures to reduce the risk.
- Transfer - all or part of the risk, for example through insurance or to other agencies/contractors.
- Accept - no action is required but continue monitoring.

The risk must now be fully documented on the relevant risk register. Please see Appendix 2 for the Constabulary risk register template to be used.

Partnership Risks

Where partnership, collaboration or multi-agency risks are identified where the Constabulary is the lead body or which impact on the Constabulary or require Constabulary action to mitigate them, these should be added to the relevant Constabulary strategic, operational, board, programme or project risk registers.

Roles and responsibilities

Chief Officer Group has responsibility for:

- Identifying and assessing new and emerging strategic risks.
- Deciding whether identified risks are strategic or not.
- Deciding whether or not the level of risk is acceptable to the Constabulary.
- Prioritising and scoring strategic risks.
- Reviewing and monitoring strategic risks on a four monthly basis.
- Approving strategic risks to be added to or removed from the strategic risk register.
- Deciding on what action should be taken against each risk and who is responsible for mitigating them.
- Deciding whether action taken is acceptable and in line with risk appetite and risk tolerance.

Commanders, Directors, Board Chairs and Heads of Departments and have responsibility for:

- Identifying and assessing new and emerging operational risks.
- Prioritising and scoring operational risks.
- Managing risks at departmental/operational level.
- Reviewing their risk registers regularly with their management teams and staff at SMT or at V25 governance boards.
- Ensuring that any action(s) identified in relation to risks are completed.
- Deciding whether action taken is acceptable and in line with risk appetite and risk tolerance.
- Ensuring that risks are escalated to either V25 board structure or Chief Officer Group as appropriate **(see Risk Tolerance section)**.
- Advising other directors and/or commanders and/or heads of department and/or board chairs if they become aware of a risk which they consider should be addressed by them.
- Ensuring that their risk registers are updated regularly and kept up to date with decisions made during the risk register review process.
- Providing a copy of their risk register to Corporate Improvement on a four monthly basis for quality assurance and reporting purposes.

Programme and project managers have responsibility for:

- Identifying and assessing new and emerging programme/project risks (ensuring that information and data security risks are fully considered).
- Prioritising and scoring programme/project risks.
- Managing programme/project risks.
- Reviewing their risk registers regularly with their management teams and staff at SMT.
- Ensuring that any action(s) identified in relation to risks are completed.
- Deciding whether action taken is acceptable and in line with risk appetite and risk tolerance.
- Ensuring that risks are escalated to:
    - The relevant departmental risk register or
    - The relevant directorate/commend risk register or
    - The relevant V25 risk register or
    - Chief Officer Group where appropriate **(see Risk Tolerance section)**.
- Advising other directors and/or commanders if they become aware of a risk which they consider should be addressed by them.
- Ensuring that their risk registers are updated regularly and kept up to date with decisions made during the risk register review process.
- Providing a copy of their risk register to Corporate Improvement on a four monthly basis for quality assurance and reporting purposes.

All employees have responsibility for:

- Identifying risks and ensuring that action is taken to manage them.

- Escalating identified risks to a level where it can be dealt with appropriately if they do not feel that they can address a problem themselves.

Corporate Improvement owns the management arrangements for risk and has responsibility for:

- Identifying and assessing new and emerging strategic risks through environmental scanning. infromation is provided monthly to senior management and Chief Officer Group.
- Ensuring that risk is effectively managed by doing a four monthly quality assurance of and reporting errors and omissions found on risk registers to the relevant departmental /operational SPOCs.
- Co-ordinating risk management registers and providing a corporate overview of all risks to Chief Officer Group on a four monthly basis.
- Providing progress updates in relation to risks in the Strategic Risk Register to Chief Officer Group, the Police and Crime Commissioner and the Joint Audit Committee as and when required.
- Identifying any actions, making recommendations and reporting them to the Chief Officer Group for approval.
- Maintaining the Srategic Risk Register tracking system.
- Provide expertise and management advice when required.

Accountability and Governance

The Police and Crime Commissioner has an Accountability Framework which aims to:

- Provide the PCC with a robust system for holding the Chief Constable to account for the services delivered by the Constabulary.
- Focus on the priority developments whist still maintaining oversight of key outcomes and day-to-day policing.
- Provide information to the public on performance in delivering policing and the Police and Crime Plan.
- Provide a balance between crime and justice outcomes, quality of service and value for money.

Collectively the elements within this framework enable the Constabulary to assure itself that its risks are not escalating and that controls are effective in preventing and correcting any event which may have an effect on its own objectives and those of the Police and Crime Commissioner.

The Director of Corporate Improvement and a representative of the Office Police and Crime Commissioner also meet monthly to ensure that both strategic risk registers reflect the purpose and key objectives of the respective organisations and that the identified strategic risks are complimentary and being effectively managed.

Independent Joint Audit Committee

The Office of the Police and Crime Commissioner and the Constabulary have in place a Joint Audit Committee with independent membership.
The Joint Audit Committee will monitor the effective development and operation of risk management, review the risk profile, and monitor progress of the Police and Crime Commissioner and the Chief Constable in addressing risk-related issues reported to them; and give such advice and make such recommendations on the adequacy of the level of assurance and on improvement as it considers appropriate.

Internal and External Audit

Internal audit perform a range of reviews based on an agreed audit plan. The plan has regard to risks and recognises that key financial systems and other areas of wider business risk need to be reviewed on a cyclical basis to provide assurance with regard to internal controls and systems of governance.

Internal audit are responsible for annually reviewing the effectiveness of risk management processes including the verification that controls are operating as intended. This source of independent assurance is a fundamental part of the evidence used to discharge the OPCC's accountability for reviewing the effectiveness of governance arrangements.

External audits of risk management may also be commissioned as and when considered appropriate.

There are a range of audit and inspection bodies that provide assurance to the Constabulary and these are mapped in Appendix 3.

In Appendix 4, there is a summary of all of the risk control mechanisms operating in the Constabulary showing how we manage risk.

5. Supporting Information

Appendix 1	Risk Assessment Scoring Matrix.
Appendix 2	Constabulary Risk Register Template
Appendix 3	Assurance Landscape in Policing
Appendix 4	How we manage risk - summary of risk control mechanisms utilised in the Constabulary.

6. Monitoring and Reviewing

This Risk Management Policy will be reviewed on a three yearly basis to ensure it remains effective. The policy will also be reviewed whenever new legislation or guidance which may have an impact on it is introduced.

The monitoring of this policy will be done by:

- Reviewing the policy and associated documentation to ensure the policy is still relevant.
- Reviewing the implementation of the policy by consultation with key personnel responsible for implementation of and adherence to it.
- Measuring policy outcomes.

Appendix 1 – Risk Assessment Scoring Matrix

Impact Score	Tolerance Levels – Impact Assessment					
		IMPACT ON SERVICE PROVISION	**FINANCIAL IMPACT**	**IMPACT ON PEOPLE**	**DURATION OF IMPACT**	**IMPACT ON REPUTATION**
5	Very High	Unable to function, inability to fulfil obligations	Severe financial loss > £3M	Multiple fatalities	In excess of 2 years	Highly damaging, severe loss of public confidence or being declared a failing Force
4	High	Significant impact on service provision	Major financial loss £1M to £3M	Fatality	Between 1 year - 2 years	National publicity, major loss of confidence or serious IOPC complaint upheld
3	Medium	Service provision is disrupted	Significant financial loss £500k to £1M	Serious injury, RIDDOR reportable	Between six months to 1 year	Some adverse local publicity, legal implications, some loss of confidence
2	Low	Slight impact on service provision	Moderate financial loss £100k to £500k	Slight medical treatment required	2 to 6 months	Some public embarrassment, or more than 1 complaint
1	Very Low	Insignificant impact, no service disruption	Insignificant financial loss < £100k	First Aid treatment only No obvious harm/injury	Minimal - up to 2 months to recover	No interest to the press, internal only

Likelihood Score	Tolerance Levels – Likelihood Assessment	
5	Very High	A risk has a very high score if there is a 90% or more chance of it happening every year. This means that it is almost certain to happen regularly.
4	High	A risk has a high score if there is a 65% to 90% likelihood of it happening at some point over the next 3 years. Basically, it probably will happen but it won't be too often.
3	Medium	A risk has a medium score if the likelihood of it happening is between 20% and 65% over the next 10 years. This means it may happen occasionally.
2	Low	A risk has a low score if the likelihood of it happening is between 5% and 20% at some point in the next 25years. This means it is not expected to happen but it is possible.
1	Very Low	A risk has a very low score if the likelihood of it happening is less than 5% over 100 years. Basically, it could happen but it is most likely that this would never happen.

Appendix 1 – Risk Assessment Scoring Matrix

		Impact	Impact	Impact	Impact	Impact
		Very Low (1)	Low (2)	Medium (3)	High(4)	Very High (5)
Likelihood	Very High (5)	5	10	15	20	25
Likelihood	High (4)	4	8	12	16	20
Likelihood	Medium (3)	3	6	9	12	15
Likelihood	Low (2)	2	4	6	8	10
Likelihood	Very Low(1)	1	2	3	4	5
		Impact	Impact	Impact	Impact	Impact

Risk Management Tolerance Levels	<u>Risk Score 1-4</u> Acceptable. No action is required but continue monitoring	<u>Risk Score 5-12</u> Tolerable risks but action is required to avoid a Red status. Investigate to verify and understand underlying causes and consider ways to mitigate or avoid within a specified time period.	<u>Risk Score 15-25</u> Unacceptable. Urgent attention is required. Investigate and take steps to mitigate or avoid within a specified short term.

Appendix 2 – Constabulary Risk Register Template

Constabulary Risk
Register Template

Appendix 3 – Assurance landscape for policing (proactive insepctions, audits and compliance checks by external and regulatory bodies)

A3 size (PDF): A4 size(Word picture):

Assurance landscape
in policing.pdf

Assurance%20landsc
ape%20in%20policing

Appendix 4 - How we manage risk - summary of risk control mechanisms utilised in the Constbulary.

How we manage risk
2019.pdf

Cumbria Constabulary: Assurance Landscape for Policing

(Regular and proactive inspections, audits and compliance checks undertaken by external and regulatory bodies)

Responding to the public
- Requests for service
- Incident response

Prevention and deterrence
- Neighbourhood policing
- Community Safety
- CCTV
- Youth offending teams
- Stop search

Investigation
- Investigations (CAST)
- Major crime investigation
- Forensics
- Digital forensics
- Crime scene investigation
- Custody
- Criminal justice
- Intelligence
- Covert Authority Bureau

Protecting vulnerable people
- Domestic abuse
- Child & adult safeguarding
- Child abuse
- Sex offences (inc CSE)
- Hate crime
- HBV, FGM & forced marriage
- Modern slavery and human trafficking
- Missing persons
- Mental ill-health
- Harassment, stalking & cyber bullying

Managing offenders
- RSO
- IOM
- MAPPA

Managing serious and organised crime
- Mitigating risk & preventing SOC
- Disrupting SOC

Responding to major incidents and events
- Public order
- Civil emergencies
- Counter Terrorism
- Armed policing
- Roads policing
- Collision investigation

Governance
- Leadership
- Governance arrangements
- Risk management
- Benefits management
- Internal audit and QA
- Resource allocation
- Future planning
- Change and savings planning
- Legal services
- Performance management
- Policy management

Information
- ICT
- Information management
- Data analytics
- Crime recording & management

Finance
- Financial management
- Financial planning
- Value for money
- Procurement
- Asset management (Estate, fleet & tech)

Other forcewide functions
- HR & workforce planning
- Professional standards
- Learning and development
- Health & safety
- Marketing & comms
- Volunteers
- Consultation & engagement
- Collaborations
- Equality, diversity & inclusion

HMICFRS PEEL is an annual assessment of each police force in England and Wales. Forces are assessed on their effectiveness, efficiency and legitimacy. They are judged as outstanding, good, requires improvement or inadequate on these categories (or pillars) based on inspection findings, analysis and Her Majesty's Inspectors' (HMIs) professional judgment across the year.

The Integrated PEEL Assessment (IPA) comprises 3 elements:
1. Annual Force Management Statements to inform risk assessment and inspection programme
2. Two- stage force monitoring (scan and engage) which takes place 3 times a year to identify emerging problems with a formal escalation process if there is a low prospect of resolution
3. Annual inspections against the 3 pillars

KEY:

- Operational policing functions
- Business support functions
- Subject to HMICFRS IPA annual FMS and force monitoring
- Subject to annual HMICFRS IPA Inspection
- Annual inspection by Investigatory Powers Commissioners Office (IPCO)
- Annual report Surveillance Camera Code of Practice & Commissioner
- Annual ISO audits by United Kingdom Accreditation Service (UKAS)
- Subject to rolling programme of HMICFRS or joint criminal justice assessment ★
- Rape Monitoring Group
- Best Use of Stop Search (BUSS) Scheme
- Programme of information & IT management audit/compliance checks ★★
- Disclosure & Barring Service - Standard & Compliance Unit annual assessment
- Annual internal & external audit to qualify AGS and Corporate Code of Governance- Includes audit of finance system
- Partnership safeguarding arrangements inspected by OFSTED
- Approach to PEQF means subject to OFSTED inspection as an education provider

NOTES:

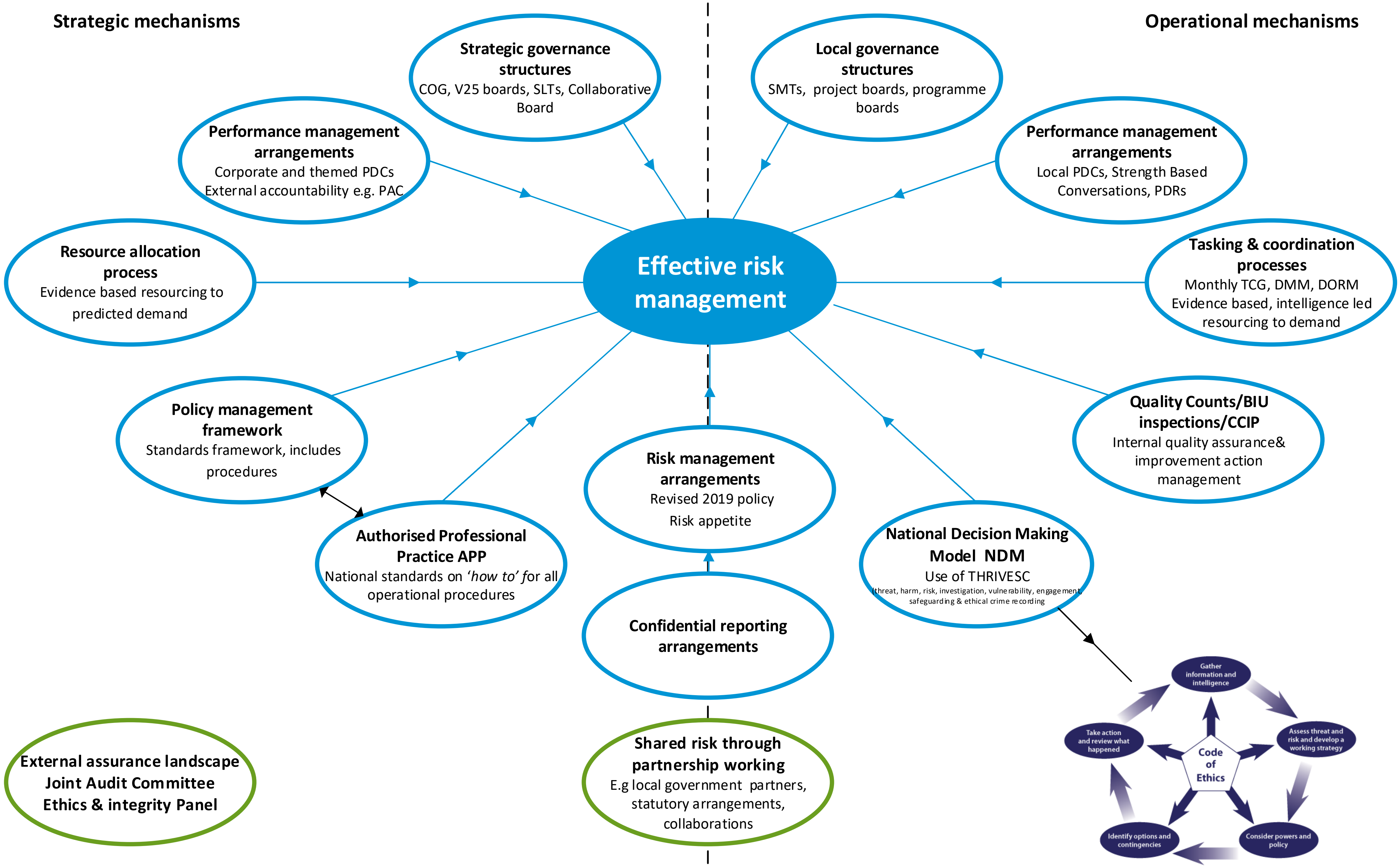
★ Includes: Joint criminal justice inspectorate for child protection; crime data integrity; value for money annual reports; unannounced inspections of custody;

★★ Includes - GIRR is the GOVERNANCE AND INFORMATION RISK RETURN submitted to NPIRMT (National Police Information Risk Management Team) part of the Home Office, annually. It sets out both technical and non-technical security controls which we are mandated to comply with and report on.

- NIST National Institute of Technology is a security risk management framework(SRM) with which we seek to comply as part of our migration to the core National Enabling Programme services. We are visited/reviewed/audited by Deloitte as part of a continuing programme
- Several technical IT Health Checks by CHECK team accredited pen-testers are commissioned by us each year, including a main annual ITHC of all key technical network architecture components.
- CTU physical intrusion pen-tests of our estate, arranged by CTU or PSD
- Three-yearly audits of crypto assets (mainly focused on crypto custodian by CESG (UK government national technical authority for information assurance.)

Cumbria Constabulary: How we manage risk 2019

(Summary of risk control mechanisms utilised in the Constabulary)



Appendix 5 Information Risk Appetite Statement

Cumbria Constabulary

Information Risk Appetite Statement

My purpose in determining and publishing an information Risk Appetite is to set out the Constabulary's attitude to information risk, and thereby support Constabulary personnel to take appropriately balanced risk decisions which will, in turn, enable us to fulfil our legal obligations, maximise the value of the information we hold, and share it as appropriate, to improve service delivery and achieve good policing outcomes.

What is an Information Risk Appetite?

Risk Appetite describes where an organisation's senior management board considers itself on a spectrum ranging from a willingness to take or accept risk (High) through to an unwillingness or aversion to taking risks (Low). Within the police service there are 5 levels of Risk Appetite ranging from Averse (Low), Minimalist (Medium/Low), Cautious (Medium), Open (Medium/High) to Hungry (High).

Averse	Avoidance of risk and uncertainty is a key organisation objective.
Minimalist	Preference for ultra-safe options that are low risk and only have a potential for limited reward.
Cautious*	Preference for safe options that have a lower degree of risk and may only have limited potential for reward.
Open**	Willing to consider all potential options and choose the one most likely to result in successful delivery, while also providing an acceptable level of reward and value for money.
Hungry	Eager to be innovative and to choose options offering potentially higher business rewards, despite greater inherent risk.

* This is in line with the risk appetite set by the National SIRO for national policing systems that hold citizens' data

** More applicable to local systems that enable service delivery

Cumbria Constabulary Risk Appetite

On the above basis, Cumbria Constabulary's Information Risk Appetite at this time has been set at **Cautious.**

Risk Appetite in Practice

Our Risk Appetite should be viewed as part of the organisation's security culture. In practice, understanding and adhering to the CC Risk Appetite is achieved by simply understanding and adhering to the decisions set out and explained in the 'Cumbria Constabulary Information Security Policy Supporting Procedures' ('Information Security Policy').

The Constabulary's overall Risk Appetite being set at 'Cautious' also recognises that the majority of data we handle is citizens' personal information and in the case of investigations and convictions includes sensitive personal data as defined by the Data Protection Act. It is therefore prudent to exercise some caution when handling such information, and considering possible risks that could cause harmful compromise.

In practice, precise measurement of risk is rarely possible and in some circumstances it will be appropriate to adapt our business processes and look at the options (including those made possible by new technologies) most likely to result in successful delivery of the business purpose. This would appear to reflect a more 'open' Risk Appetite within the above definitions, accepting a higher level of risk in order to carry out some tasks depending on the context and the potential benefits, and this is correct. However, this does not change our core Risk Appetite, as the approach in those cases still requires balancing the benefits against potential harm, and controlling the processes accordingly.

The Information Security Policy recognises the need for flexibility in order for risk management to work effectively in this way, and supports and sets out the principle of 'Risk Tolerance' to meet this purpose. It works both ways. For example, on one hand, it could involve a need for more risk to be tolerated around protecting confidentiality of information in order to prevent harm or protect life. Conversely, some aspects of police business will demand additional controls to reduce risk, for example protecting identities of victims, witnesses or sources.

Factors to Consider

Information risk is considered in terms of the potential harmful impact that could arise resulting from breach of confidentiality, integrity and availability of the information.

- ✓ Confidentiality

  Protecting information is important for operational reasons as well as satisfying statutory responsibilities or to maintain public confidence. However, systems should not be so secure as to frustrate the purpose for which the information is held and CC's 'CAUTIOUS' approach recognises the need to find the right balance, preserving confidentiality whilst using the information that we hold as effectively as possible. In particular, neither business processes nor technological constraints should disproportionately inhibit the ability to deliver good policing outcomes. Technology is just a tool, and must be adapted to fit the mission, not the other way around.

- ✓ Integrity

  Information held on our systems must be accurate and capable of standing up to scrutiny, particularly information held for investigation and evidential purposes. A risk appetite of 'Cautious' recognises that our business processes, and the exercise of controls to manage the information, reflects the needs of CC personnel to be able to rely on it.

- ✓ Availability

  The ability to access information promptly is important for ensuring effective and efficient decision-making and service delivery. The risk appetite in relation to availability should be more 'open' where this delivers effective policing outcomes.

Summary

As noted above, CC Information Security Policy sets out Constabulary decisions as to how business should ordinarily be conducted.

However, this includes latitude to take dynamic risk decisions where the tools and means are available to maximise the benefits of the information that we hold, without occasioning undue risk, where this helps to serve and protect the public.

Risk is a function of probability and impact, where impact is measured firstly in terms of personal harm, and secondly financial, reputational, operational and legal compliance. Ultimately, in most instances, it will be for the Information Asset Owners to decide on the level of acceptable risk and any mitigation that they require to be implemented across our business processes. Where necessary, or in cases of doubt, or where a process exists such that the level of risk cannot be mitigated to an acceptable level, reference should be made to myself, as SIRO.

……………………………………
Deputy Chief Constable Mark Webster Date……………………………………

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Peter McCall

Joint Audit Committee Proposed Annual Work Programme 2020/21

Joint Audit Committee: 18 March 2020

Originating Officer: Michelle Bellis, Deputy CFO

1. Introduction & Purpose of the Report

1.1. On an annual basis the Joint Audit Committee agrees a work programme that informs the reports and information received by the committee to ensure that members fulfil their terms of reference and advisory role. The revised terms of reference for the committee were approved at the meeting of 22 November 2018 as part of the cyclical review of governance documents, having been reviewed and updated in line with the latest CIPFA guidance on Audit Committees. The guidance made specific reference to the role of committees within the governance framework for policing. This report translates the terms of reference into a proposed work programme and includes a number of proposed development sessions.

2. Report

2.1. This report presents to members an annual work programme. The programme is presented in two formats. The first format sets out each of the terms of reference and the reports/activity that it is proposed the committee would undertake to fulfil the terms (**Appendix A**). It therefore aims to present an assurance framework in line with CIPFA guidance that identifies the key documents and information that the committee requires to fulfil its purpose. The second format aligns the work programme against each committee meeting (**Appendix B**). The alignment is managed to ensure wherever possible that meetings are balanced in terms of volume of work and that governance themes are aligned. In practice this means that:

- The meetings in March, July, September and November will receive, cyclical monitoring reports and the strategic risk registers. Audit reports will be issued to members at the point they have been finalised and will be listed on the meeting agenda. Members may request the full report to be tabled at any of the above meetings. The above reports are not generally proposed to be presented in May to reduce the business demands on that agenda, the exception to this will be where monitoring or audit reports specifically relate to the year-end process.
- The meeting in May will focus on annual reports that review the governance arrangements for the previous financial year. This will include the annual review of effectiveness for the Committee, the review of the effectiveness of internal audit and reviews of the effectiveness of arrangements for anti-fraud and corruption and risk management. The committee will also receive the annual report of the Ethics and Integrity Panel setting out the work of the panel and assurances regarding arrangements for ethics and integrity. The agenda includes the annual opinion of the Group Audit Manager (Head of Internal Audit) and ensures members have all relevant information ahead of considering the Annual Governance Statement and Code of Corporate Governance prior to their publication with the unaudited financial statements. It is also intended that at the meeting in May, members will receive a copy of the Draft Statement of Accounts (subject to audit). It should be noted that, due to the tight timescales for the production of the statements, and the timing of the meeting, it may not be possible to issue hard copies of the accounts with the meeting papers in advance of the meeting. The meeting will provide an opportunity for members to meet privately with the internal auditors.
- The meeting in July will consider the Audited Statement of Accounts and the Audit Findings Report of the External Auditor, setting out their opinion on the financial statements and their value for money conclusion. The financial statements are presented with an assurance document. This provides members with advice on the wider financial governance arrangements supporting the production of financial statements. The committee will receive the annual report of the

committee, following the consideration of the committee's review of effectiveness in May. The annual report of the committee will then be presented to the Police and Crime Panel meeting in October by the chair. The committee will also receive the updated annual governance statement prior to publication with the financial statements. The meeting will provide an opportunity for members to meet privately with the external auditors.

- The agenda for the September meeting will cover the standard cyclical reports. Due to the likely lower level of business requirements for this agenda, the timetable proposes that members undertake one of the planned development sessions in September.
- The November meeting will focus on governance arrangements with a cyclical review of one or two of the core elements of the governance framework. A schedule outlining the review schedule for governance documents is included at **Appendix C**.
- The meeting in March will consider relevant annual strategies and plans for the following financial year. This includes the proposed internal audit plan, charter and quality assurance programme; the external audit plan and the risk management and treasury management strategies. Members will also receive an annual report on value for money within the Constabulary including HMICFRS VFM profile data benchmarking costs with most similar group (msg). The meeting includes an annual development session on the medium term financial strategy and change programme. This aims to inform the committee of the financial climate going forward and any resulting operational change and risks in advance of the year.
- Ad-hoc HMICFRS/Inspection and other reports appropriate to the committee's terms will be circulated to members as they are published and listed on the agenda to provide the opportunity for questions and discussion.
- All meetings provide for a corporate update facilitating briefings from Chief Officers in respect of any issues of a corporate nature that are relevant to the remit of the committee or helpful as background/contextual information.

- A minimum of two development sessions will be held annually with members. The Commissioner's treasury management advisors will meet with members at a minimum annually to provide an update on treasury strategy and developments.
- Before every meeting members hold a pre-meeting where they discuss and monitor progress against the JAC action plan and other topical matters.

3. Recommendations

3.1. Members are recommended to:

- Consider the proposed annual work programme and development sessions as a basis for fulfilling the terms of reference and assurance responsibilities of the committee.
- Approve the work programme subject to any proposed changes.

Joint Audit Committee: Annual Work Programme Assurance Format

Terms of Reference	Meeting	Work Programme Assurance Activity
Terms of Reference: Governance, Risk and Control		
2.1) Review the corporate governance arrangements against the good governance framework, including the ethical framework and consider the local code of governance. Note - Underlined governance documents are scheduled for review in 2020.	May (Ethics and Integrity Annual Report)	**ETHICS AND INTEGRITY GOVERNANCE**: To receive an annual report from the Chair of the Ethics and Integrity Panel, advising the Committee of the work of the Panel over the previous year and matters pertaining to governance in respect of the arrangements for ethics and integrity.
	November: (All governance reviews excluding ethics and integrity) March: Risk Management Strategies	**ANNUAL REVIEW OF GOVERNANCE:** To review the COPCC and Constabulary arrangements for governance; cyclical review over a three years covering:
		▪ Role of the Chief Finance Officer: annual review (2020)
		▪ Financial Regulations & Financial Rules: bi-ennial review (2020)
		▪ Grant Regulations: tri-annual review (2020)
		▪ Scheme of Delegation/Consent: annual review (2020)
		▪ Joint Procurement Regulations: bi-ennial review (2021)
		▪ Risk Management Strategy: tri-ennial review (2020) - March meeting
		▪ Joint Audit Committee Terms of Reference & Role Profiles: tri-ennial review (2021)
		▪ Arrangements for Anti-Fraud and Corruption /whistleblowing: bi-ennial review (2021)
2.2) Review the Annual Governance Statements prior to approval and consider whether they properly reflect the governance, risk and control environment and supporting assurances and identify any actions required for improvement	May	**ANNUAL GOVERNANCE STATEMENT**
	July (updated governance statement prior to approval and publication)	
		▪ **Effectiveness of Governance Arrangements:** To receive a report from the Joint CFO on the effectiveness of the PCC's and Chief Constable's arrangements for Governance.
		▪ **Codes of Corporate Governance:** To consider the PCC/CC Codes of Corporate Governance
		▪ **Annual Governance Statements:** To consider the PCC/CC Annual Governance Statements for the financial year and to the date of this meeting
	November	**ANNUAL GOVERNANCE STATEMENT DEVELOPMENT AND IMPROVEMENT PLAN UPDATE:** To receive an update on progress against the development and improvement plan within the annual governance statement.

Joint Audit Committee: Annual Work Programme Assurance Format

Terms of Reference	Meeting	Work Programme Assurance Activity
Terms of Reference: Governance, Risk and Control		
2.3) Consider the arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements	Every meeting excluding May	**INTERNAL AUDIT REPORT:** To receive reports from the Internal Auditors in respect of specific audits conducted since the last meeting of the Committee *(NB audit work in compliance with PSIAS will cover a specific control objective on 'value: the effectiveness and efficiency of operations and programmes'. Specific audit recommendations will be categorised within audit reports under this heading.)*
	March	To receive an annual report on Value for Money within both the Office of the Police and Crime Commissioner and the Constabulary.
	July	**AUDIT FINDINGS REPORT:** To receive from the external auditors the Annual Audit Findings Report incorporating the External Auditor's Value for Money Conclusion.
2.4) Consider the framework of assurance and ensure that it adequately addresses the risks and priorities of the OPCC and Constabulary	March	**ANNUAL WORK PROGRAMME: ASSURANCE FORMAT:** To review and approve an annual work programme covering the framework of assurance against the Committee's terms of reference.
	July	**FRAMEWORK OF ASSURANCE: STATEMENT OF ACCOUNTS:** To receive a report from the Joint CFO in respect of the PCC's and CC's framework of assurance.
2.5) Monitor the effective development and operation of risk management, review the risk profile, and monitor progress of the Police and Crime Commissioner and the Chief Constable in addressing risk-related issues reported to them	March	**RISK MANAGEMENT STRATEGY:** To provide the cyclical (3yr) review of the OPCC and Constabulary Risk Management Strategies. (NB. Next due in March 2023)
	May	**RISK MANAGEMENT MONITORING:** To receive an annual report from the Chief Executive on Risk Management Activity including the Commissioner's arrangements for holding the CC to account for Constabulary Risk Management.
	July, November & March meetings	**STRATEGIC RISK REGISTER:** To consider the OPCC and Constabulary strategic risk register as part of the Risk Management Strategy.
2.6) Consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions	Every meeting excluding May	**INTERNAL AUDIT REPORT:** To receive reports from the Internal Auditors in respect of specific audits conducted since the last meeting of the Committee.
		MONITORING OF AUDIT, INTERNAL AUDIT AND OTHER RECOMMENDATIONS AND ACTION PLANS: To receive an updated summary of actions implemented in response to audit and inspection recommendations.

Joint Audit Committee: Annual Work Programme Assurance Format

Terms of Reference	Meeting	Work Programme Assurance Activity
Terms of Reference: Governance, Risk and Control (Continued)		
2.7) Review arrangements for the assessment of fraud risks and potential harm from fraud and corruption and monitor the effectiveness of the counter-fraud strategy, actions and resources	November – cyclically when updated	**ARRANGEMENTS FOR ANTI-FRAUD AND CORRUPTION**: To receive the OPCC and Constabulary strategy, policy and fraud response plan.
	May	**ANTI-FRAUD AND CORRUPTION ACTIVITIES**: To receive an annual report from the Chief Executive on activity in line with the arrangements for anti-fraud and corruption.
2.8) To review the governance and assurance arrangements for significant partnerships or collaborations.	Ad-hoc	To receive reports on proposed governance arrangements when significant new partnerships or collaborations are entered into.
Terms of Reference: Internal Audit		
3.1) Annually review the internal audit charter and resources	March	**INTERNAL AUDIT CHARTER:** To receive a copy of the internal audit charter from the Internal Auditors.
3.2) Review the internal audit plan and any proposed revisions to the internal audit plan	March/Ad-hoc	**PROPOSED INTERNAL AUDIT PLAN:** To receive a report from the Internal Auditors on the proposed Internal Audit Annual Plan and any proposed revisions.
3.3) Oversee the appointment and consider the adequacy of the performance of the internal audit service and its independence	March	**QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME:** To receive from the Internal Auditors a report setting out the arrangements for quality assurance and improvement.
	May	**EFFECTIVENESS OF INTERNAL AUDIT**: To receive a report from the Joint Chief Finance Officer in respect of the effectiveness of internal audit.
	Quarterly	**INTERNAL AUDIT PERFORMANCE**: To receive from the Internal Auditors quarterly reports on the performance of the service against a framework of performance indicators *(provided within the internal audit progress reports and annual report.)*
	May	**PRIVATE INTERNAL AUDIT MEETING:** Confidential meeting of Committee members only and the Internal Auditors
3.4) Consider the Head of Internal audit's annual report and opinion, and a regular summary of the progress of internal audit activity against the audit plan, and the level of assurance it can give over corporate governance arrangements	May	**INTERNAL AUDIT –ANNUAL REPORT:** To receive the Head of Internal Audit's Annual Report including the Annual Audit Opinion and details of compliance with PSIAS and LGAN.
	Every meeting excluding May	**INTERNAL AUDIT – PROGRESS REPORT:** To receive a report from the Internal Auditors regarding the progress of the Internal Audit Plan.

Joint Audit Committee: Annual Work Programme Assurance Format

Terms of Reference	Meeting	Work Programme Assurance Activity
Terms of Reference: Internal Audit (Continued)		
3.5) To consider the Head of Internal Audit's statement of the level of conformance with the Public Sector Audit Standards (PSIAS) and Local Government Application Note (LGAN) and the result of the Quality Assurance and Improvement Programme (QAIP) that support that statement - these will indicate the reliability of the conclusions of internal audit.	March	**QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME:** To receive from the Internal Auditors a report setting out the arrangements for quality assurance and improvement.
	May	**INTERNAL AUDIT –ANNUAL REPORT:** To receive the Head of Internal Audit's Annual Report including the Annual Audit Opinion and details of compliance with PSIAS and LGAN.
3.6) Consider summaries of internal audit reports and such detailed reports as the Committee may request from the Police and Crime Commissioner and the Chief Constable, including issues raised or recommendations made by the internal audit service, management response and progress with agreed actions	Every meeting	**INTERNAL AUDIT REPORTS:** To receive reports from the Internal Auditors in respect of specific audits conducted since the last meeting of the Committee.
3.7) Consider a report on the effectiveness of internal audit to support the Annual Governance Statement	May	**EFFECTIVENESS OF INTERNAL AUDIT:** To consider a report of the Joint Chief Finance Officer reviewing the effectiveness of Internal Audit.
3.8) To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the Head of Internal Audit. To make recommendations on safeguards to limit such impairments and periodically review their operation.	May	**INTERNAL AUDIT –ANNUAL REPORT:** To receive the Head of Internal Audit's Annual Report including relevant disclosures regarding impairments to independence or objectivity arising from additional roles or responsibilities outside internal auditing of the Head of Internal Audit.

Joint Audit Committee: Annual Work Programme Assurance Format

Terms of Reference	Meeting	Work Programme Assurance Activity
Terms of Reference: External Audit/External Inspection		
4.1) Support the independence of external audit through consideration of the external auditor's annual assessment of it's independence and review of any issues raised either by Public Sector Audit Appointments (PSAA) or the auditor panel as appropriate.	July	**AUDIT FINDINGS REPORT:** To receive from the external auditors the Audit Findings Report in respect of the annual audit of the financial statements and incorporating the External Auditor's Value for Money Conclusion. This also includes a statement with regard to Independence.
4.2) Comment on the scope and depth of external audit work, its independence and whether it gives satisfactory value for money	March	**EXTERNAL AUDIT PLAN:** To receive from the external auditors the Annual External Audit Plan
	May	**EXTERNAL AUDIT FEES:** To receive from the external auditors the proposal in respect of audit fees.
4.3) Consider the external auditor's annual management letter, relevant reports and the report to those charged with governance	November/Ad-hoc	**ANNUAL AUDIT LETTER:** To receive from the External Auditors the Annual Audit Letter and reports
	March	**EXTERNAL AUDIT PLAN UPDATE:** To receive from the external auditors an update report in respect of progress on the external audit plan
4.4) Consider specific reports as agreed with the external auditors/specific inspection reports e.g. HMICFRS, relevant to the Committee's terms of reference	Every meeting excluding May	**ADHOC REPORTS AS THEY ARISE: E.G. NATIONAL FRAUD INITIATIVE, STANDARDS, HMICFRS/INSPECTION:** To consider any other reports falling within the remit of the Committee's terms of reference
4.5) Advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies and relevant bodies	July	**PRIVATE EXTERNAL AUDIT MEETING:** Confidential meeting of Committee members only and the external auditors

Joint Audit Committee: Annual Work Programme Assurance Format

Terms of Reference	Meeting	Work Programme Assurance Activity
Terms of Reference: Financial Reporting		
5.1) Review the Annual Statement of Accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit of the financial statements that need to be brought to the attention of the Commissioner and/or the Chief Constable	July	**ASSURANCE FRAMWORK: STATEMENT OF ACCOUNTS:** To receive a report from the joint CFO in respect of the PCC's framework of assurance; To receive a report from the Deputy Chief Constable/CC in respect of the CC's framework of assurance.
	July	**ANNUAL STATEMENT OF ACCOUNTS:** To receive the audited Statement of Accounts for the Commissioner and Chief Constable and Group Accounts and consider a copy of a summarised non-statutory version of the accounts
5.2) Consider the external auditor's report to those charged with governance on issues arising from the audit of the financial statements	July and September (final report)	**AUDIT FINDINGS REPORT:** To receive from the external auditors the Audit Findings Report in respect of the annual audit of the financial statements and incorporating the External Auditor's Value for Money Conclusion.
Terms of Reference: Accountability Arrangements		
6.1) On a timely basis report to the Commissioner and the Chief Constable with its advice and recommendations in relation to any matters that it considers relevant to governance, risk management and financial management	Every meeting (where appropriate)	To be discussed in Committee meetings and noted as feedback in the minutes.
6.2) Report to the Commissioner and the Chief Constable on its findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks; financial reporting arrangements and internal and external audit functions	Every meeting (where appropriate)	To be discussed in Committee meetings and noted as feedback in the minutes.

Joint Audit Committee: Annual Work Programme Assurance Format

Terms of Reference	Meeting	Work Programme Assurance Activity
Terms of Reference: Accountability Arrangements		
6.3) Review its performance against its terms of reference, objectives and compliance with CIPFA best practice on the role of the Audit Committee. Report the results of this review to the Commissioner and the Chief Constable by means of an Annual Report including where appropriate an action plan detailing future planned improvements.	May	**JAC Review of Effectiveness:** To receive a report reviewing the effectiveness of the committee against the CIPFA framework as a contribution to the overall effectiveness of arrangements for governance
	July	**JAC Annual Report:** To receive the annual report of the committee (following the review of effectiveness undertaken in May). Following approval, the Annual Report will be presented to the Police and Crime Panel meeting in October by the chair of JAC.
6.4) Publish an annual report on the work of the committee.	July	**JAC Annual Report:** To receive the annual report of the committee (following the review of effectiveness undertaken in May). Following approval, the Annual Report will be presented to the Police and Crime Panel meeting in October by the chair of JAC.
Terms of Reference: Treasury Management		
7.1) Review the Treasury Management policy and procedures to be satisfied that controls are satisfactory 7.3) Review the Treasury risk profile and adequacy of treasury risk management processes	March	**TREASURY MANAGEMENT STRATEGY AND TREASURY MANAGEMENT PRACTICES**: To review the annual Treasury Management Strategy incorporating the policy on investment and borrowing activity and treasury management practices.
7.2) Receive regular reports on activities, issues and trends to support the Committee's understanding of Treasury Management activities; the Committee is not responsible for the regular monitoring of activity	Every meeting excluding July	**TREASURY MANAGEMENT ANNUAL REPORT/ACTIVITIES:** To receive for information the treasury management annual report and an update on Treasury Management Activity.
	November	**TREASURY MANAGEMENT ADVISORS**: To receive briefings/training from the Commissioner's Treasury Management advisors.
7.4) Review assurances on Treasury Management (for example, an internal audit report, external or other reports).	Every meeting excluding May (where applicable)	**INTERNAL AUDIT REPORTS:** To receive reports from Internal Audit Unit in respect of specific audits conducted since the last meeting of the Committee

Joint Audit Committee: Annual Work Programme Assurance Format

Terms of Reference	Meeting	Work Programme Assurance Activity
Terms of Reference: Apprenticeship Scheme NB. This section is currently on hold until work as an employer provider for PCSO recruitment commences.		
8.1) To provide external scrutiny, challenge and recommendations with regard to apprenticeships delivered by the Constabulary as an employer provider to meet the requirements of the Education Skills Funding Agency (ESFA) and Ofsted. 8.2) receive regular reports in relation to the annual self-assessment report and quality improvement plan.	March	**Apprenticeship Governance:** To receive the annual Self-Assessment Report and accompanying Quality Improvement Plan.
	September	**Apprenticeship Governance:** To receive the mid year update on the Quality Improvement Plan.

Joint Audit Committee Proposed Annual Work Programme 2020/21

Thursday 28 May 2020	Thursday 23 July 2020	Thursday 24 September 2020	Thursday 19 November 2020	Wednesday 17 March 2021
PRIVATE INTERNAL AUDIT MEETING: Confidential meeting of Committee members only and the **Internal** Auditors. (IA)	**PRIVATE EXTERNAL AUDIT MEETING:** Confidential meeting of Committee members only and the **external** auditors. (GT)	**PRIVATE DEVELOPMENT SESSION:** 1) To be confirmed.	**PRIVATE DEVELOPMENT SESSION:** 1)Treasury Advisor, to provide an update on Treasury Management developments (DCFO).	**PRIVATE DEVELOPMENT SESSION:** Medium Term Financial Forecast, capital strategy, capital programme, change programme & value for money (Joint CFO)
Regular Reports				
CORPORATE UPDATE: To receive a briefing on matters relevant to the remit of the Committee (DCC, CFO & CE)	**CORPORATE UPDATE:** To receive a briefing on matters relevant to the remit of the Committee (DCC, CFO & CE)	**CORPORATE UPDATE:** To receive a briefing on matters relevant to the remit of the Committee (DCC, CFO & CE)	**CORPORATE UPDATE:** To receive a briefing on matters relevant to the remit of the Committee (DCC, CFO & CE)	**CORPORATE UPDATE:** To receive a briefing on matters relevant to the remit of the Committee (DCC, CFO & CE)
TREASURY MANAGEMENT ACTIVITIES: To receive for information reports on Treasury Management Activity - Quarter 4/Annual Report (DCFO)	**N/A**	**TREASURY MANAGEMENT ACTIVITIES:** To receive for information reports on Treasury Management Activity - Quarter 1 (DCFO)	**TREASURY MANAGEMENT ACTIVITIES:** To receive for information reports on Treasury Management Activity - Quarter 2 (DCFO)	**TREASURY MANAGEMENT ACTIVITIES:** To receive for information reports on Treasury Management Activity - Quarter 3 (DCFO)
N/A	**INTERNAL AUDIT – PROGRESS REPORT:** To receive a report from the Internal Auditors regarding the progress of the Internal Audit Plan. (IA)	**INTERNAL AUDIT – PROGRESS REPORT:** To receive a report from the Internal Auditors regarding the progress of the Internal Audit Plan. (IA)	**INTERNAL AUDIT – PROGRESS REPORT:** To receive a report from the Internal Auditors regarding the progress of the Internal Audit Plan. (IA)	**INTERNAL AUDIT – PROGRESS REPORT:** To receive a report from the Internal Auditors regarding the progress of the Internal Audit Plan. (IA)
INTERNAL AUDIT REPORT(S): To receive reports from the Internal Auditors in respect of specific audits conducted since the last meeting of the Committee. (IA)	**INTERNAL AUDIT REPORT(S):** To receive reports from the Internal Auditors in respect of specific audits conducted since the last meeting of the Committee. (IA)	**INTERNAL AUDIT REPORT(S):** To receive reports from the Internal Auditors in respect of specific audits conducted since the last meeting of the Committee. (IA)	**INTERNAL AUDIT REPORT(S):** To receive reports from the Internal Auditors in respect of specific audits conducted since the last meeting of the Committee. (IA)	**INTERNAL AUDIT REPORT(S):** To receive reports from the Internal Auditors in respect of specific audits conducted since the last meeting of the Committee. (IA)
N/A	**STRATEGIC RISK REGISTER:** To consider the OPCC and Constabulary strategic risk register as part of the Risk Management Strategy. (CE or GM & DCC)		**STRATEGIC RISK REGISTER:** To consider the OPCC and Constabulary strategic risk register as part of the Risk Management Strategy. (CE or GM & DCC)	**STRATEGIC RISK REGISTER:** To consider the OPCC and Constabulary strategic risk register as part of the Risk Management Strategy. (CE or GM & DCC)
N/A	**MONITORING OF AUDIT, INTERNAL AUDIT AND OTHER RECOMMENDATIONS AND ACTION PLANS:** To receive an updated summary of actions implemented in response to audit and inspection recommendations. (CFO)	**MONITORING OF AUDIT, INTERNAL AUDIT AND OTHER RECOMMENDATIONS AND ACTION PLANS:** To receive an updated summary of actions implemented in response to audit and inspection recommendations. (CFO)	**MONITORING OF AUDIT, INTERNAL AUDIT AND OTHER RECOMMENDATIONS AND ACTION PLANS:** To receive an updated summary of actions implemented in response to audit and inspection recommendations. (CFO)	**MONITORING OF AUDIT, INTERNAL AUDIT AND OTHER RECOMMENDATIONS AND ACTION PLANS:** To receive an updated summary of actions implemented in response to audit and inspection recommendations. (CFO)
Cyclical/Annual Reports				
EXTERNAL AUDIT FEES: To receive from the external auditors the proposal in respect of audit fees. (GT)	**AUDIT FINDINGS REPORT:** To receive from the external auditors the Audit Findings Report in respect of the annual audit of the financial statements and incorporating the External Auditor's Value for Money Conclusion. (GT)	**ANNUAL AUDIT LETTER:** To receive from the External Auditors the Annual Audit Letter and reports (GT).	**ANNUAL REVIEW OF GOVERNANCE:** To review the OPCC and Constabulary arrangements for governance; cyclical review over a three years. (Relevant Chief Officers)	**CAPITAL STRATEGY and TREASURY MANAGEMENT STRATEGY AND TREASURY MANAGEMENT PRACTICES**: To review the annual Capital Strategy and Treasury Management Strategy incorporating the policy on investment and borrowing activity and treasury management practices. (DCFO)

Joint Audit Committee Proposed Annual Work Programme 2020/21

Thursday 28 May 2020	Thursday 23 July 2020	Thursday 24 September 2020	Thursday 19 November 2020	Wednesday 17 March 2021
Cyclical/Annual Reports (continued)				
RISK MANAGEMENT MONITORING: To receive an annual report from the Chief Executive on Risk Management Activity including the Commissioner's arrangements for holding the CC to account for Constabulary Risk Management. (CE or GM)	**ASSURANCE FRAMEWORK STATEMENT OF ACCOUNTS:** To receive a report from the Joint CFO in respect of the PCC's and CC's framework of assurance. (CFO)		**ANNUAL GOVERNANCE STATEMENT DEVELOPMENT AND IMPROVEMENT PLAN UPDATE:** To receive an update on progress against the development and improvement plan within the annual governance statement (CFO)	**RISK MANAGEMENT STRATEGY:** To provide the tri-ennial review of the COPCC (CE/GM) and Constabulary (DCC) Risk Management Strategies. (next due 2023)
ANTI-FRAUD AND CORRUPTION ACTIVITIES: To receive an annual report from the Chief Executive on activity in line with the arrangements for anti-fraud and corruption. (CE/GM)	**ANNUAL STATEMENT OF ACCOUNTS:** To receive the audited Statement of Accounts for the Commissioner and Chief Constable and Group Accounts and consider a copy of a summarised non-statutory version of the accounts (DCFO)		**PROCUREMENT ANNUAL REPORT:** To receive an annual Procurement Report and Dashboard (HoC)	**ANNUAL WORK PROGRAMME: ASSURANCE FORMAT:** To review and approve an annual work programme covering the framework of assurance against the Committee's terms of reference. (DCFO)
ETHICS AND INTEGRITY GOVERNANCE: To receive an annual report from the chair of the Ethics and Integrity Panel.	**PCC ANNUAL REPORT** To receive a copy of the PCCs annual report. (CE)			**EXTERNAL AUDIT PLAN:** To receive from the external auditors the Joint Annual External Audit Plan. (GT)
INTERNAL AUDIT –ANNUAL REPORT: To receive the Head of Internal Audit's Annual Report including the Annual Audit Opinion.(IA)				**EXTERNAL AUDIT UPDATE REPORT**: To receive from the external auditors an update report in respect of progress on the external audit plan. (GT)
EFFECTIVENESS OF INTERNAL AUDIT: To receive a report from the Joint Chief Finance Officer in respect of the effectiveness of internal audit. (DCFO)				**PROPOSED INTERNAL AUDIT PLAN/ INTERNAL AUDIT CHARTER:** To receive a report from the Internal Auditors on the proposed Internal Audit Annual Plan and any proposed revisions. To receive a copy of the internal audit charter from the Internal Auditors.(IA)
JOINT AUDIT COMMITTEE - REVIEW OF EFFECTIVENESS: To receive a report reviewing the effectiveness of the Committee as a contribution to the overall effectiveness of arrangements for governance.(DCFO)	**JOINT AUDIT COMMITTEE - ANNUAL REPORT:** To receive an annual report of the Committee. Once approved this annual report will be presented to the Police and Crime Panel by the chair of JASC.(DCFO)			**QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME:** To receive from the Internal Auditors a report setting out the arrangements for quality assurance and improvement. (IA)

Appendix B

Joint Audit Committee Proposed Annual Work Programme 2020/21

Thursday 28 May 2020	Thursday 23 July 2020	Thursday 24 September 2020	Thursday 19 November 2020	Wednesday 17 March 2021
Cyclical/Annual Reports (continued)				
ANNUAL GOVERNANCE STATEMENT ▪ Effectiveness of Governance Arrangements: To receive a report from the Joint CFO on the effectiveness of the PCC's and CC's arrangements for Governance. ▪ Code of Corporate Governance: To consider the PCC/CC Code of Corporate Governance ▪ Annual Governance Statement: To consider the PCC/CC Annual Governance Statement for the financial year and to the date of this meeting				**VALUE FOR MONEY:** To receive an annual report on Value for Money within the Constabulary. (DCI)
ANNUAL STATEMENT OF ACCOUNTS: To receive the un-audited Statement of Accounts for the Commissioner and Chief Constable and Group Accounts and consider a copy of a summarised non-statutory version of the accounts (DCFO)				**INTERNAL AUDIT:** External Quality Assessment (5 yearly, next one due 2023)
Ad Hoc Reports				
ADHOC REPORTS AS THEY ARISE: E.G. NATIONAL FRAUD INITIATIVE, STANDARDS, INSPECTION: To consider any other reports falling within the remit of the Committee's terms of reference	**ADHOC REPORTS AS THEY ARISE: E.G. NATIONAL FRAUD INITIATIVE, STANDARDS, INSPECTION:** To consider any other reports falling within the remit of the Committee's terms of reference	**ADHOC REPORTS AS THEY ARISE: E.G. NATIONAL FRAUD INITIATIVE, STANDARDS, INSPECTION:** To consider any other reports falling within the remit of the Committee's terms of reference	**ADHOC REPORTS AS THEY ARISE: E.G. NATIONAL FRAUD INITIATIVE, STANDARDS, INSPECTION:** To consider any other reports falling within the remit of the Committee's terms of reference	**ADHOC REPORTS AS THEY ARISE: E.G. NATIONAL FRAUD INITIATIVE, STANDARDS, INSPECTION:** To consider any other reports falling within the remit of the Committee's terms of reference

Governance Documents Cyclical Review Schedule

Documents	Review Cycle	Lead Officer	March 2018	March 2019	March 2020	March 2021	March 2022	March 2023
OPCC Risk Management Strategy	tr-ennial (from 2017 onwards)	Governance Manager Joanne Head	✗	✗	✓	✗	✗	✓
Constabulary Risk Management Strategy	tr-ennial (from 2017 onwards)	Director of Corporate Improvement Jane Sauntson	✗	✗	✓	✗	✗	✓
			November 2018	November 2019	November 2020	November 2021	November 2022	November 2023
Role of the Joint Chief Finance Officer	annual	Deputy CFO Michelle Bellis	✓	✓	✓	✓	✓	✓
Joint Procurement Regulations	bi-ennial	Head of Commercial Solutions Barry Leighton	✗	✓	✗	✓	✗	✓
OPCC Scheme of Delegation/Consent	annual	Chief Executive/Communications & Engagement Executive, Gillian Shearer and/or Governance Manager, Joanne Head	✓	✓	✓	✓	✓	✓
Constabulary Scheme of Delegation	annual	Director of Legal Services - Andrew Dobson	added to programme from Nov'19		✓	✓	✓	✓
OPCC Arrangements for Anti-fraud & Corruption/Whistleblowing	bi-ennial	Chief Executive/Communications & Engagement Executive, Gillian Shearer and/or Governance Manager, Joanne Head	✗	✓	✗	✓	✗	✓
Constabulary Arrangements for Anti-fraud & Corruption/Whistleblowing	bi-ennial	Head of People, Supt. Lisa Hogan and/or Head of Professional Standards	✗	✓	✗	✓	✗	✓
Financial Regulations & Financial Rules	bi-ennial	Deputy CFO Michelle Bellis	✓	✗	✓	✗	✓	✗
Joint Audit Committee Terms of Reference and Role Profiles	tri-ennial	Deputy CFO Michelle Bellis	✓	✗	✗	✓	✗	✗
OPCC Grant Regulations & Procedures	tri-ennial	Chief Executive/Head of Partnerships and Commissioning, Vivian Stafford	✗	✗	✓	✗	✗	✓

Grant Thornton

Joint External Audit Plan

Year ending 31 March 2020

Police and Crime Commissioner for Cumbria
and Chief Constable for Cumbria
21 February 2020

Contents

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

1. Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audits of both the Police and Crime Commissioner for Cumbria ('the PCC') and the Chief Constable for Cumbria ('the Chief Constable') for those charged with governance. Those charged with governance are the PCC and the Chief Constable.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). The Code summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of PCC and Chief Constable. We draw your attention to both of these documents on the PSAA website.

Scope of our audit

The scope of our audits is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the :

- PCC's, Chief Constable's and group's financial statements that have been prepared by management with the oversight of those charged with governance (the PCC and the Chief Constable); and
- Value for Money arrangements in place at each body for securing economy, efficiency and effectiveness in their use of resources.

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

Our audit approach is based on a thorough understanding of the PCC and the Chief Constable's business and is risk based.

Significant risks	Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as: • Valuation of land and buildings • Valuation of net pension fund liability We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.
Materiality	We have determined planning materiality to be £2.872m (PY £2.738m) based on the lowest for the Group, PCC and Chief Constable, which equates to 2% of the PCC's prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.144m (PY £0.137m).
Value for Money arrangements	Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks: • The PCC and Chief Constable, along with many other forces faces increasing financial pressures including the need to delivery savings with £8.9m savings requiring to be achieved by 2023/24. Although the PCC and the CC have a proven track record in managing its finances, the future budget gap represent a challenge. We will review the arrangements that are in place for the regular monitoring of the in year financial position in and assess how the future financial challenges are being addressed
Audit logistics	Our interim visit will take place in March and our final visit is planned to take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report. Our fee for the audit will be £27,560 (PY: £27,860) for the PCC and £13,850 (PY: £11,500) for the Chief Constable, subject to management meeting our requirements set out on page 13.
Independence	We comply with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

2. Key matters impacting our audit

Factors

The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. For Cumbria PCC and CC, the latest four year Medium Term Financial Forecast (MTFF) and budget set in February 2020 indicates that whilst a balanced budget can be achieved for 2020/21, this is with a Council Tax increase of 3.47%. In future years funding will fail to keep pace with expenditure pressures meaning that there will be a budget gap (2021/22 £3.368m, 2022/23 £2.470 and 2023/24 £3.031m) by 2023/24) and savings will be needed to offset rising costs. The key driver in the level of savings requirements is increasing inflationary pressures.

The MTFF is supported also by strategies relating to reserves and value for money which assist financial planning. Cumbria, along with many other forces, continues to face increasing financial pressures.

In January 2020 the UK government and the EU ratified the Withdrawal Agreement and the UK's membership of the EU formally ceased on 31 January. The existence of a 'transition period' to 31 December 2020 means that there will be little practical change for the PCC and CC until at least 2021. However, the nature of the future relationship between the UK and the EU is still to be determined and considerable uncertainty persists. The PCC and CC will need to ensure that it is prepared for all outcomes, including those with any impact on contracts and on service delivery.

Financial reporting and audit – raising the bar

The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing as detailed in Appendix 1.

Our work in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved, with a corresponding increase in audit procedures.

Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to material uncertainty about the going concern of the group, PCC and the Chief Constable and will review related disclosures in the financial statements.

- As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee, as set further in our Audi Plan.

3. Group audit scope and risk assessment

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

Component	Individually Significant?	Risks identified	Planned audit approach
Police and Crime Commissioner for Cumbria	Yes	• See Pages 6-7	Full scope UK statutory audit performed by Grant Thornton UK LLP
Chief Constable for Cumbria	Yes	• See Pages 6-7	Full scope UK statutory audit performed by Grant Thornton UK LLP

4. Significant risks identified

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

Risk	PCC or CC risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions	**Both**	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the revenue streams of the PCC and the Chief Constable, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of public sector bodies, including Cumbria PCC and the Chief Constable, mean that all forms of fraud are seen as unacceptable.	Therefore we do not consider this to be a significant risk for Cumbria PCC and the Chief Constable.
Management over-ride of controls	**Both**	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The PCC and Chief Constable faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

Risk	Risk relates to PCC or CC	Reason for risk identification	Key aspects of our proposed response to the risk
PPE – Land and Buildings	**PCC**	The PCC revalues its land and buildings over a two year period. In the intervening years, such as 2019/20, to ensure the carrying value in the PCC financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, the PCC requests a desktop valuation from its valuation expert to ensure that there is no material difference. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (2018/19 land and buildings valuation £ 54.4m) and the sensitivity of this estimate to changes in key assumptions. We therefore identified the valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding to assess the instructions to the PCC's valuer, the PCC's valuer's report and the assumptions that underpin the valuation • test revaluations made during the year to see if they had been input correctly into the PCC's asset register.

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

Significant risks identified

Risk	Risk relates to PCC or CC	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	**Both**	The group's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (2018/19 pension fund liability £1.35bn in the group's balance sheet) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the group's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • update our understanding of the processes and controls put in place by management to ensure that the group's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the group's pension fund valuation; • assess the accuracy and completeness of the information provided by the group to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtain assurances from the auditor of Cumbria Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

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

Other risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
International Financial Reporting Standard (IFRS) 16 Leases – (issued but not adopted)	The public sector will implement this standard from 1 April 2020. It will replace IAS 17 Leases, and the three interpretations that supported its application (IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). Under the new standard the current distinction between operating and finance leases is removed for lessees and, subject to certain exceptions, lessees will recognise all leases on their balance sheet as a right of use asset and a liability to make the lease payments. In accordance with IAS 8 and paragraph 3.3.4.3 of the Code disclosures of the expected impact of IFRS 16 should be included in the Authority's 2019/20 financial statements. The Code adapts IFRS 16 and requires that the subsequent measurement of the right of use asset where the underlying asset is an item of property, plant and equipment is measured in accordance with section 4.1 of the Code.	We will: • Evaluate the processes the Authority has adopted to assess the impact of IFRS16 on its 2020/21 financial statements and whether the estimated impact on assets, liabilities and reserves has been disclosed in the 2019/20 financial statements. • Assess the completeness of the disclosures made by the Authority in its 2019/20 financial statements with reference to The Code and CIPFA/LASAAC Local Authority Leasing Briefings.

5. Other matters

Other work

In audit responsibilities, as follows:

- We read your Narrative Reports and Annual Governance Statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the PCC and Chief Constable.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statements are in line with guidance issued by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
    - Giving electors the opportunity to raise questions about your 2019/20 financial statements, consider and decide upon any objections received in relation to the 2019/20 financial statements;
    - Issue of a report in the public interest or written recommendations to the PCC or the Chief Constable under section 24 of the Act, copied to the Secretary of State.
    - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
    - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

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

Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the PCC's ability to continue as a going concern” (ISA (UK) 570). We will review management's assessment of the going concern assumption and material uncertainties, and evaluate the disclosures in the financial statements.

6. Materiality

The concept of materiality

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

Materiality for planning purposes

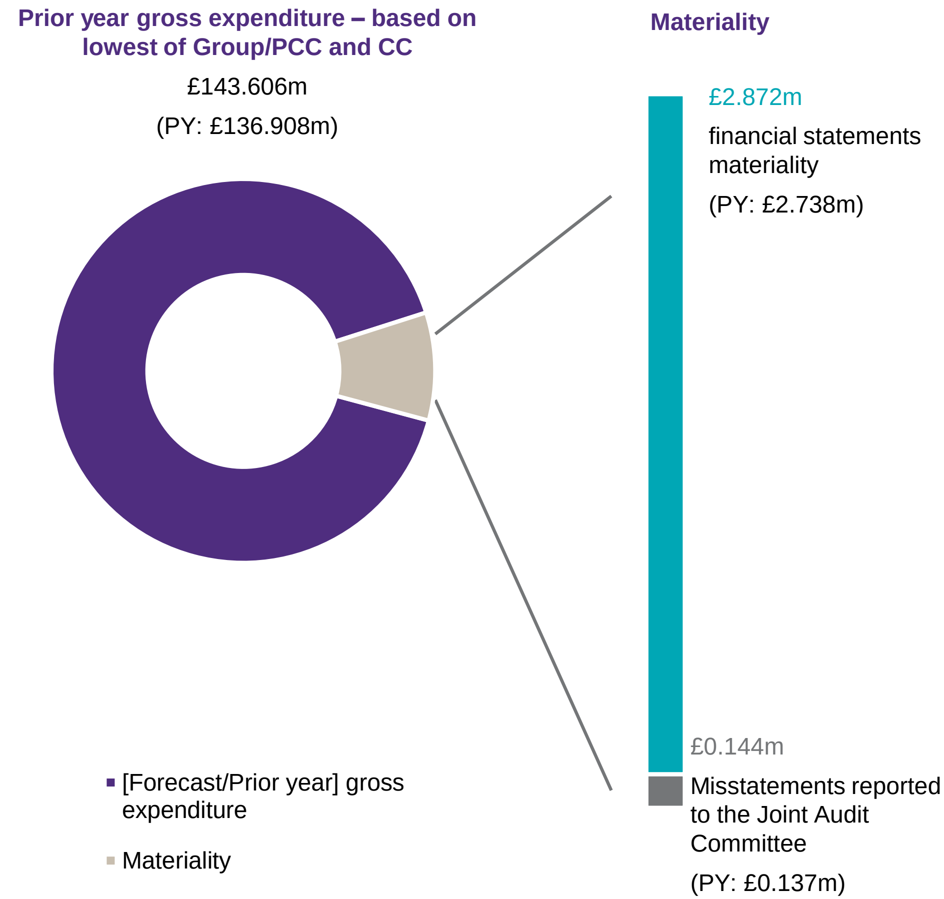
We have determined financial statement materiality's based on a proportion of the gross expenditure of the group, the PCC and the Chief Constable for the financial year. In the prior year we used the same benchmark. For our audit testing purposes we apply the lowest of these materiality's, which is £2.872m (PY £2.738m), which equates to 2% of the PCC's prior year gross expenditure or the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £0.05m for senior officer remuneration.

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

Matters we will report to the PCC and Chief Constable

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the PCC and Chief Constable any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group, the PCC and the Chief Constable, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.144m (PY £0.137m).

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



7. Value for Money arrangements

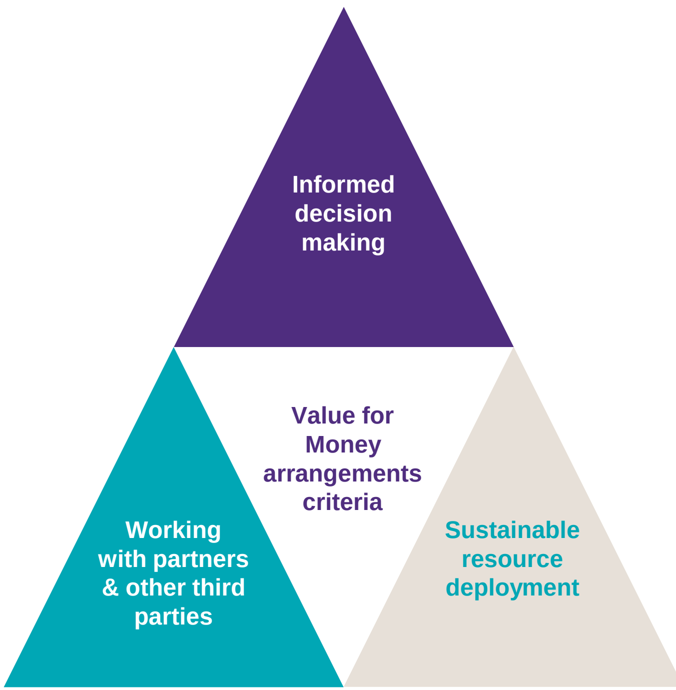
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Police bodies, auditors are required to give a conclusion on whether the PCC and the Chief Constable each have proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Significant VFM risks

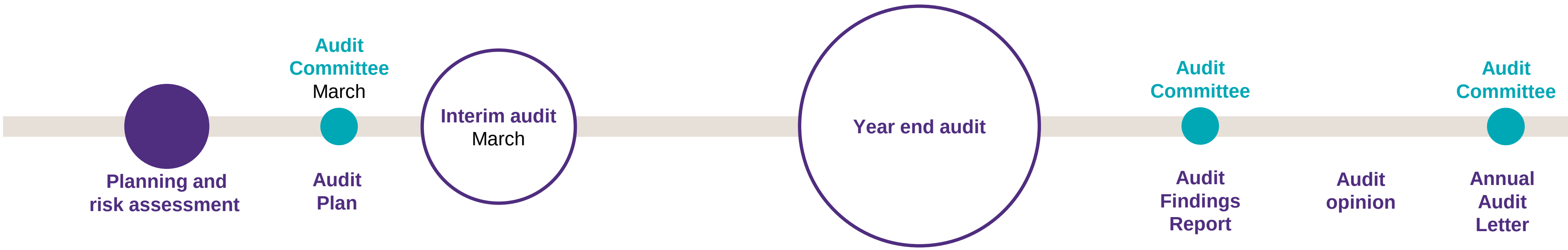
Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the PCC or the Chief Constable to deliver value for money.

Financial Sustainability

The PCC and Chief Constable, along with many other forces faces increasing financial pressures including the need in the future to delivery savings with £8.9m savings requiring to be achieved by 2023/24. Although the PCC and the CC have a proven track record in managing its finances, the future budget gap represent a serious challenge.

We will review the arrangements that are in place for the regular monitoring of the in year financial position in 2019/20 and assess how the future financial challenges including the need to deliver savings are being addressed.

8. Audit logistics & team



Robin Baker, Key Audit Partner

Provides oversight of the delivery of the audit including regular engagement with the Audit Committee and senior officers.

Gareth Winstanley, Audit Manager

Plans and manages the delivery of the audit including regular contact with senior officers.

Hannah Foster, Audit Incharge

Plans and manages the delivery of the audit including regular contact with senior officers.

Client responsibilities

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

Our requirements

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

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

9. Audit fees

Planned audit fees 2019/20

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating.

Our work across the sector in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved. We have also identified an increase in the complexity of local government financial transactions. Combined with the FRC requirement that 100% of audits achieve a 2A rating this means that additional audit work is required. We have set out below the expected impact on our audit fee. The table overleaf provides more details about the areas where we will be undertaking further testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee at the planning stage, as set out below.

	Actual Fee 2017/18	Actual Fee 2018/19	Proposed fee 2019/20
PCC Audit	£30,338	£27,860	£27,560 *
Chief Constable Audit	£15,000	£11,500	£13,850 *
Total audit fees (excluding VAT)	**£45,338**	**£39,360**	**£41,410**

* - includes fee variations as per Page 15

Assumptions:
In setting the above fees, we have assumed that management will:

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

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

Audit fee variations – Further analysis

Planned audit fees

The table below shows the planned variations to the original scale fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees.

Audit area	£	Rationale for fee variation
Scale fee	**23,360 (PCC)** **11,550 (CC)** **Total Scale Fee 34,910**	
Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19	2,250	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms in respect of IAS 19 needs to improve across public sector audits. Accordingly, we plan to increase the level of scope and coverage of our work in respect of IAS 19 this year to reflect the expectations of the FRC and ensure we issue a safe audit opinion. Specifically, we have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
PPE Valuation – work of experts	2,250	As above, the FRC has also determined that auditors need to improve the quality of audit challenge on PPE valuations across the sector. We have therefore [engaged our own audit expert – (name of audit expert) and/or increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations]. [For AQR audits, please specify that the increase includes an estimate for the fee payable to the auditor's expert] We estimate that the cost of the auditors expert will be in the region of £5000.
Increased challenge and depth of work	2,000	Increased challenge and depth of work including additional work will be required for IFRS16 implementation
Revised scale fee (to be approved by PSAA)	**6,500**	

10. Independence & non-audit services

Auditor independence

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

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

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

We are aware that an ex-Grant Thornton staff member now provides the Internal Audit function to the PCC and Chief Constable. We are satisfied that no safeguard arrangements are required to be put in place.

Other services provided by Grant Thornton

The firm is committed to improving our audit quality – please see our transparency report - https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/annual-reports/interim-transparency-report-2019.pdf

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the PCC and the Chief Constable.

Appendices

A. **Audit Quality – national context**

Appendix A: Audit Quality – national context

What has the FRC said about Audit Quality?

The Financial Reporting Council (FRC) publishes an annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality.

All of the major audit firms are subject to an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.

The most recent report, published in July 2019, shows that the results of commercial audits taken across all the firms have worsened last year. The FRC has identified the need for auditors to:

- improve the extent and rigour of challenge of management in areas of judgement
- improve the consistency of audit teams' application of professional scepticism
- strengthen the effectiveness of the audit of revenue
- improve the audit of going concern
- improve the audit of the completeness and evaluation of prior year adjustments.

The FRC has also set all firms the target of achieving a grading of '2a' (limited improvements required) or better on all FTSE 350 audits. We have set ourselves the same target for public sector audits from 2019/20.

Other sector wide reviews

Alongside the FRC, other key stakeholders including the Department for Business, energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. A number of key reviews into the profession have been undertaken or are in progress. These include the review by Sir John Kingman of the Financial Reporting Council (Dec 2018), the review by the Competition and Markets authority of competition within the audit market, the ongoing review by Sir Donald Brydon of external audit, and specifically for public services, the Review by Sir Tony Redmond of local authority financial reporting and external audit. As a firm, we are contributing to all these reviews and keen to be at the forefront of developments and improvements in public audit.

What are we doing to address FRC findings?

In response to the FRC's findings, the firm is responding vigorously and with purpose. As part of our Audit Investment Programme (AIP), we are establishing a new Quality Board, commissioning an independent review of our audit function, and strengthening our senior leadership at the highest levels of the firm, for example through the appointment of Fiona Baldwin as Head of Audit. We are confident these investments will make a real difference.

We have also undertaken a root cause analysis and put in place processes to address the issues raised by the FRC. We have already implemented new training material that will reinforce the need for our engagement teams to challenge management and demonstrate how they have applied professional scepticism as part of the audit. Further guidance on auditing areas such as revenue has also been disseminated to all audit teams and we will continue to evolve our training and review processes on an ongoing basis.

What will be different in this audit?

We will continue working collaboratively with you to aim to deliver the audit to the agreed timetable whilst improving our audit quality. In achieving this you may see, for example, an increased expectation for management to develop properly articulated papers for any new accounting standard, or unusual or complex transactions. In addition, you should expect engagement teams to exercise even greater challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. As a result you may find the audit process even more challenging than previous audits. These changes will give the audit committee – and senior management greater confidence that we have delivered a high quality audit and that the financial statements are not materially misstated. Even greater challenge of management will also enable us to provide greater insights into the quality of your finance function and internal control environment and provide those charged with governance confidence that a material misstatement due to fraud will have been detected.

We will still plan for a smooth audit, however, there may be instances where we may require additional time for both the audit work to be completed to the standard required and to ensure management have appropriate time to consider any matters raised. This may require us to agree with you a delay in signing the announcement and financial statements. To minimise this risk, we will keep you informed of progress and risks to the timetable as the audit progresses.

We are absolutely committed to delivering audit of the highest quality and we should be happy to provide further detail about our improvement plans should you require it.

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Cumbria Constabulary: 2019 HMICFRS Value for Money Profiles' Analysis

The high level analysis in the table on pages 3 to 5 relates to the 2019 Value for Money Profiles which were published on their website by Her Majesty's Inspector of Constabulary and Fire and Rescue Services (HMICFRS) in December 2019. The profiles compare the forces within Cumbria's Most Similar Group (MSG) and these are Lincolnshire, Norfolk and North Wales. The aim of the profiles is to compare performance and the costs of achieving that performance.

It is important to recognise that the VFM Profiles in themselves have limitations and that they require more detailed investigation before they can be safely used as basis for decision making. In particular the profiles focus on costs per head of population, which tends to show Cumbria as relatively expensive across all services due to its low resident population – it should be noted that the impact of increased population due to tourism is not taken into account.

In addition, caution needs to be exercised in ensuring that costs and categorisations give a true comparison on a like for like basis, as forces can - and do - budget in different ways and there may be an element of subjectivity with regard to allocating costs. A national programme of work has started recently, in which the Joint PCC and Constabulary CFO is involved. The work is investigating this ways in which the data can be collected and categorised more objectively, and therefore provide a more realistic comparison of cost across forces.

The high level analysis only covers areas of service where Cumbria has been identified as an outlier compared with its peer group - that is, where the Constabulary performs less well and services are, or appear to be, more expensive based on the criteria used in the profiles.

An outlier is defined as being in the top or bottom 10% and where the effect of the difference is greater than £1 per head of population.

The 2019 profiles show that the areas identified as being significantly above the all forces or MSG average cost are the same this year as they have been in previous years and this has consistently been the case across the period since value for money profiles were first introduced.

Important general points about the VfM profiles

- Cumbria is a demographic outlier when comparing it to its MSG and this will continue to be the case, regardless of any VfM comparators. Cumbria's geography, topography and socio-economic environment are unique and there are fixed costs associated with this regardless of other comparisons.
- Population is the main determinant used in the profiles for assessing value for money – that is, cost per head. This significantly disadvantages Cumbria, which has the lowest population of 42

forces (excluding City of London), is the fourth largest covering 2,613 square miles, is sparsely populated, is classified as 98% rural, and is geographically isolated. The additional cost of delivering services in this physical geography is not taken into account.

- The sparsity of the population, the rural nature of the county and the isolated geographic location of the county in England, results in higher costs to deliver police services compared to other forces and, limits opportunities for cost effective collaborations with other forces for specialist operational services or private companies to provide services. As a result, Cumbria Constabulary requires more people and more equipment to deliver a police service to a small population distributed over a large area.

As a result, all of these factors combine to incur additional fixed costs in policing the county, irrespective of how and by whom police services are provided, and regardless of policy or strategy decisions made by senior management.

The table overleaf shows where the profiles show Cumbria as an outlier, provides an explanation or context and identifies any actions being taken by the Constabulary as a result.

Note that the comparisons exclude Metropolitan Police Service (the largest force) and the City of London Police Service (the smallest force) are excluded as their sizes and specialist functions can skew the analysis.

VfM Category	Cumbria Data Value of difference compared to all forces	Context and/or Explanation	Note of any action being taken
Central costs: Non staff costs – revenue contribution to capital	£5.4m 1/4 MSG 1/40 All	This is to finance the Constabulary's current capital expenditure programme which includes significant investment in ICT. Capital expenditure is reviewed annually as part of planning and budget setting.	
Local policing	Incident/response police officer costs £10.7m 2/4 2/40	This is a new outlier. In previous years the Constabulary has been an outlier in neighbourhood policing because all response/patrol officers were all declared as neighbourhood officers in the data return. This approach was changed for last year's return and reflects the external cost drivers of policing the county identified earlier in this paper. This category includes local investigation (i.e. CID). Our CID is multifunctional and includes a large element of safeguarding, which enables us to prioritise investigations to threat risk and harm – these are our Crime and Safeguarding Teams (CAST) based in local areas. The profiles show that we are below the 10% difference for local investigation for police officer costs (minus £3.1m). The category also includes PCSO costs where we are identified as an outlier (value of difference is plus £23k)	Accounted for in the resource allocation process for 2019/20; it was identified that local investigation required additional officers to meet demand – this is being addressed through a planned programme of increasing detectives' numbers within the CASTs.
Dealing with the public	Central Communications (CCR) police officer costs £3.2m 1/4 1/40	This reflects the changes made in Command and Control where the Constabulary made a conscious decision to operate with officers rather than police staff. This has reduced demand on frontline by 40%- delivering best use of resources by using officer knowledge and expertise at the start of the process, resolving the public's issues as early as possible and providing the best advice and information- with an aim to increase this further. The Constabulary would not be able to accommodate the demand if we put all these officers back on shift, as their impact would be diluted. The benefits from the new Command and Control system will make this function much more efficient and impact on the cost base.	IT replacement programme and review of processes and structures underway
	Front Desks £0.2m 1/4 4/40	This is a cost directly associated with the large geography of the county and the current arrangements for public access	-

VfM Category	Cumbria Data Value of difference compared to all forces	Context and/or Explanation	Note of any action being taken
Criminal justice arrangements	Custody police officer costs £1m 1/4 2/40	Cumbria has the highest cost of police doctors/nurses and surgeons in the country. – this is a contracted out service which is being closely managed. See points in the earlier part of this paper Custody function is subject to a change review	A review of custody has been undertaken during 2019, with results being considered by chief officers in the context of Operation Uplift (the national increase in the number of police officers)
	Police doctors, nurses & surgeons £0.86m 1/4 1/40		
Roads policing	Traffic Units police officer costs £2.14m 1/4 1/40	Cumbria has been an outlier in this category since VfM profiles were first created in 2011. Although these costs are the 2nd highest in the country please note that the comparison is not like for like. Cumbria Roads Policing includes the Armed Response Vehicle, because officers are multi-skilled and perform a dual role. Other forces have these as separate units and firearms are categorised as Operational Support. Advanced public order is also a multi skilled function and includes our secondary firearms response.	-
Operational support	Firearms Unit police officer costs £-1.68m 4/4 40/40		
	Advanced public order police officer costs £0.79m 1/4 4/40		
Public protection	Police officer cost £0.68m 1/4 4/40	The profiles are not flexible enough to account for our CASTs which skews the comparison (as described in local policing section). We carried out some significant demand work during 2018/19 and the number of resources available for public protection increased as a result of our evidence based reallocation decisions.	Already accounted for in our resource allocation process
	DA, DAO and IDVA police officer costs £0.98m 1/4 4/40		

VfM Category	Cumbria Data Value of difference compared to all forces	Context and/or Explanation	Note of any action being taken
	MASH police officer costs £0.45m 1/4 4/40		
Intelligence	Intelligence analysis £0.63m 1/4 14/40	This reflects the increasing demand and complexity of policing operations and cases requiring detailed analysis of digital and other data.	-
Support functions Cumbria has been an outlier in this category since VfM profiles were first created in 2011. It should be remembered that the All and MSG averages are not comparing like for like. For example, Lincolnshire has outsourced its business support and operational support functions.	ICT Staff costs and non employment costs £4m 1/4 1/40	Cumbria has been an outlier in this category since VfM profiles were first created in 2011. Some of our ICT fixed costs will be higher than other forces, as already described in the first section of this report. The Constabulary has now focused on benefits delivery to drive out efficiencies and has a digital policing target operating model to deliver increased effectiveness and productivity.	• Ongoing Business Transformation Programme with targeted savings of £600,000 per annum over the next 3 years • Revised benefits work being undertaken for driving out savings and productivity gains from IT deployed • Review of information management and data quality improvement plan being delivered to reduce digital storage costs over the longer term • Rebasing of fleet and estate strategies to
	Fleet services non employment costs £0.72m 1/4 4/40	Cumbria has been an outlier in this category since VfM profiles were first created in 2011. The cost of fleet provision and associated transport costs are high in Cumbria due to the size, geography and topography of the county. In addition, the LSE with HMIC has undertaken some work about factors that provide challenges for policing. This identifies that Cumbria's average travel times are 70% more than the national average.	
	Training police officer costs £0.7m 1/4 3640	This was a new outlier in 2018 profiles and remains this year. The Constabulary has invested in its own function to ensure that staff and officers have the skills to deliver the best service for the public. In addition, the force has increased its rate of police officer recruitment which has required additional trainer resource – this will continue because of Operation Uplift	
	Performance review police officer costs £0.9m 1/4 1/40	Increased performance review costs reflect the investment in the Business Improvement Unit to drive up quality and reduce reworking costs, the change team to deliver savings required and in IMS staff to meet demand and deliver the Business Intelligence Project. Non police officer costs are significantly less (-£192k)	

VfM Category	Cumbria Data Value of difference compared to all forces	Context and/or Explanation	Note of any action being taken
	Finance staff costs £0.4m 1/4 1/40	This is a new outlier, which will be investigated as arrangements have not changed in the last year. Costs were reduced in 2017/18, following the move to a Joint Chief Finance Officer.	reduce overheads (annual process) • Business intelligence Project to reduce performance and intelligence cost base in the next 4 years , plus other savings

Treasury Management Activities 2019/20 Quarter 3 (October - December 2019)

Peter McCall

Public Accountability Conference 19 February 2020
Joint Audit Committee Meeting 18 March 2020

Purpose of the Report

The purpose of this paper is to report on the Treasury Management Activities (TMA), which have taken place during the period October – December 2019, in accordance with the requirements of CIPFA's Code of Practice on Treasury Management.

TMA are undertaken in accordance with the Treasury Management Strategy Statement (TMSS) and Treasury Management Practices (TMPs) approved by the Commissioner in February each year.

Recommendations

The Commissioner is asked to note the contents of this report.

JAC Members are asked to note the contents of this report. The report is provided as part of the arrangements to ensure members are briefed on Treasury Management and maintain an understanding of activity in support of their review of the annual strategy.

Economic Background

During the quarter ended 31 December 2019:

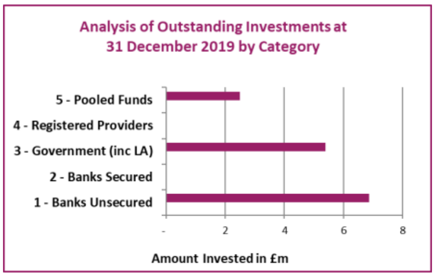
- The Conservative Party secured a large majority in the general election;
- GDP rose by 0.4% q/q in Q3, but weakened at the start of Q4;
- The fundamentals that determine consumer spending softened a little, but remained healthy;
- Inflation remained below the Bank of England's 2% target;
- The Monetary Policy Committee kept Bank Rate on hold at 0.75%, but struck a more dovish tone;
- Andrew Bailey was appointed to take over as Bank of England Governor (From March 2020)

The MPC warned that if global growth does not pick up or Brexit uncertainties intensify, then a rate cut was now more likely. Conversely, if risks do recede, then a more rapid recovery of growth will require gradual and limited rate rises. The speed of recovery will depend on the extent to which uncertainty dissipates over the final terms for trade between the UK and EU and by how much global growth rates pick up.

TM Operations and Performance Measures

The Commissioners day to day TMA are undertaken in accordance with the TMSS. The TMSS establishes an investment strategy with limits for particular categories of investment and individual counterparty limits within the categories.

Outstanding Investments: As at 31 December 2019 the total value of investments was **£14.745m** and all were within TMSS limits. The chart below shows the outstanding investments at 31 December by category.



A full list of the investments that make up the balance of **£14.745m** is provided at **Appendix A**.

Investment Activity: During quarter 3 a number of investments were made within TM categories 1 and 3 (Banks unsecured and Government) primarily as a result of the Pension grant that is received in advance of spend in July.

Month	Number of Investments	Total Value of Investments £m
October 2019	2	3.99
November 2019	0	0.00
December 2019	1	2.00

In addition to the above there are regular smaller investments made via money market funds (category 5 pooled funds).

Non-specified investments: The TMSS sets a limit for investments with a duration of greater than 365 days at the time the investment is made (known as non-specified investments), this limit is £3m. At 31st December the Commissioner had no investments that met this definition.

Investment Income: The budget for investment interest receivable in 2019/20 is £165k. The current forecast against this target is that the actual interest will be in the region of £130k. The budget included potential interest earned from investment in a property fund. Given the uncertainty around Brexit, particularly a no-deal Brexit and the possibility of a recession putting pressure on property prices, it has been decided to hold off on this kind of investment until the effects of Brexit are clearer. Factors such as future interest rates available and investment balances will also affect the final sum for investment income received. The average return on investment at the end of quarter 3 is 0.71%.

As a measure of investment performance, the rate achieved on maturing investments of over 3 months in duration is compared with the average BOE base rate. The table below illustrates the rate achieved on the three maturing investments of over 3 months duration in quarter 3 compared with the average base rate for the duration of the investment.

Borrower	Value £m	Period (Months)	Actual Rate (%)	Average Base Rate (%)
Heleba	£2m	6	0.70%	0.75%
Barclays	£2m	3	0.60%	0.75%
Treasury bills	£2m	6	0.70%	0.75%

Cash Balances: The aim of the TMSS is to invest surplus funds and minimise the level of un-invested cash balances. The actual un-invested cash balances for the period October to December are summarised in the table below:

	Number of Days	Average Balance £	Largest Balance £
Days In Credit	91	4,693	55,659
Days Overdrawn	1	(2,745)	(2,745)

The largest un-invested balance occurred over the weekend of the 15 November. A supplier had inadvertently been paid an incorrect amount on the creditor's payment run. The bank had been contacted and instructed to recall the payment but the date of return depends on the receiving bank processing the return. It is normal practice that miscellaneous cash, received on the day, is not invested into the liquidity select account and is left in the main fund account as it is subject to bank checking and could be removed. The funds were returned on the Friday afternoon, hence, the account was in credit over the weekend. The largest/only overdrawn balance occurred on the 22 of October (£3k) and was as a result of the two cheques clearing.

Prudential Indicators

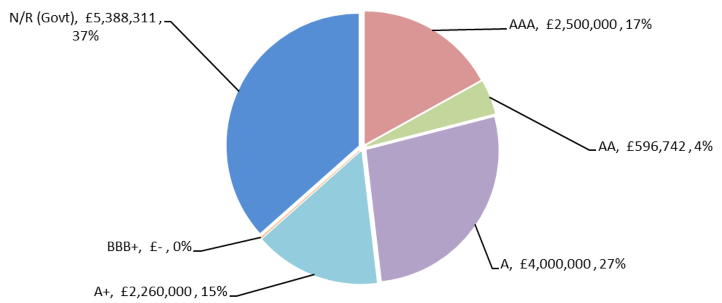
In accordance with the Prudential Code, the TMSS includes a number of measures known as Prudential Indicators, which determine if the TMSS meets the requirements of the Prudential Code in terms of ***Affordability, Sustainability and Prudence***.

An analysis of the current position with regard to those prudential indicators for the financial year 2019/20 is provided at **Appendix B**. The analysis confirms that the prudential Indicators set for 2019/20 are all being complied with.

Appendix A
Investment Balance at 31 December 2019

Category/Institution	Credit Rating	Investment Date	Investment Matures	Days to Maturity	Rate (%)	Amount (£)	Counterparty Total (£)
Category 1 - Banks Unsecured (Includes Banks & Building Societies)							
Svenska (Deposit Acc)	AA	Various	On Demand	N/A	0.30%	596,742	596,742
NatWest (Liquidity Select Acc)	A+	31/12/2019	01/01/2020	O/N	1.00%	260,000	260,000
Lloyds	A	05/07/2019	06/01/2020	6	1.00%	2,000,000	2,000,000
Nationwide	A	05/07/2019	06/01/2020	6	0.81%	2,000,000	2,000,000
Barclays	A+	07/10/2019	07/01/2020	7	0.59%	2,000,000	2,000,000
						6,856,742	**6,856,742**
Category 2 - Banks Secured (Includes Banks & Building Societies)							
						0	**0**
Category 3 - Government (Includes HM Treasury and Other Local Authorities)							
Government T Bills	N/R (Govt)	23/12/2019	23/03/2020	83	0.67%	1,996,665	1,996,665
Government T Bills	N/R (Govt)	07/10/2019	06/01/2020	6	0.70%	1,996,516	1,996,516
Government T Bills	N/R (Govt)	30/09/2019	30/03/2020	90	0.70%	1,395,130	1,395,130
						5,388,311	**5,388,311**
Category 4 -Registered Providers (Includes Providers of Social Housing)							
None						0	0
						0	**0**
Category 5 -Pooled Funds (Includes AAA rated Money Market Funds)							
Invesco		Various	On demand	O/N		0	0
Fidelity		Various	On demand	O/N		0	0
BlackRock		Various	On demand	O/N		0	0
Goldman Sachs	AAA	Various	On demand	O/N		400,000	400,000
Aberdeen Standard	AAA	Various	On demand	O/N		2,100,000	2,100,000
						2,500,000	**2,500,000**
Total						**14,745,052**	**14,745,052**

Analysis of Outstanding Investments by Credit Rating of Counterparty at 31 December 2019 (Minimum Criteria per TMSS A-)



Note – The credit ratings in the table & chart relate to the standing as at 17th January 2020, these ratings are constantly subject to change.

Appendix B
Prudential Indicators 2019/20

Prudential and Treasury Indicators

Treasury Management Indicators		Result	RAG
The Authorised Limit *The authorised limit represents an upper limit of external borrowing that could be afforded in the short term but may not sustainable. It is the expected maximum borrowing need with some headroom for unexpected movements. This is a statutory limit under section3(1) of the local government Act 2003.*	**TEST - Is current external borrowing within the approved limit**	YES	
The Operational Boundary *The operational boundary represents and estimate of the most likely but not worse case scenario it is only a guide and may be breached temporarily due to variations in cash flow.*	**TEST - Is current external borrowing within the approved limit**	YES	
Actual External Debt *It is unlikely that the Commissioner will actually exercise external borrowing until there is a change in the present structure of investment rates compared to the costs of borrowing.*	**TEST - Is the external debt within the Authorised limit and operational boundry**	YES	
Gross and Net Debt *The purpose of this indicator is highlight a situation where the Commissioner is planning to borrow in advance of need.*	**TEST - Is the PCC planning to borrow in advance of need**	NO	
Maturity Structure of Borrowing *The indicator is designed to exercise control over the Commissioner having large concentrations of fixed rate debt needing to be repaid at any one time.*	**TEST - Does the PCC have large amounts of fixed rate debt requiring repayment at any one time**	NO	
Upper Limit for total principal sums invested for over 365 Days *The purpose of this indicator is to ensure that the commissioner has protected himself against the risk of loss arising from the need to seek early redemption of principal sums invested.*	**TEST - Is the value of long term investments witin the approved limit**	YES	
Purdential indicators			
Ratio of Financing Costs to Net Revenue Stream *This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of revenue budget required to meet financing costs*	**TEST - Is the ratio of captial expenditure funded by revenue within planned limits**	YES	
Net Borrowing and the Capital Financing Requirement This indicator is to ensure that net borrowing will only be for capital purposes. The commissioner should ensure that the net external borrowing does not exceed the total CFR requirement from the preceding year plus any additional borrowing for the next 2 years.	**TEST - Is net debt less than the capital financing requirement**	YES	
Capital Expenditure and Capital financing *The original and current forecasts of capital expenditure and the amount of capital expenditure to be funded by prudential borrowing for 2019/20*	**TEST - Is the current capital outurn within planned limits**	YES	
Capital Financing Requirement *The CFR is a measure of the extent to which the commissioner needs to borrow to support capital expenditure only. It should be noted that at present all borrowing has been met internally.*	**TEST - Is the capital financing requirment within planned limits**	YES	