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PCC CUMBRIA
Peter McCall

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Our reference: JAC/IR

Date: 8th March 2022

AGENDA

TO: THE MEMBERS OF THE JOINT AUDIT COMMITTEE

CUMBRIA POLICE & CRIME COMMISSIONER AND CUMBRIA CONSTABULARY JOINT AUDIT COMMITTEE

A Meeting of the Joint Audit Committee will take place on **Wednesday 16th March 2022** via **Microsoft Teams**, Police Headquarters, Carleton Hall, Penrith, at **10:30am**.

Vivian Stafford, Gill Shearer
Chief Executive

Please note – there will be three private members development sessions before and after this meeting as follows:

- 09:00-10:00 Treasury Management *(To be presented by Link Group Ltd)*
- 14:00-15:00 The Medium-Term Financial Forecast, capital strategy, capital programme, change programme & value for money *(To be presented by Joint Chief Finance Officer and Deputy Chief Finance Officer).*

Note: If members of the public wish to participate in this meeting please contact inge.redpath@cumbria.police.uk by 14th March 2022 for a calendar invitation.

COMMITTEE MEMBERSHIP

Mrs Fiona Moore (Chair)
Mr Jack Jones
Mr Malcolm Iredale
Wing Commander (Retired) Tim Mann

AGENDA

PART 1 – ITEMS TO BE CONSIDERED IN THE PRESENCE OF THE PRESS AND PUBLIC

1. APOLOGIES FOR ABSENCE

2. URGENT BUSINESS AND EXCLUSION OF PRESS AND PUBLIC
To consider (i) any urgent items of business and (ii) whether the press and public should be excluded from the Meeting during consideration of any Agenda item where there is likely disclosure of information exempt under s.100A(4) and Part I Schedule A of the Local Government Act 1972 and the public interest in not disclosing outweighs any public interest in disclosure.

3. DISCLOSURE OF PERSONAL INTERESTS
Members are invited to disclose any personal/prejudicial interest, which they may have in any of the items on the Agenda. If the personal interest is a prejudicial interest, then the individual member should not participate in a discussion of the matter and must withdraw from the meeting room unless a dispensation has previously been obtained.

4. MINUTES OF MEETING AND MATTERS ARISING
To receive and approve the minutes of the committee meeting held on 17th November 2021

5. ACTION SHEET
To receive the action sheet from previous meetings.

6. CORPORATE UPDATE
To receive a briefing on matters relevant to the remit of the Committee.
(To be presented by the Deputy Chief Constable and OPCC Chief Executive)

7. REVIEW OF INTERNAL AUDIT CONSULTANCY WORK
To receive a report on the value of internal audit consultancy work undertaken, including benefits gained, lessons learned and the future of this type of work. *(To be presented by Joint Chief Finance Officer)*

8. INTERNAL AUDIT – PROGRESS REPORT
To receive a report from the Internal Auditors regarding the progress of the Internal Audit Plan. *(To be presented by the Audit Manager, Cumbria County Council)*

9. INTERNAL AUDIT REPORT(S)

To receive reports from the Internal Auditors in respect of specific audits conducted since the last meeting of the committee. (*To be presented by the Audit Manager, Cumbria County Council)*

a) Payroll (Constabulary & OPCC) - Feb 22
b) Digital Leadership Programme (Constabulary) - Feb 22
c) Preparedness for McCloud Remedy (Constabulary) - Feb 22
d) Benefits Delivery Process (Constabulary & OPCC) - Feb 22
e) Covid-19 Response (Constabulary) - Feb 22
f) Financial Systems - Inventory (Constabulary) - Mar 22

10. STRATEGIC RISK REGISTER

To consider the OPCC and Constabulary strategic risk register as part of the Risk Management Strategy.

a) OPCC Risk Management Monitoring *(To be presented by OPCC Chief Executive)*
b) OPCC Strategic Risk Register *(To be presented by OPCC Chief Executive)*
c) OPCC Operational Risk Register *(To be presented by OPCC Chief Executive)*
d) Constabulary Strategic Risk Register *(To be presented by Joint Chief Finance Officer)*

11. 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. *(To be presented by Joint Chief Finance Officer)*

12. CAPITAL STRATEGY, CAPITAL PROGRAMME, TREASURY MANAGEMENT STRATEGY AND TREASURY MANAGEMENT PRACTICES

To review the annual:

a) Capital Strategy 2022-23 *(To be presented by Deputy Chief Finance Officer)*
b) Capital Programme 2022/23 & Beyond *(To be presented by Deputy Chief Finance Officer)*
c) Treasury Management Strategy incorporating the policy on investment and borrowing activity *(To be presented by Deputy Chief Finance Officer)*
d) Treasury Management Practices *(To be presented by Deputy Chief Finance Officer)*

13. ANNUAL REVIEW OF GOVERNANCE

To review the OPCC and Constabulary arrangements for governance; cyclical review over three years.

a. **OPCC SCHEME OF DELEGATION/CONSENT** *(To be presented by OPCC Chief Executive)*
b. **CONSTABULARY SCHEME OF DELEGATION** *(To be presented by the Joint Chief Finance Officer)*

14. 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. *(To be presented by Deputy Chief Finance Officer)*

15. ANNUAL EXTERNAL AUDIT REPORT
To receive from the External Auditors the Annual Audit Report, deferred from November 2021 meeting *(To be presented by the Grant Thornton)*

16. EXTERNAL AUDIT PLAN
To receive from the external auditors the Joint Annual External Audit Plan. *(Grant Thornton to provide a verbal update)*

17. EXTERNAL AUDIT UPDATE REPORT
To receive from the external auditors an update report in respect of progress on the external audit plan. *(To be presented by the Grant Thornton)*

18. INTERNAL AUDIT STRATEGY AND ANNUAL PLAN (incl. Audit Charter)
To receive a report from the Internal Auditors (TIAA Ltd) on the proposed Internal Audit Strategy and Annual Plan which includes the Internal Audit Charter. A *verbal update will be provided at the meeting.*

19. QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME
To receive from the Internal Auditors a report setting out the arrangements for quality assurance and improvement. *(To be presented by TIAA Ltd)*
TiAA to provide a verbal update, item will be presented later in the year once the external assessment of TIAA has been completed and outcomes determined.

20. VALUE FOR MONEY
To receive an annual report on Value for Money within the Constabulary. *(To be presented by The Chief Finance Officer)*

21. TREASURY MANAGEMENTS ACTIVITIES
To receive for information reports on Treasury Management Activity - Quarter 3.
(To be presented by the Financial Services Manager)

22. ACTION PLAN UPDATES
To receive for information an update on:
a. The Financial Management Code Action Plan
b. The AFEP/FM Model Action Plan
(To be presented by the Joint CFO and Deputy Chief Finance Officer)

23. POINT FOR CONSIDERATION BY THE COMMISSIONER AND THE CHIEF CONSTABLE

Future JAC Meeting Dates (For Information)

22nd June 2022 @ 10.30am – Conference Room 2/Microsoft Teams
21st September 2022 @ 10.30am – Conference Room 2/Microsoft Teams
23rd November 2022 @ 10.30am – Conference Room 2/Microsoft Teams
22nd March 2023 @ 10.30am – Conference Room 2/Microsoft Teams

Future Police & Crime Panel Meeting Dates (For Information)
05 April 2022 – Conference Room A/B, Cumbria House, Botchergate, Carlisle, CA1 1RD
19 July 2022 – Council Chamber, County Offices, Kendal, LA9 4RQ
14 October 2022 – Conference Room A/B, Cumbria House, Botchergate, Carlisle, CA1 1RD
26 January 2023 – Council Chamber, County Offices, Kendal, LA9 4RQ
18 April 2023 - Conference Room A/B, Cumbria House, Botchergate, Carlisle, CA1 1RD

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Agenda Item 4 – Part 1

CUMBRIA POLICE & CRIME COMMISSIONER AND CUMBRIA CONSTABULARY

JOINT AUDIT COMMITTEE

Minutes of a meeting of the Joint Audit Committee held on Thursday 17th November 2021 by Microsoft Teams, Police Headquarters, Carleton Hall, Penrith, at 10.30am.

PRESENT
Ms Fiona Moore (Chair)
Mr Jack Jones
Mr Malcolm Iredale
Wing Commander (Retired) Tim Mann

Also present:

Chief Executive (CE), Office of the Police and Crime Commissioner (Vivian Stafford)
Deputy Chief Constable (DCC) Mark Webster
Joint Chief Finance Officer (JCFO), (Roger Marshall)
Deputy Chief Finance Officer (DCFO), (Michelle Bellis)
Engagement Lead (EL), Grant Thornton LLP (Michael Green)
Head of Internal Audit (HIA), Cumbria Shared Internal Audit Service, Cumbria County Council (Richard McGahon)
Audit Manager (AM), Cumbria Shared Internal Audit Service, Cumbria County Council (Emma Toyne)
Detective Chief Inspector (DCI) Craig Smith
Performance Consultant (PC) Claire Griggs
Head of Commercial (HC) Barry Leighton
Corporate Directorates PA (PA) Olivia Muir

PART 1 – ITEMS CONSIDERED IN THE PRESENCE OF THE PRESS AND PUBLIC

The Chair called the meeting to order at 10.31am

670. APOLOGIES FOR ABSENCE

Apologies were received from;
Deputy Chief Executive, Office of the Police and Crime Commissioner Gillian Shearer
Financial Services Apprentice Inge Redpath
Engagement Manager, Grant Thornton LLP Gareth Winstanley
Chief Superintendent Lisa Hogan

671. URGENT BUSINESS AND EXCLUSION OF PRESS AND PUBLIC

There were no items of urgent business or exclusions of the press and public to be considered by the committee.

672. DISCLOSURE OF PERSONAL INTERESTS

There were no disclosures of any personal interest relating to any item on the Agenda.

673. MINUTES OF MEETING AND MATTERS ARISING

The committee received and reviewed the minutes of the meeting held 4th November 2021.

Points of accuracy

- Page 1, item 661 should include apologies from DCC Webster

The chair raised the question of whether the minutes need to be physically or electronically signed.

ACTION, Financial Services Apprentice Inge Redpath to contact the Chair and arrange signing of the minutes.

RESOLVED, that the minutes be recorded as a true record of the meeting held on 4th November 2021.

674. ACTION SHEET

Item 653-1 – A report was prepared by the JCFO for the Collaborative board. The conclusion is there was some value on all the consultancy work done by internal audit. However, there are limited areas for internal audit to do the consultancy work. The proposal is that we don't commission anymore consultancy work for the time being.

The Chair asked members if a report in writing recording the outcome of the work should be brought to the March meeting for minuting and audit purposes.

A member asked for clarification on the consultancy work and whether this was task audits or work that should be audited and was there a possible conflict. The JCFO explained this was to develop the internal audit service and extend away from a traditional audit. This would provide products of value to the OPCC and Constabulary and an independent view. It wasn't a conflict, just an extension of audit plan.

A member asked if there was a lessons learnt report and any areas this could be looked at in the future. The DCC stated that parts of the work carried out have been beneficial and would like to see it as an option in the future but with more limited circumstances.

ACTION, The JCFO to prepare a report for the next JAC meeting detailing any benefits gained, lessons learnt and whether there would be any benefit of doing this work in the future.

Item 653-2 – With regards to the progress on the internal audit plan, the discussion with Collaborative board members is still to take place. The JCFO has spoken with the head of internal audit. Following the pandemic it is now business as usual but there are still some legacy issues which has slowed some of the progress. JCFO will liaise more frequently with head of internal audit in future to ensure the plan is on track and will feedback to the Collaborative board.

Item 655 – The JCFO has spoken to the Head of PSD, there is substantive agenda item for DCI Smith to update the members at item 682.

All outstanding JAC actions will be reviewed at a development session on the afternoon of 17th November and updated.

RESOLVED, all other items were resolved.

675. CORPORATE UPDATE

The DCC provided an update on the following:

HMICFRS Annual Inspection; The inspection runs on a rolling programme, continually throughout the year, using the force management statement, looking at areas, reality checking and interviewing people and departments. It is an intense process; the methodology hasn't been easier or less resource intensive this year. The DCC informed members that there will be some areas, as with all forces, that will require focus and improvement.

COP26; Every force in the country has had to provide significant resource to COP26, being the single biggest mutual aid commitment event in UK policing. Cumbria officers helped provide protection around the PM.

Budget Settlement: Meeting been held with Kit Malthouse and have had communications from the NPCC. Still awaiting the formal settlement detail, however the upshot is positive but not without saving commitments.

Finally, the DCC informed the group that he has submitted a paper to the Chief Officer Group about investing in additional capabilities in key areas across the force where there are strategic gaps and areas for development. One of the gaps highlighted is the analytical capability, which has been discussed previously. There were several other items in the paper which intends to be encompassed in a programme of activity, which will seek to modernise a series of areas within the organisation. The Chief Officer view is that we can't do individual investments as they are so substantial but when brought together will form a transformation model. An example is the estate at headquarters, the constabulary is one of the few remaining forces operating out of a country house, it doesn't support agile working, environmental impact is poor and not conducive of collaboration, this is one element of work which is being developed under *Programme Catalyst*.

A member asked a question regarding COP26 and if the constabulary receives funding for the officers sent to Glasgow and the costs incurred back in Cumbria. The DCC confirmed that the constabulary receives some funding to cover the deployment of officers in Glasgow, however, any costs incurred in force are covered by Cumbria Constabulary, as with any other force.

A member asked the question around HMICFRS inspections and if the committee could have sight of the reports. The DCC confirmed that all reports are available on the HMICFRS website, however as there is a lot of information included in the reports, he suggested that a presentation summarising the inspection and findings would be more suited to the JAC committee at a future meeting.

A member asked the question if the strategic gaps are included on the risk register. The DCC confirmed that the shortage in analysts is on the register, one of the risks on the register is the inability to deliver the vision 25 and some of the investment would enable the constabulary to deliver vision 25.

The CE gave the following update on behalf of the OPCC:

The draft Police & Crime Plan was circulated at the beginning of October and feedback has been received. This should be published by the end of November. The CE will ensure the committee receive a copy.

It is also the PCC's intention to move to a business case to consider fire governance in his remit of work. The business case is being developed under the 2017 legislation and will be ready for consultation in mid-January 2022. The consultants helping prepare the business case are Baring Point Consultancy.

A member asked if the business plan ties in with the Local Government Reorganisation. The CE confirmed that Mr McCall is working to the 2017 legislation, which allows a Police & Crime Commissioner to move to a business case to take on the fire governance. The LGR will need to consider what the best options are for the fire governance, when the statutory instrument is laid in January to indicate how they'll move forward with LGR there will be reference made to their preferred governance for fire.

The Chair asked what will happen to Cumbria County Council after the LGR. The CE confirmed that the OPCC are not engaged or involved in the conversations, the priority area of work is around the statutory instrument which will state how the two unitary will be governed. The HIA confirmed that Cumbria County Council will cease to exist and will be replaced by two authorities, there will be legacy tasks which one of the two bodies will host. There has been mention of a combined authority, however the two unitary authorities need to be established first.

A member asked if this was raised on the risk register, this is to be discussed at point 676.

The JCFO gave his corporate update as follows:

Currently between getting the accounts signed off and budgets set. The DCC covered the spending review earlier. We are starting to see some pressures due to inflation which could potentially impact on some budgets. The announcement of the national insurance increase will have an impact but should be funded through the spending review.

The mid-year budget monitoring report has just been produced showing a small underspend of £200,000 but there are pressures in particular areas. Forecasting to operate close to budget.

The government has commenced work on the funding formula, this is the review in which resources in policing are divided between forces, this could have big implications for Cumbria, however, it is in the very early stages.

676. STRATEGIC RISK REGISTER

a. OPCC Strategic Risk Register

The CE presented the risk register and raised the point made earlier by a member regarding the fire governance. The CE pointed out there isn't a strategic risk regarding Blue Light Fire, discussions have been held and it doesn't sit within the OPCC. If the preferred option is to transfer fire governance, there will be risks to consider. The CE did comment on whether it is something that should sit on the operational register but is happy to take feedback and review on a regular basis.

A member raised a query as to why the Local Government Reorganisation is not listed on the register as there are potentially huge implications for the OPCC and the Constabulary, especially within the short timelines. The CE responded saying that we know what the forward trajectory is and there are ongoing internal discussions. There are concerns raised operationally and how it will change for the constabulary and LGR is a standing agenda item at the Collaborative board. The DCC commented that there are two risks that he sees, one being organisational bandwidth on behalf of partners is diverted into LGR. The second risk is missed opportunity within several areas and the potential for things like overlapping estates etc. will be missed if the focus is solely on jobs and structures.

A member asked the question of whether scores were correct on risk 2, the ESMCP, as it didn't seem reflected in the scores. The JCFO commented that the score is already high and currently need to leave scope in case it needs to increase in future. The DCC added that there could be some funding available in the settlement. The PC commented that the score was challenged following the update, however, our score matches the national ESMCP risk register.

ACTION, The CE and DCC to discuss out with the LGR, what potential risks there could be for the OPCC and Constabulary and populate the risk register(s)

The JCFO presented the Constabulary register. The biggest change is the need to increase our capacity and capability of analytical review, this has been added as a new risk recognising the gap.

RESOLVED, that the reports be noted.

677. INTERNAL AUDIT PROGRESS REPORT

The AM presented the report which is to the end of October 2021. Work is progressing on plan with three pieces complete and a further six to start. Any work from quarter one or two has either been completed or in progress. A lot of the work in quarter three is in progress or awaiting the scope to be agreed. There have been challenges to confirm the scope of some work due to staff availability which means having to go back and review the scope. However, the AM did add that this wasn't unusual following covid and was a national issue.

The AM added that the shared internal audit services agreement comes to an end in March 2022 and that they will ensure a smooth transition for the new providers from April 2022.

The AM confirmed that there are no issues regarding risk management, governance, or internal control. The AM also highlighted paragraph 3.7 where there were no recommendations regarding the agile workforce as the issues couldn't not be remedied or work was already underway.

RESOLVED, That the report be noted.

678. INTERNAL AUDIT REPORT(S)

The HIA presented the two audit reports on Agile Workforce.

A member stated that they understand that there are no recommendations on either report, however if there is no timescale or update, there is no marker that anything needs to be done should there be a deadline as to when it will be published.

The HIA commented that due to timescales that work had moved on in this area, recovery and renewal governance had been created that became business as usual. In terms of some of the other areas will be picked up in reviews to be carried out this year. The HIA was happy that it didn't impact on the overall assessment of reasonable assurance, the HIA added that the report should have included some of the context for the decision not to make any recommendations.

A member showed concern why if there were no recommendations made, doesn't that result in substantial assurance.

The Chair added that the members have expressed their concerns over the level of assurance given when there are no recommendations and asked the DCC if there was benefit to managers in the narrative of the report. The DCC commented that he found the report fair and that the pandemic has been a driver for many pieces of work relating to agile workforce.

It was also noted the paragraph in the report about the OPCC complaint review process.
RESOLVED, that the report be noted.

679. PCC ANNUAL REPORT

The CE presented the report for the purpose of providing the committee with an oversight of the annual report.

The chair commented how impressive the illustrations and diagrams were within the report.

RESOLVED, that the report be noted.

680. INTERNAL AUDIT REPORT(S) MONITORING OF AUDIT, INTERNAL AUDIT AND OTHER RECOMMENDATIONS AND ACTION PLANS

The JCFO summarised the position as follows.

12 Outstanding audit recommendations, 10 new since the last meeting of those 7 completed, 5 ongoing and 2 where the deadline has been extended.

The ongoing recommendations fall into reflective practice review and contract management. In relation to contract management, the HC added to this to explain why he had asked for the extensions relating to contract management; this due to it being a serious piece of work and training needs to be given and to ensure it is also completed effectively.

A member asked who approved the extension.

The HC explained that the extension has been agreed with the line manager. The JCFO has raised this issue to look at a formal governance for the approval of extensions with the suggestion it be raised to the Chief Officer Group. The DCFO explained that the new internal audit provider will have an online portal which will give the governance over extensions, however a more detailed conversation needs to be held with the provider first.

A member raised the query of Local Focus Hubs as the report states that it is about to be inspected by HMICFRS and asked if there is a programme of inspections throughout the year and how the committee could be involved. The DCC responded informing the committee that each force is inspected every year with twelve questions that explore many areas of the constabulary and as agreed earlier a presentation will be done to the committee to present the HMICFRS findings.

RESOLVED, That the report be noted.

681. ANNUAL EXTERNAL AUDIT REPORT

Deferred until the March Meeting

682. ANNUAL REVIEW OF GOVERNANCE

- Role of the Joint Chief Officer

The DCFO presented a report on the role of the Chief Finance Officer. There has been revised guidance from CIPFA for the role of Joint Chief Finance Officer and this has been updated in the report. Any changes to the previous document are shown in green.

The chair commented how useful it was to see the changes in a different colour.

A member asked if there was a formal continuous improvement process. The DCFO commented that within the finance function training is how they develop staff with a number going through apprenticeships. There is also the AFEP action plan, which was a result of a review of financial management and governance within the constabulary which identified areas where improvements could be made. There is also the financial management code of practice action plan, that identified areas of best practice with an update due in March. Following the implementation of the new finance system in Autumn 2020 the DCFO, JCFO and other heads of department are part of a Design Authority looking at ways of working and continuous improvement.

The chair commented that it was good to see 100% compliance in the covering report.

- Joint Procurement Regulations

The HC provided a verbal update. There has been no change to the regulations. The regulations consist of two areas, code of conduct and policy procedures. The spend limit hasn't changed, there are some public spend limits due to Brexit, which will not affect us. The horizon scan has been completed and nothing external that requires any changes.

The chair made a comment that the document is still in place and the same one reviewed by the committee previously.

- OPCC Arrangements for Anti-fraud & Corruption/Whistleblowing

The CE presented the policy noting that there had been no significant changes to last year, the policy has a three-year cycle and will have a full review next year.

A member commented that it should be clear where a person can seek advice and report and that the report makes reference to two organisations that do not have confidential reporting lines. The member also added that when the document comes up for review it would be useful to have consistency between the OPCC and Constabulary policies.

Another member also raised the point of consistency and would welcome committee input into the review next year. The member also queried the takeout of written references and the definition of family/partners, declaring an interest that isn't your own. The accessibility of the policy document needs to be easy for the user also.

The CE accepted the comments and will feed into the review. A draft copy will be shared with members for feedback.

- Constabulary Arrangements for Anti-fraud & Corruption/Whistleblowing

The DCI confirmed that an in-depth review has just taken place of the policies after it was agreed in 2019 by Chief Officers to bring all the policies together under three portfolios. There has been a total of 16 policies and procedures that now link into the three categories. The DCI informed members of the Anti-Corruption line, which is completely anonymous, Crime Stoppers and the IOPC line. The new review date for the policies is 2024.

A member stated that they were surprised there are definitions of fraud and corruption and that theft isn't defined but it is in the OPCC policy. The member also commented that irregularity should be defined. The DCI acknowledged the comments made and informed members that when PSD receive the information, it is reviewed and if it is not a criminal offence it would fall into the misconduct regulations.

A member asked the question of why there couldn't be a single process between OPCC and Cumbria Constabulary. The DCI noted that it could be look at, however, there is a distinction between the functionality of PSD in terms wider issues with staff and officer misconduct, which links to counter corruption and police officer regulations.

The DCI updated members on the Reflective Practice Review Process (RPRP), which the JCFO mentioned at point 680. The process was brought in on the back of the Police Regulations update in February 2020 and was audited at the beginning of this year. The audit looked at the use of the process across the organisation and the organisational capture of the outcomes of that process. Once the process was in place, the audit identified there was no formal organisational capture of the outcomes of the processes, this identified individual and organisational learning. Following this PSD have worked with Digital, Data and Technology team to create a solution which is currently going through testing and due to go live in December.

The chair noted that it would be good to see in future versions a simple process of how and to whom a person can report an issue and having the same review dates between the OPCC and the Constabulary would assist with the consistency.

- Joint Audit Committee Terms of Reference & Role Profiles

The report was noted, the committee are having a 360-review session following the meeting where they will incorporate a conversation around the terms of reference. The only change to the document is gender references have been removed and the DCFO has circulated to members the CIPFA guidance for information.

RESOLVED, that the reports be noted.

683. ANNUAL GOVERNANCE STATEMENT DEVELOPMENT AND IMPROVEMENT PLAN UPDATE

The JCFO provided an update. The mid-year update is to provide assurance that work is progressing on the plan. There is a similar position for both organisations with a lot of actions to be completed by the year end. The JCFO gave assurance to members the amount of work on going to complete the actions with a lot of work linking in with HMICFRS.

A member asked how often the actions are reviewed and who chairs the meeting. The JCFO confirmed that the actions aren't formally reviewed, the business owners are expected to undertake the work and update. The mid-year update would highlight anything significantly not being delivered. The JCFO added that a lot of the actions are reviewed through separate forums with specific governance in particular areas.

A member commented on the format of the document and the consistency between both organisations, making it easier to assimilate. The member commented there looked to be some mistypes in the deadline dates.

The chair added that they were a very ambitious set of actions.

RESOLVED, that the report be noted.

684. PROCUREMENT ANNUAL REPORT

The HC provided a presentation which included a high-level dashboard for members and a RAG rating. The HC talked through the four KPI's category management, pipeline management, process and procedure and improved commercial awareness training.

The main highlights from the report are the audits undertaken are consistently coming in as reasonable with inventory currently being audited. The Oracle finance and procurement system has successfully been in operation for one year. The commercial transformation programme, taking on benefits of the new system and structure of the department. In 2020/21 savings of £916,000 were achieved with 2021/22 year to date savings currently at £267,000.

The chair thanked the HC for talking through the report.

A member asked a question regarding the savings and if they we're recurring or one off. The HC confirmed that the savings are in different categories, therefore some are one off, and some will recur over a number of years and there some savings due to cost avoidance using the correct framework. The JCFO receives the savings on a regular basis.

RESOLVED, that the report be noted.

685. TREASURY MANAGEMENTS ACTIVITIES

The DCFO provided an update on the half yearly position in relation to treasury management activity. The report follows the standardised simplified format that members have previously received. There were no questions from members.

686. POINT FOR CONSIDERATION BY THE COMMISSIONER AND THE CHIEF CONSTABLE

There were no matters raised.

Meeting ended at 12:45

Future JAC Meeting Dates (For Information)

16th March 2022 @ 10.30am – Conference Room 2/Microsoft Teams
22nd June 2022 @ 10.30am – Conference Room 2/Microsoft Teams
21st September 2022 @ 10.30am – Conference Room 2/Microsoft Teams
23rd November 2022 @ 10.30am – Conference Room 2/Microsoft Teams
22nd March 2023 @ 10.30am – Conference Room 2/Microsoft Teams

Future Police & Crime Panel Meeting Dates (For Information)

25 January 2022 – Conference Room A/B, Cumbria House, Botchergate, Carlisle, CA1 1RD
5 April 2022 – Venue TBC
19 July 2022 – Venue TBC

Signature______________________________ **Date______________________**

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Joint Audit Committee – Action Update and Plan

Minute Item and date of Meeting	Action to be taken	Person Responsible	Target Date	Comments	Status
653 Action No 1 (23/06/21)	Internal Audit – Annual Report	JCFO	Sep 2021	The JCFO to discuss as substantial item with Collaborative Board and provide members with the feedback on the effectiveness and value of the consultancy work. **October 2021** – A verbal update will be provided at the meeting on 17 November.	Completed
(17/11/21)	New Action	JCFO	Mar 2022	In relation to internal audit Consultancy work, the JCFO to prepare a report a report for the next JAC meeting detailing any benefits gained, lessons learnt and whether there would be any benefit of doing this work in the future. **March 2022** – This has been included as a substantive agenda item at 07.	
659 (23/06/21)	Financial Management Code	DCFO	Mar 2022	The DCFO to provide an update on progress on all actions from this report and record this in the JAC action sheet. Members were asked to note the progress made and its implementation. **October 2021** – An update will be provided as part of the March 2022 JAC meeting. **March 2022** – This has been included as a substantive agenda item at 22.	Completed
673 (17/11/21)	Minutes Matter Arising 4/11/2021	Finance Apprentice	Mar 2022	To contact Chair to arrange for minutes to be signed IR Emailed Chair with Minutes from 4/11/21 for signature	Completed

Minute Item and date of Meeting	Action to be taken	Person Responsible	Target Date	Comments	Status
676a (17/11/21)	OPCC Strategic Risk Register	CE & DCC	Mar 2022	The CE and DCC to discuss outwith the LGR, what potential risks there could be for the OPCC and Constabulary and populate the risk register(s) **March 2022** CC - At COG 21/02/22 the ACC considered the potential risks in relation to the fire business case and determined that at this stage it was too early to include anything on the SRR. Once the outcome of the business case is known, risks will be added as appropriate. PCC - The risks have been considered and included on the risk register (see agenda item 10a)	Completed

Joint Audit Committee – Review of Effectiveness Action Plan 2021/22

Ref	Improvement Area	Planned Action	Owner	Review Date	Status
JAC1	Support and monitor the OPCC and Constabulary plans to address the ongoing funding environment.	Members to maintain awareness of the national position in relation to the Funding Formula; to receive annual training on the budget and MTFP and consider as appropriate the arrangements flowing from significant changes in funding levels. JAC members to consider efficiency aspects of any recommendations or reports to Committee.	JAC	March 2022	JAC1
JAC2	Support and challenge any new governance arrangements, for example, from restructuring and capacity reviews including Operation Uplift; greater collaboration with other organisations; joint working on delivery of services, such as Local Focus Hubs or external factors such as COVID19.	JAC to encourage clarity in any new arrangements; appropriate documentation including in Financial Regulations and ensure governance arrangements considered as part of the risk assessment.	JAC	March 2022	JAC2
JAC3	Consider the impact of new or emerging developments, including COVID19 on internal and external audit work programmes to ensure that they remain relevant.	Members to continue maintain awareness of issues through corporate updates and wider reading and seek to understand how this impact on governance arrangements. JAC to consider on an ongoing basis how the work of the Committee and the internal and external audit work programmes remain relevant.	JAC	March 2022	JAC3

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Item 07

The Police and Crime Commissioner for Cumbria & the Chief Constable for Cumbria Constabulary

Report on the Value and Future Direction of Audit Advisory / Consultancy Work.

Report to the Joint Audit Committee 16 March 2022

Report of the Joint Chief Finance Officer

1. Introduction and Background

1.1. This report summarises the outcome of advisory / consultancy style work undertaken by the Shared Audit Service as part of the internal audit plan in 2019/20 and 2020/21 as requested by members of the Joint Audit Committee. It also provides future a direction of travel in relation to the commissioning of future audit advisory / consultancy work.

2. Detail

2.1. In an effort to maximise the usefulness of the work undertaken by the Cumbria Shared Internal Audit Service to the Constabulary and PCC, the internal audit plan for 2019/20 and 2020/21 included time for advisory / consultancy work. The commissioning of such work is also consistent with Public Sector Internal Audit Standards (PSIAS), which promote a wider remit for internal audit work beyond the normal assurance audits. It should also be stressed that advisory /consultancy work, whilst forming part of the audit plan, is in addition to rather than replacing planned risk based audits. Whilst the findings of such work may be considered, they are unlikely to have any significant impact on the Head of Internal Audit's annual opinion.

2.2. A total of three advisory / consultancy style audits were undertaken, the results of which are summarised below. A further piece of consultancy work planned for 2021/22, in relation to the Constabulary's use of Estates going forward, will not now proceed, as it is felt that the timing is not right for this to deliver useful benefits.

2.3. Seized Dogs - Against a background of escalating demand and costs of kennelling seized dogs, the work undertaken by Internal Audit was of a high standard and provided useful suggestions to improve the management and the costs of housing seized dogs.

2.4. Vehicle Usage - This report provided assurance that the Constabulary adopts a strategic approach to fleet management, with the Strategic Vehicle Group playing a key role in advising on the composition and replacement schedule for the fleet. At a more tactical level assurance was provided that some work is undertaken to optimise vehicle utilisation by moving vehicles between locations and departments. Recommendations were made in terms of the need for a full fleet review in light of local and national factors impacting on the Constabulary's transport needs over the next few years and the usefulness of specific reviews on the utilisation of different vehicle types.

2.5. Front Counters - Again, this was a good report, which independently re-affirmed the perception that front counters are under-utilised by the public.

2.6. When the 2019/20 audit plan was approved, members of the Joint Audit Committee were clear that they wanted further assurance regarding the value and benefits provided by audit advisory /consultancy work. To this end the Head of Internal Audit reported on lessons learned to date to the JAC on the 18th March 2020, which indicated that advisory / consultancy work was of value but that the process was resource intensive and should be limited to one large piece of work per annum and that this should be aligned to a corporate priority.

2.7. Following discussions with members of the Collaborative Board, it was concluded that whilst the advisory / consultancy work undertaken by the internal audit Service was of value, the number of business areas where internal audit would be likely to have the specialist knowledge to undertake in depth analysis may be limited and as a result no further advisory / consultancy work would be planned at the current time. However, this does not preclude the possibility of commissioning work from the new internal audit provider in the future should an opportunity arise.

CUMBRIA POLICE & CRIME COMMISSIONER AND CUMBRIA CONSTABULARY JOINT AUDIT COMMITTEE

Meeting date: 16 March 2022

From: Audit Manager (Cumbria Shared Internal Audit Service)

INTERNAL AUDIT: PROGRESS REPORT TO 1ST MARCH 2022

1.0 Executive Summary

1.1 This report provides a review of the work of Internal Audit for the period to 1st March 2022.

1.2 Key points are:

- All work in the 2021/22 plan has started. Work is progressing to complete the plan. Nine reviews are complete, and six reviews are in progress.

- At this stage of the year, it is anticipated that sufficient coverage will be achieved to enable the Head of Internal Audit to deliver the annual opinions.

- The advisory / consultancy piece of work on Use of estates moving forward has been removed from the plan and this has been agreed with Collaborative Board as it was felt that the timing was not right for this review to deliver useful benefits. This review was not an assurance piece of work so its removal will not impact on the Head of Internal Audit's annual opinions. The annual fee will be reduced by £6,414.25 to reflect that this review will not be undertaken.

- The current Shared Service agreement comes to an end on 31st March 2022. Although all remaining audit reviews are now in progress it has still been challenging delivering the reviews. We are continuing to work closely with the Joint Chief Finance Officer to progress the audit plan so that all work can be concluded in time for the Head of Internal Audit's annual opinions.

Overview

1.3 Internal Audit's work is designed to provide assurance to management and Joint Audit Committee members that effective systems of governance, risk management and internal control are in place in support of the delivery of the PCC and Constabulary's priorities.

1.4 The Audit Plan aims to deliver a programme of internal audit reviews designed to target the areas of highest risk as identified through the corporate risk registers together with management and Internal Audit's view of key risk areas.

1.5 The Accounts and Audit Regulations March 2015 impose certain obligations on the PCC and Chief Constable, including a requirement for a review at least once in a year of the effectiveness of their systems of internal control.

1.6 Internal Audit must conform to the Public Sector Internal Audit Standards (PSIAS) which require the preparation by the Head of Internal Audit of an annual opinion on the overall systems of governance, risk management and control. Regular reporting to Joint Audit Committee enables emerging issues to be identified during the year.

2.0 Recommendation

2.1 Joint Audit Committee members are asked to note the report.

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 must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the PSIAS or guidance.

3.2 Internal audit is responsible for providing independent assurance to the PCC and Chief Constable and to the Joint Audit Committee on the systems of governance, risk management and internal control.

3.3 It is management's responsibility to establish and maintain internal control systems and to ensure that resources are properly applied, risks appropriately managed and that outcomes are achieved. Management is responsible for the system of internal control and should set in place policies and procedures to ensure that controls are operating effectively.

3.4 The internal audit plan for 2021/22 was prepared using a risk-based approach and following consultation with senior management to ensure that internal audit coverage is focused on the areas of highest risk to both organisations. The plan has been prepared to allow the production of the annual internal audit opinions as required by the PSIAS.

3.5 This report provides an update on the work of internal audit for the period to 1st March 2022. It reports progress on the delivery of the 2021/22 audit plan and includes a summary of the outcomes of audit reviews completed in the period.

Status of internal audit work as at 1st March 2022

3.6 The table below shows the number of internal audit reviews completed, in progress and still to be started for the 2021/22 audit. Further detail on this is included at Appendix 2.

Audit Status	Number of reviews
Audits completed: Risk based audits Financial systems	**9** 7 2
Audits in progress: Risk based audits Advisory work Governance work	**6** 5 0* 1
Audits in plan	**15***

*The review of Use of Estate moving forward has been removed from the plan following consultation with management. As this was an advisory / consultancy piece of work it does not impact on the number of reviews which contribute to the Head of Internal Audit's Annual Opinions. The audit fee will be reduced to take account of this.

Outcomes from Final Audit Reports to 1st March

3.7 Six audits have been completed since the last progress report to Joint Audit Committee on 17th November 2021, bringing the total number of completed reviews to nine.

- As reported to the November 2021 JAC meeting the audits of the OPCC's agile workforce and complaints review process both received substantial assurance and the review of the Constabulary's agile workforce received reasonable assurance.

- Of the work completed since the last JAC meeting:

  - the risk based audit review of the Constabulary's COVID-19 response received substantial assurance;

  - two risk based audits for the Constabulary received reasonable assurance. These were the Digital Leadership Programme and Preparedness for the McCloud Remedy;

  - two financial systems reviews have been completed (payroll and inventory), both received reasonable assurance;

  - the audit of the Benefits Delivery Process received partial assurance. This is the same assurance as the previous review during 2020/21. Our audit found that some progress has been made but arrangements had not progressed sufficiently for us to test them. We found that quarterly reporting to COG and governance boards, which was reported to JAC in November 2021 as being completed, is not yet in place.

3.8 The detailed outcomes from the finalised audits are shown in Appendix A. Members have received copies of the finalised audit reports for information and consideration and reports are included on the Agenda for this meeting should members want to discuss them.

Draft Reports Issued to 1st March

3.9 There are no reviews at draft report stage at 1st March 2022 but all remaining work in the audit plan has been started and is ongoing.

Matters to be brought to the attention of the Joint Audit Committee

3.10 At the Joint Audit Committee meeting in September 2020 it was agreed that we would highlight any matters to be brought to the attention of members in our progress report. We can report that the completed reviews, and work in progress to date, have not identified any significant issues regarding risk management, governance and internal controls which we need to bring to the attention of the Committee.

3.11 However, we would draw the following issues to JAC members attention:

  - as part of our work on the Benefits Delivery Process we identified that quarterly reporting to COG and governance boards was not yet in place despite being reported as complete to JAC in November 2021.

- the review of Use of Estate moving forward has been removed from the audit plan following consultation with management as it was agreed that the timing was not right for this review to deliver useful benefits. As this was an advisory / consultancy review it won't impact on the number of reviews which contribute to the Head of Internal Audit's Annual Opinions. The audit fee will be reduced by £6,414.25 to take account of the removal of the advisory / consultancy review.

Sufficiency of coverage for 2021/22 Annual Opinions

3.12 Work in this year's plan is progressing and all reviews are either complete or in progress. Based on the nine completed reviews to date, 89% have received reasonable or substantial assurance. This is consistent with the final position in 2020/21 where 85% of completed audit reviews received reasonable or substantial assurance.

3.13 When we reported to JAC in November 2021 we stated that we had experienced some challenges in getting work started. Although all remaining audit reviews are now in progress it has still been challenging delivering the reviews. We are continuing to work closely with the Joint Chief Finance Officer, meeting fortnightly, to help progress work within the Constabulary. We expect that all work in the plan will be completed in time for the Head of Internal Audit to provide the annual opinions for both organisations.

Emma Toyne
Audit Manager
March 2022

APPENDICES

Appendix 1 : Final reports issued to 1st March 2022
Appendix 2 : Progress on all risk based audits from the 2021/22 plan
Appendix 3 : Internal audit performance measures to 1st March 2022

Contact: Emma Toyne, Audit Manager, Cumbria Shared Internal Audit Service.
emma.toyne@cumbria.gov.uk

Appendix 1 – Final reports issued to 1st March 2022

Assignments	Status	Assessment
Agile workforce (OPCC)	Report circulated to members of the Joint Audit Committee and included in 17th November Committee papers for discussion at the meeting if required. Report available on the Commissioner's website.	Substantial
Agile workforce (Constabulary)	Report presented to Joint Audit Committee at 17th November 2021 meeting. Report included in Committee papers and available on the Commissioner's website.	Reasonable
Complaint Review Process (OPCC)	Report circulated to members of the Joint Audit Committee for consideration. Report available on the Commissioner's website.	Substantial
Financial systems – Payroll	Report circulated to members of the Joint Audit Committee for consideration. Report available on the Commissioner's website.	Reasonable
Benefits delivery process	Report circulated to members of the Joint Audit Committee for consideration. Report available on the Commissioner's website.	Partial
Digital Leadership Process	Report circulated to members of the Joint Audit Committee for consideration. Report available on the Commissioner's website.	Reasonable
COVID-19 response	Report circulated to members of the Joint Audit Committee for consideration. Report available on the Commissioner's website.	Substantial
Preparedness for McCloud Remedy	Report circulated to members of the Joint Audit Committee for consideration. Report available on the Commissioner's website.	Reasonable
Financial systems - Inventory	Report circulated to members of the Joint Audit Committee for consideration. Report available on the Commissioner's website.	Reasonable

Appendix 2 – Progress on 2021/22 Audit Plan

OPCC / Constabulary Review	Audit	Stage	Feedback form returned
Constabulary / OPCC	Financial sustainability	Fieldwork	N/A
Constabulary / OPCC	Benefits delivery process	Completed	N/A – Not yet due. Form issued 25/02/22
Constabulary	Establishment processes (Recruitment)	Fieldwork	N/A
Constabulary	New Business Transformation Project (BTP) finance (Phase 2)	Fieldwork	N/A
Constabulary	New Business Transformation Project (BTP) Duties Management	Fieldwork	N/A
Constabulary	Digital leadership Programme	Completed	N/A – Not yet due. Form issued 24/02/22
Constabulary	Agile workforce	Completed	No. Final report issued 11/10/21. Reminders sent 27/10/21 and 24/02/22.
OPCC	Agile workforce	Completed	Yes
Constabulary	Resource allocation / workforce planning.	Fieldwork	N/A
Constabulary	COVID-19 and the organisation's response to COVID-19	Completed	N/A – Not yet due. Form issued 28/02/22

Appendix 2 – Progress on 2021/22 Audit Plan

OPCC / Constabulary Review	Audit	Stage	Feedback form returned
OPCC	Complaint review process	Completed	Yes
Constabulary	Preparedness for the McCloud remedy	Completed	N/A – Not yet due. Form issued 24/02/22
Constabulary	Financial systems – Payroll	Completed	Yes
Constabulary	Financial systems - Inventory	Completed	N/A – Not yet due. Form issued 01/03/22
Constabulary	Use of Estate moving forward (advisory / consultancy)	Removed from the plan as agreed by Collaborative Board.	N/A
Constabulary / OPCC	Risk management and governance	On-going. Work will contribute to the Head of Internal Audit's Annual Opinions	N/A
	Attendance at Police Audit Training & Development event	Virtual event attended on 4th and 5th November 2021.	
	Internal audit management		

Key:

Complete	Work in progress	Not yet started

Measure	Description	Target	Actual	Explanations for variances / remedial action required
Completion of audit plan	% of audits completed to final report	38% 95% (annual target)	60%	Target is based on the same period last year which was impacted by COVID-19. Nine reports from the 2021/22 audit plan have been completed to date.
Completion of audit plan	Number of planned days delivered * 281 per shared service agreement plus 10 days carried forward for BTP Finance - Phase 2 less 25 days for Use of estate moving forward which has been removed from the plan.	167 266* (annual target)	201	Target is based on the same period last year.
Audit scopes agreed	Scoping meeting to be held for every risk based audit and client notification issued prior to commencement of fieldwork.	100%	100%	
Draft reports issued by agreed deadline	Draft reports to be issued in line with agreed deadline or formally approved revised deadline where issues arise during fieldwork.	70%	100%	
Timeliness of final reports	% of final reports issued for Chief Officer / Director comments within five working days of management response or closeout meeting.	90%	100%	

Measure	Description	Target	Actual	Explanations for variances / remedial action required
Recommendations agreed	% of recommendations accepted by management	95%	100%	
Assignment completion	% of individual reviews completed to required standard within target days or prior approval of extension by audit manager.	75%	100%	
Quality assurance checks completed	% of QA checks completed	100%	100%	
Follow up	% of high and medium priority audit recommendations implemented by target date	100%	N/A	There are no follow up reviews in the 2021/22 audit plan.
Customer Feedback	% of customer satisfaction surveys returned	100%	100%	Three forms have been returned.
Customer Feedback	% of customer satisfaction survey scoring the service as good.	80%	100%	
Chargeable time	% of available auditor time directly chargeable to audit jobs.	80%	71%	

Cumbria Shared Internal Audit Service

Internal Audit report for Cumbria Constabulary / Cumbria OPCC

Audit of Payroll

Draft Report Issued: 28 January 2022

Final Report Issued: 17 February 2022

Audit Resources

Title	Name	Email	Telephone
Audit Manager	Emma Toyne	emma.toyne@cumbria.gov.uk	07810 532759
Lead Auditor	Janice Butterworth	janice.butterworth@cumbria.gov.uk	07775 113426

Audit Report Distribution

For Action:	Ann Dobinson, Head of Central Services Stuart Henderson, Senior ICT Project Manager
For Information:	Michelle Bellis, Deputy Chief Finance Officer Roger Marshall, Joint Chief Finance Officer Stephen Kirkpatrick, Director of Corporate Support
Audit Committee:	The Joint Audit Committee which is due to be held on 16th March 2022 will receive the report.

Note: Audit reports should not be circulated wider than the above distribution without the consent of the Audit Manager.

Executive Summary

Background

This report summarises the findings from the audit of **Payroll**. This was a planned audit assignment which was undertaken in accordance with the 2021/22 Audit Plan.

The payroll processing function is undertaken by the Central Services Department (CSD). The department currently administer the monthly salaries of approximately 2,080 Constabulary officers and staff with a cost of £4.1m per month and 25 OPCC staff at £38,000 per month.

A new Crown Duties Management System was implemented in February 2021. The system specification includes automated overtime, unsocial hours and TOIL claims. Output files from the Crown system are uploaded to the payroll system for payment. Checks and validations are carried out within the Resource Co-ordination Team prior to uploading the file to CSD for payroll processing. CSD checks are carried out on the payroll file prior to upload for payment.

At the time of this audit the Crown system implementation project was regarded as complete and business as usual. A Service Design Project is currently underway to determine how the Team should be resourced and structured, this work is due for completion in March 2022. A review of the duties management element of the Crown system is included in the 2021/22 internal audit plan and this also intrinsically links to workforce planning and resource allocation which is currently being reviewed by Internal Audit.

Audit Approach

Audit Objectives and Methodology

Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems. A risk based audit approach has been applied which aligns to the five key audit control objectives. Detailed findings and recommendations are set out within the Management Action Plan.

Audit Scope and Limitations

The Audit Scope was agreed with management prior to the commencement of this audit review. The Client Sponsor for this review was Ann Dobinson, Head of Central Services. The agreed scope of the audit was to provide assurance over management's arrangements for governance, risk management and internal control in the following areas:

- Processes around TOIL, Unsocial Hours and Overtime output files from the Crown Duty Management System and the subsequent checks prior to upload to payroll;
- New starters – Police Officers and Staff.

There were no instances whereby the audit work undertaken was impaired by the availability of information.

Confirmation that controls are in place to ensure that employee records can only be created in the payroll system where an authorised post exists was not tested as part of this review as it is being picked up as part of the audit of Resource Allocation / Workforce Planning which is currently underway.

Assurance Opinion

Each audit review is given an assurance opinion and this provides Joint Audit Committee and Officers with an independent assessment of the overall level of control and potential impact of any identified system weaknesses. There are 4 levels of assurance opinion which may be applied. The definition for each level is explained in **Appendix A.**

From the areas examined and tested as part of this audit review, we consider the current controls operating within Payroll provide **Reasonable Assurance**.

Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.

Summary of Audit Findings and Recommendations

Controls were operating effectively in the following areas:

- A process map has been produced setting out the processes to be undertaken within the Resource Co-ordination Team and Central Services Department (CSD) to ensure that Officer and Staff claims for TOIL, Unsocial Hours and Overtime are correct prior to payment.
- Exception reports are run from the system on a daily / weekly basis and these are reviewed within the Resource Co-ordination Team. Exceptions need to be actioned prior to the payroll file being passed to CSD for processing.
- Audit testing of a sample of changes made to the claims, as a result of the checking process, were correctly reflected in the Officer / Staff pay.
- A monthly timetable has been agreed showing deadlines for payroll files to be extracted from Crown, finalised and sent to CSD. Audit testing confirmed that the deadlines have been adhered to with one exception where there was a system issue which needed to be resolved. CSD were made aware of the issue and the payroll file was provided to them early the following day.
- All correspondence relating to claim queries and additional authorisations are retained within the Duties Overtime Enquiries email folder.
- CSD have prepared a procedure document showing the checks that need to be completed on the Crown pay file prior to the monthly payroll being processed.
- Payroll responsibilities are clearly documented in the Constabulary's Financial Regulations and Financial Rules.
- A New Starter Process document has been prepared by CSD.
- The new starter vetting process is undertaken by the Force Vetting Department who provide CSD with confirmation of clearance.
- A sample of new starters, both Officer and Staff, were selected for testing. New starter information was reconciled to contracts of employment and current salary scales. There is a clear segregation of duties between the member of staff adding the record to iTrent, attaching the employee to payroll and checking it.

The recommendations arising from this review can be summarised as follows:

High	Medium	Advisory	Total
0	1	0	1

The three levels of audit recommendation are defined in **Appendix A**.

Areas for development: Improvements in the following areas are necessary in order to strengthen existing control arrangements:

High Priority Issues: No high priority issues were identified

Medium Priority Issues:

- The claim checks, undertaken within the within the Resource Co-ordination Team, have not been documented in detail.

Advisory issues: No advisory issues were identified

Director of Corporate Support and Joint Chief Finance Officer Comments

I am pleased that the audit report has revealed that internal controls in relation to payroll continue to operate effectively and that checks on overtime, TOIL and are operating as designed. This is particularly important as overtime expenditure is significant and recording overtime worked in Crown Duties is a new process. The recommendation that checks on overtime processes in Crown be fully documented is accepted and will be addressed as indicated in the management response.
Roger Marshall Joint CFO

I support and echo the Joint CFO's observations and feel that this audit review has given assurance that payroll services continue to operate in a secure and effective manner. The review highlighted that controls were in place and operating effectively across all areas, which is a testament to the approach and diligence of all involved. As observed, the recommendation to improve the process (incl. documentation) within the Resource Coordination function is accepted and will be actioned.

Stephen Kirkpatrick, Director of Corporate Support

Management Action Plan

Medium Priority

<table>
<tr><th>Audit finding</th><th>Management response</th></tr>
<tr><td>Documented procedures for checking monthly claims prior to file transfer
Staff within the Resource Co-ordination Team undertake a variety of daily and monthly checks on the overtime, unsocial hours and TOIL claims to ensure payments are authorised, based on legitimate time worked, and claimed in line with police overtime regulations.

Exception reports are produced and checked daily for issues including incorrect codes selected when planned overtime is input to Crown, missing cost centre codes, overtime in excess of 4 hours (additional authorisation required if claim is over 10 hours or crosses into the following day), unsocial hours paid for overtime where staff member already receives an enhancement and checking that deductions are correct.

Procedures for carrying out the various checks have not been documented e.g. which systems or reports should be reviewed to confirm accuracy of the claim including that deductions are correct.</td><td rowspan="2">Agreed management action:
Note and agree the recommendation, whilst the checks are detailed as part of the process map we will formalise these into a monthly procedure document.

Action – A monthly checklist document will be produced with a list of each step of the process map that needs to be completed, which will be version controlled with the date and signature the action was carried out and who by. This checklist will be used each month through the process until the file has been sent to CSD for checking and then continue their stage.

This will be implemented ahead of the next Payroll run due March w/c 07/03/22.</td></tr>
<tr><td>Recommendation:
Details of the various checks to be undertaken within the Resource Co-ordination Team on monthly claims should be documented.</td></tr>
<tr><td>Risk exposure if not addressed:
• Payments are made in error due to inconsistencies in the checking process.</td><td>Responsible manager for implementing:
Karen Thomson – Resource Coordination Team Leader</td></tr>
</table>

	Date to be implemented: March 2022

Appendix A

Audit Assurance Opinions

There are four levels of assurance used, these are defined as follows:

Assurance Level	Definition
Substantial	Sound frameworks of governance, risk management and internal control are in place and are operating effectively. Recommendations, if any, will typically be no greater than advisory.
Reasonable	Frameworks of governance, risk management and internal control are generally sound with some opportunities to further develop the frameworks or compliance with them. Recommendations will typically be no greater than medium priority.
Partial	Weaknesses in the frameworks of governance, risk management and/or internal control have been identified or there are areas of non-compliance with the established control framework which place the achievement of system / service objectives at risk. Recommendations will typically include high and medium priority issues.
Limited	There are significant gaps in the governance, risk management and/or internal control frameworks or there are major lapses in compliance with the control framework that place the achievement of system / service objectives at significant risk. Recommendations will include high priority issues.

Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are three levels of audit recommendations used; high, medium and advisory, the definitions of which are explained below:

Grading	Definition
High	A recommendation to address a significant gap in governance, risk management or internal control frameworks or to address significant non-compliance with controls in place.
Medium	A recommendation to address a gap in governance, risk management or internal control frameworks or to address aspects of non-compliance with controls in place.

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Cumbria Shared Internal Audit Service

Internal Audit report for Cumbria Constabulary

Audit of the Digital Leadership Programme

Draft Report Issued: 21st February 2022

Final Report Issued: 24th February 2022

Audit Resources

Title	Name	Email	Telephone
Audit Manager	Emma Toyne	emma.toyne@cumbria.gov.uk	07810532759
Lead Auditor	Sarah Fitzpatrick	Sarah.fitzpatrick@cumbria.gov.uk	07464522833

Audit Report Distribution

For Action:	Jonny Blackwell (T/Assistant Chief Constable)
Audit Committee:	The Joint Audit Committee which is due to be held on 16th March 2022 will receive the report.

Note: Audit reports should not be circulated wider than the above distribution without the consent of the Audit Manager.

Executive Summary

Background

This report summarises the findings from an audit of the **Digital Leadership Programme**. This was a planned audit assignment which was undertaken in accordance with the 2021/22 Audit Plan.

The Digital Leadership Programme is important to the organisation because it helps to build digital knowledge and skills throughout the force as the nature of crime changes and evolves, reliance on digital technology increases and more agile ways of working develop. This contributes to the strategic priority of making Cumbria even safer and the delivery of objectives in the Police and Crime Plan for Cumbria 2016-20 and Vision 2025.

The Digital Leadership Programme (DLP) was developed by Cumbria Constabulary and Durham Constabulary in collaboration. It is a new digital approach to training, delivered entirely remotely through a series of mandatory, bespoke learning modules developed for managers in both forces. There are bronze, silver and gold level versions of the programme and both officers and staff are included. The programme is delivered digitally via Teams for completion within a specified number of weeks and comprises various modules focussed around digital thinking. Areas covered by the programme include information security, remote tasking and briefing, digital evidence and intelligence and digital engagement. Use is made of case studies to test and apply programme learning.

Audit Approach

Audit Objectives and Methodology

Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation’s governance, operations and information systems. A risk-based audit approach has been applied which aligns to the five key audit control objectives. Detailed findings and recommendations are set out within the Management Action Plan.

Audit Scope and Limitations

The Audit Scope was agreed with management prior to the commencement of this audit review. The Client Sponsor for this review was T/ACC Jonathan Blackwell. The agreed scope of the audit was to provide assurance over management's arrangements for governance, risk management and internal control around the following:

- **Design of the programme** – testing responsiveness to current changes in short term and long term demand. Testing will cover plans for both police officers and police staff.
- **Delivery of the Programme across each of the three elements** (bronze, silver and gold). Areas of focus will include monitoring attendance and flexibility of delivery, cost (non-financial cost and sharing resources across two forces), feedback and evaluation, arrangements for senior management oversight of progress and issues.
- **Skills and knowledge -** arrangements for ensuring skills and knowledge relayed through the programme are put into practice in the workplace.
- **Plans on future model continuous development** – arrangements to develop the Programme on an ongoing basis.

It should be noted that audit work undertaken was impaired by the availability of information regarding the gold level programme as it was just launching at the time the audit review commenced and as a result information on the gold level programme was not available for us to consider.

Assurance Opinion

Each audit review is given an assurance opinion, and this provides Joint Audit Committee and Officers with an independent assessment of the overall level of control and potential impact of any identified system weaknesses. There are 4 levels of assurance opinion which may be applied. The definition for each level is explained in **Appendix A.**

From the areas examined and tested as part of this audit review, we consider the current controls operating around the Digital Leadership Programme provide **Reasonable Assurance**.

Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.

Summary of Audit Findings and Recommendations

Controls were operating effectively in the following areas:

Governance

- There is a designated strategic lead for the Digital Leadership Programme.
- There is clear and visible senior management commitment to the Digital Leadership Programme. The Chief Constables of both forces have established this support through staff video messages and bulletins.

Design of the programme

- There was full consultation across both forces during the development of the training package for the Digital Leadership Programme to ensure there was clear understanding and prioritisation of requirements. Operational business leads were identified in both forces to collaborate on the design and delivery of each training module and ensure needs and priorities were met.
- The Digital Leadership Programme was designed to be flexible and accessible, providing delegates with a choice of dates and times for each module and 15 weeks to complete the programme. The learning was created in succinct blocks to fit in with work schedules.

Delivery of the Programme across each of the three elements

- The Digital Leadership Programme was pitched at different managerial levels of police officer (bronze, silver and gold), and also tailored to police staff supervisors and managers. This provided all leaders with an opportunity to expand their digital knowledge and strengthen their digital skills.
- Arrangements were in place to collect and report course attendance data during programme delivery for management attention and follow up. There are examples of low attendance being raised with management and follow up action being agreed.
- There was no additional cost to running the programme, time came out of existing resources and was shared across the two forces.

Skills and knowledge

- Arrangements were in place to seek delegate feedback at the end of each module to identify areas of improvement, understand changing requirements and continuously adjust the programme to better meet needs. For instance, initial feedback from police staff supervisors and managers highlighted elements of the course that were not relevant to them. As a result, the programme content was tailored to make it more suitable for police staff.

Plans on future model continuous development

- It is clear that the Digital Leadership Programme has generated a lot of interest nationally and is considered to be an innovative and useful approach to police training. HMICFRS echoed this in a report published following a PEEL assessment on Durham Constabulary in 2021/22. Discussions have taken place with the Chief Constables of other UK police forces and presentations have been delivered to the Police Digital Service (PDS), the College of Policing, the Home Office Transformation Team and the Institute for Cyber Digital Investigation Professionals (ICDIP). Support is now in place to launch a national Digital Leadership Academy, commencing with Lancashire and Humberside police forces in March 2022.

The recommendations arising from this review can be summarised as follows:

High	Medium	Advisory	Total
0	**2**	**0**	**2**

The three levels of audit recommendation are defined in **Appendix B**.

Areas for development: Improvements in the following areas are necessary in order to strengthen existing control arrangements:

High Priority Issues: none identified

Medium Priority Issues:

- The governance arrangements around programme updates and progress reports to senior management, which we were informed of during the audit, could not always be demonstrated / evidenced.

- Arrangements were not put in place to ensure that the skills and knowledge relayed through the programme were actually put into practice in the workplace and reported upon.

Advisory issues: none identified

T/Assistant Chief Constable Comments

Thank you to the auditors for their work interviewing staff from two forces which has been difficult in terms of arrangements and planning.

Management Action Plan

Medium Priority

Audit finding	Management response
Governance Internal Audit was provided with evidence of four updates on DLP delivery being presented to senior management. Two were presented to the Digital Transformation Board chaired by the Director of Corporate Support and one to the Information Management Board chaired by the Deputy Chief Constable. It is understood from the DLP strategic lead that senior management oversight of the programme was maintained throughout delivery and regular progress reports and updates were produced. However, the nature of the collaboration meant that they often went to management boards / groups within Durham Constabulary, rather than Cumbria and for this reason there were gaps in the level of senior management oversight in Cumbria. There is also no evidence of a final report and evaluation of the programme, including participation numbers and benefits being prepared and presented to senior management in Cumbria. It was evident from audit discussions with those involved in planning and delivery that programme meetings were limited during development and implementation of the DLP. Assurance was given to Internal Audit that arrangements were thoroughly discussed, and sound decisions were made but this took place via telephone calls or emails. This meant that agendas, decision logs and minutes of meetings were not available to clearly capture and evidence discussions, challenges and contributions, actions agreed, or decisions made and the rationale behind them.	Agreed management action: The DLP goes from strength to strength and has developed in to a National Digital Leadership Academy. Whilst governance between two forces can be more difficult, especially when innovating, the focus needs to be on the innovation and ambition. The programme was successfully delivered across two forces and whilst it was not presented to both forces as per the audit findings it was mitigated through a joint Chief Superintendent leading for both forces at that senior level. A debrief will take place and lessons learned will be disseminated.

It is clear that the pace of DLP design and delivery, combined with the two-force approach impacted on the ability to clearly demonstrate the full governance arrangements.	
Recommendation 1: There are lessons to be learnt from the implementation of the DLP programme regarding the ability to demonstrate good governance arrangements. These lessons should be applied to future collaborative projects.	
Risk exposure if not addressed: • Lack of accountability. • Reduced ability to respond to challenge. • Reputational Damage	Responsible manager for implementing: ACC Blackwell Date to be implemented: 09/2022

Medium Priority

Audit finding	Management response
Skills and Knowledge Arrangements to ensure that the skills and knowledge relayed through the programme were actually put into practice in the workplace and reported upon are not fully established. As with all training and development activity, programme participants were encouraged to take their training back into the workplace as part of their continued development and learning. As the programme evolved, the silver and gold level programmes were developed	Agreed management action: Whilst the programme has been delivered, I agree that how effective we are digitally should be a future focus. That said, the outcome framework is something that is being grappled with nationally. There are no national

to equip managers with the capability to hold their staff to account regarding digital competence and ensure digital skills and knowledge were being fully embedded into policing practices and utilised. Mention was made at an Information Management Board meeting in February 2021 of plans for dip sampling to test learning. These plans were not progressed. The potential to develop performance measures and clearly demonstrate the impact of the leadership programme was not fully explored and implemented. Examples might have included measures around online security incidents, victim satisfaction through agile engagement and digital investigation standards to gauge performance before, during and after the programme. Opportunities have not been taken to measure, fully demonstrate and report on the value and impact of the programme and how it contributes to strategic policing priorities.in Cumbria.	standards, national performance frameworks or national APP guidance or other available guidance. As we are innovating in a field ahead of all other police forces, its stands to reason that we will have to create a measured outcome framework. This will be done as part of the Digital Leadership Academy working with other forces and national bodies.
Recommendation 2: Measures to demonstrate the impact of training and development in the workplace should be considered during the development of future training programmes.	
Risk exposure if not addressed: • Failure to achieve strategic objectives. • Wasted resources. • Reputational damage.	Responsible manager for implementing: ACC Blackwell Date to be implemented: 09/2022

Appendix A

Audit Assurance Opinions

There are four levels of assurance used, these are defined as follows:

Assurance Level	Definition
Substantial	Sound frameworks of governance, risk management and internal control are in place and are operating effectively. Recommendations, if any, will typically be no greater than advisory.
Reasonable	Frameworks of governance, risk management and internal control are generally sound with some opportunities to further develop the frameworks or compliance with them. Recommendations will typically be no greater than medium priority.
Partial	Weaknesses in the frameworks of governance, risk management and/or internal control have been identified or there are areas of non-compliance with the established control framework which place the achievement of system / service objectives at risk. Recommendations will typically include high and medium priority issues.
Limited	There are significant gaps in the governance, risk management and/or internal control frameworks or there are major lapses in compliance with the control framework that place the achievement of system / service objectives at significant risk. Recommendations will include high priority issues.

Appendix B

Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are three levels of audit recommendations used; high, medium and advisory, the definitions of which are explained below:

Grading	Definition
High	A recommendation to address a significant gap in governance, risk management or internal control frameworks or to address significant non-compliance with controls in place.
Medium	A recommendation to address a gap in governance, risk management or internal control frameworks or to address aspects of non-compliance with controls in place.

Advisory	A recommendation to further strengthen governance, risk management or internal control frameworks or to improve compliance with existing controls.

Cumbria Shared Internal Audit Service

Internal Audit report for Cumbria Constabulary

Audit of Preparedness for McCloud Remedy

Draft Report Issued: 8 February 2022 (amended 17 February 2022)

Final Report Issued: 24 February 2022

Audit Resources

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Audit Report Distribution

For Action:	Michelle Blenkinsopp (Employee Services Technical Officer)
For Information:	Ann Dobinson (Head of Central Services Department) Roger Marshall (Joint Chief Finance Officer)
Audit Committee:	The Joint Audit Committee which is due to be held on 18th March 2022 will receive the report.

Note: Audit reports should not be circulated wider than the above distribution without the consent of the Audit Manager.

Executive Summary

Background

This report summarises the findings from the audit of **Preparedness for McCloud Remedy.** This was a planned audit assignment which was undertaken in accordance with the 2021/22 Audit Plan.

In autumn 2019, the Government accepted a High Court ruling that changes to many public sector schemes introduced in 2015, including the Police Pension scheme, were illegal on the grounds that they were discriminatory. This ruling affects all police officers who were in a police pension scheme prior to 2015 including officers who retired or left the organisation over the last five years.

To remedy the ruling, the Constabulary, along with other Police Forces in the UK, needs to prepare for its implementation. Legislation is still being laid before Parliament and until the full details are known there remains some uncertainty. However, deadlines have been set for implementation and given the anticipated size and scale of the work, preparatory arrangements are underway. This review focuses on the arrangements the Constabulary has in place to prepare for the McCloud Remedy in readiness for the Legislation being passed.

Audit Approach

Audit Objectives and Methodology

Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation’s governance, operations and information systems. A risk-based audit approach has been applied which aligns to the five key audit control objectives. Detailed findings and recommendations are set out within the Management Action Plan.

Audit Scope and Limitations

The Audit Scope was agreed with management prior to the commencement of this audit review. The Client Sponsor for this review was Ann Dobinson (Head of Central Services). The agreed scope of the audit was to provide assurance over management's arrangements for governance, risk management and internal control in the following areas:

- Project planning arrangements in place for the McCloud Remedy
- Governance of the project
- Current and future resourcing of the project

There were no instances whereby the audit work undertaken was impaired by the availability of information.

Assurance Opinion

Each audit review is given an assurance opinion, and this provides Joint Audit Committee and Officers with an independent assessment of the overall level of control and potential impact of any identified system weaknesses. There are 4 levels of assurance opinion which may be applied. The definition for each level is explained in **Appendix A.**

From the areas examined and tested as part of this audit review, we consider the current controls operating around Preparedness for McCloud Remedy provide **Reasonable Assurance**.

Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.

Summary of Audit Findings and Recommendations

Controls were operating effectively in the following areas:

Project planning arrangements

- Planning for the McCloud Remedy has been ongoing since 2020. Whilst a formal plan hasn't been written down (because of the unknowns surrounding the outcome such as the Legislation being delayed) it is clear that the Constabulary has made arrangements for its implementation and continues to prepare in readiness for the legislation being passed, and at the time of our review, they are as prepared for it as they can be. We are informed that the National Police Chief's Council (NPCC) are going to issue a plan for all Forces when they are in a position to do so. This has been discussed, but until Cumbria Constabulary know what the final requirements are they are unable to plan any further.
- A Project Initiation Document (PID) has been prepared by XPS (the Constabulary's pension provider). The PID is the foundation for managing and implementing the McCloud Remedy project on behalf of Cumbria's scheme. At the time of our fieldwork the PID had not been signed as some clarification was being sought by the Constabulary. We were informed that signature of the PID is imminent.
- Data cleansing has taken place on claimant data and against XPS data.
- Some initial work has been carried out on calculations and the Constabulary expect that XPS will provide the data for checking, shortly after the PID is signed. Planning for receipt of the data from XPS has taken place.

Governance

- The Chief Constable, as Scheme manager, has been provided with updates on the McCloud Remedy (for example, the Chief Constable briefing document dated 5th July 2021).
- The Head of Central Services is the Constabulary's nominated lead for the McCloud Remedy.
- Arrangements are in place to ensure that key officers are kept up to date on progress with the McCloud Remedy through the Pensions Challenge (Cumbria Police) Board meetings. All Board meetings held have been attended by the Head of Central Services, Employee Services Technical Officer, Joint Chief Finance Officer, Deputy Chief Finance Officer and an HR Representative. Legal Services and the Federation have attended some Board meetings.
- Finance updates are a standing agenda item at Board meetings.
- The Constabulary is engaged with national networks (National Police Chiefs Council (NPCC) steering group) to ensure that it is up to date with the requirements, is kept aware of when legislation is due to be laid before Parliament and to be able to influence / have

input to the process. The NPCC Steering Group includes representatives from the Home Office and Force Remedy Leads. In addition to the formal meetings there are informal sessions with the NPCC lead where specific topics are chosen as an area of focus. Engagement on a national level put the Constabulary in a sound position to implement the Remedy.

- The McCloud Remedy is included in the pensions risk register. The Pensions provider (XPS) RAID log includes a risk tab.
- An Immediate Detriment Policy is in place and procedures for CSD to follow for Immediate Detriment have been documented (Immediate detriment refers to the cases of members who have already retired or who will do so in the near future). Decisions regarding policy were taken to and agreed by Workforce Board in November 2021.
- In line with NPCC requirements, a dedicated pensions challenge intranet page was set up in July 2020, along with a dedicated email address for the pensions challenge.
- The Employee Services Technical Officer is part of the NPCC Communications Steering Group for McCloud Remedy.

Current and future resourcing

- Resource has been increased to accommodate work on the McCloud Remedy. A dedicated 0.81 FTE (full time equivalent) resource was allocated for a 6 month period to December 2020 to co-ordinate and manage the work. This was increased to a 1 FTE permanent post in March 2021.
- At the time of concluding the audit fieldwork, the Employee Services Technical Officer considered that further additional resource would not be required to move officers from the legacy pension scheme to the reformed scheme as it could be managed within existing workloads. Whilst the full resources required to deliver the remedy aren't yet known, discussions with the Employee Services Technical Officer indicated that this had been discussed with the Head of Central Services and is under constant review. We were informed that, should additional resource be required, arrangements are in place to escalate this to ensure that the timescales and requirements within legislation can be met.
- The financial implications for the Constabulary aren't yet know but the Joint Chief Finance Officer and Head of Central Services attend the North West region pensions board.

The recommendations arising from this review can be summarised as follows:

High	Medium	Advisory	Total
0	1	0	1

The three levels of audit recommendation are defined in **Appendix A**.

Areas for development: Improvements in the following areas are necessary in order to strengthen existing control arrangements:

High Priority Issues: None identified

Medium Priority Issues: The documented governance arrangements for the McCloud Remedy do not correctly reflect the intended / actual arrangements in place.

Advisory issues: None identified

Joint Chief Finance Officer Comments

I am pleased that the internal audit of the preparedness for implementing the McCloud Remedy has judged that the Constabulary has put in place proportionate arrangements, governance and resources for implementing the McCloud remedy, in what is an inherently difficult area, due to the uncertainties over the details of the remedy. We will continue to review the situation to ensure that the implementation process proceeds as smoothly as possible. The recommendation to ensure that the terms of reference accurately reflect the reality the role of the Pension Board is noted and will be acted upon as described in the management action.

Management Action Plan

Medium

Audit finding	Management response
Governance A Pensions Challenge (Cumbria Police) Board has been established. We are informed that the purpose of the Board is to keep key officers in the loop on where the Constabulary are with the McCloud Remedy rather than the Board members working on the remedy. The Board is attended by the Head of Central Services, Employee Services Technical Officer, Joint Chief Finance Officer, Deputy Chief Finance Officer and an HR Representative. Legal Services and the Federation have attended some Board meetings. We are advised that the Board is not a decision making body. A Pension Challenge Project Team is in place and Terms of Reference (ToR) have been prepared and approved by the Board. The ToR state "The purpose of the group is to update the Force on developments in respect of the McCloud Employee Tribunal decision, identify key issues, act as a communication point and provide guidance to support local implementation of remedy (covering prioritisation, resource planning and managing data)". The ToR include the membership of the Project Team. Review of attendance at the Pensions Challenge Board shows the same members attending as per the ToR of the Project Team. The governance arrangements within the ToR state "A monthly Pension Remedy Working Group will take place chaired by the Head of Central Services. Actions will be noted by one of the attendees". We were informed that currently the active Working Group is the Head of Central Services and Employee Services Technical Officer as others are waiting for national progress to be made before they can undertake any work they are required to do. The Terms of Reference for the Cumbria Board were discussed at the most recent Board meeting held on 24th November 2021 and the notes state that the "Board were asked to consider if we should amend the terms of reference for this board to include all pension	Agreed management action A new Terms of Reference for the Pensions Challenge (Cumbria Police) Board will be created which clearly defines its role, expanding to cover all pensions related matters. This Board TOR will reference the role of the Project Team which will provide improved governance and clarity around roles and responsibilities of each group.

related matters and not specifically the pension challenge. This was thought to be a good idea and also invite Mrs Skeer (Scheme Manager)". There appears to be a lack of clarity over whether the ToR referred to here relate to the Pensions Challenge (Cumbria Police) Board or the Pension Challenge Project Team. The frequency of Board meetings has been less regular than anticipated, with some scheduled meetings being cancelled as there hasn't been any progress to report (for example, no meetings were held between 7th April 2021 and 24th November 2021 for the reasons outlined). This is not an unreasonable approach. Although there are arrangements in place in relation to governance for the McCloud Remedy the way these have been documented i.e. ToR does not properly reflect the actual arrangements in place and require review.	
Recommendation 1: The documented governance arrangements for the McCloud Remedy should be reviewed to ensure that they correctly reflect the intended / actual arrangements in place.	
Risk exposure if not addressed: • Roles and responsibilities for governance are unclear	Responsible manager for implementing: Ann Dobinson, Head of Central Services Date to be implemented: 1 April 2022

Appendix A

Audit Assurance Opinions

There are four levels of assurance used, these are defined as follows:

Assurance Level	Definition
Substantial	Sound frameworks of governance, risk management and internal control are in place and are operating effectively. Recommendations, if any, will typically be no greater than advisory.
Reasonable	Frameworks of governance, risk management and internal control are generally sound with some opportunities to further develop the frameworks or compliance with them. Recommendations will typically be no greater than medium priority.
Partial	Weaknesses in the frameworks of governance, risk management and/or internal control have been identified or there are areas of non-compliance with the established control framework which place the achievement of system / service objectives at risk. Recommendations will typically include high and medium priority issues.
Limited	There are significant gaps in the governance, risk management and/or internal control frameworks or there are major lapses in compliance with the control framework that place the achievement of system / service objectives at significant risk. Recommendations will include high priority issues.

Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are three levels of audit recommendations used; high, medium and advisory, the definitions of which are explained below:

Grading	Definition
High	A recommendation to address a significant gap in governance, risk management or internal control frameworks or to address significant non-compliance with controls in place.
Medium	A recommendation to address a gap in governance, risk management or internal control frameworks or to address aspects of non-compliance with controls in place.
Advisory	A recommendation to further strengthen governance, risk management or internal control frameworks or to improve compliance with existing controls.

Cumbria Shared Internal Audit Service

Internal Audit report for Cumbria Constabulary / Cumbria OPCC

Audit of Benefits Delivery Process

Draft Report Issued: 16th February 2022

Final Report Issued: 25th February 2022

Audit Resources

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Audit Report Distribution

For Action:	Adam Sutton, Change Manager
For Information:	Lisa Hogan, Chief Superintendent – Performance, Insight and Analysis Andrew Wilkinson, Superintendent – Insight and Performance Mark Webster, Deputy Chief Constable
Audit Committee:	The Joint Audit Committee which is due to be held on 16th March 2022 will receive the report.

Note: Audit reports should not be circulated wider than the above distribution without the consent of the Audit Manager.

Executive Summary

Background

This report summarises the findings from the audit of the **Benefits Delivery Process**. This was a planned audit assignment which was undertaken in accordance with the 2021/22 Audit Plan.

Benefits delivery is important to the organisation because significant investment is made in projects to achieve organisational benefits linked to the Vision 25 strategy. There is a risk that without a process to record, monitor and manage the delivery of anticipated benefits the organisation won't realise the intended benefits which may impact on the achievement of strategic priorities and delivery of financial savings.

Benefit realisation is a useful way for the Constabulary to demonstrate to stakeholders that it is delivering value for money and improving service delivery. This is important in both enhancing public confidence and in relation to the outcome focussed HMICFRS methodology.

Benefits delivery was reviewed in 2020/21 where it was identified that progress in developing and implementing benefit delivery arrangements had been slower than expected (and impacted by Covid-19), and they were not fully established or embedded. As such, sufficient testing could not be undertaken to provide assurance that the arrangements in place were operating effectively. Benefits Delivery was put back in the audit plan for 2021/22 with the response to the 2020/21 audit stating that work on benefits delivery was being accelerated with a clear plan to address the remaining issues, and that arrangements would be in place by the start of the 2021/22 financial year. In the 'monitoring key audit recommendations' report to Joint Audit Committee (JAC) in November 2021, it was reported that all actions in the 2020/21 audit report were complete.

Audit Approach

Audit Objectives and Methodology

Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems. A risk based audit approach has been applied which aligns to the five key audit control objectives. Detailed findings and recommendations are set out within the Management Action Plan.

Audit Scope and Limitations

The Audit Scope was agreed with management prior to the commencement of this audit review. The Client Sponsor for this review was Lisa Hogan, Chief Superintendent - Insight and Performance. The agreed scope of the audit was to provide assurance over management's arrangements for governance, risk management and internal control in the following areas:

- The identification, recording, monitoring and reporting of benefits;
- Staff awareness and understanding of the new process;
- The treatment of benefits from already established projects;
- The arrangements for the management of unanticipated benefits and identification and reporting of negative impacts or non-delivery issues.

Audit work undertaken was impaired by the availability of information as the benefits delivery process is still not fully in place and embedded. As a result, we have not been able to carry out sufficient testing in all scope areas to provide assurance that the arrangements in place are operating effectively.

Assurance Opinion

Each audit review is given an assurance opinion and this provides Joint Audit Committee and Officers with an independent assessment of the overall level of control and potential impact of any identified system weaknesses. There are 4 levels of assurance opinion which may be applied. The definition for each level is explained in **Appendix A.**

From the areas examined and tested as part of this audit review, we consider the current controls operating within the Benefits Delivery Process provide **Partial Assurance**.

Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.

Summary of Audit Findings and Recommendations

Controls were operating effectively in the following areas:

- A new benefits realisation policy and procedure has been prepared and was approved by the Ops Board in June 2021.
- The benefits realisation policy and procedure is available to staff on the intranet.
- Although not mandatory, training provided on the new benefits process was well attended by Superintendents and Chief Inspectors.
- COG report templates and business case templates have been updated and include a table for benefit information to be recorded in. There is evidence that these are being used.

The recommendations arising from this review can be summarised as follows:

High	Medium	Advisory	Total
1	**0**	**0**	**1**

The three levels of audit recommendation are defined in **Appendix A**.

Areas for development: Improvements in the following areas are necessary in order to strengthen existing control arrangements:

High Priority Issues:

- Not all arrangements to deliver and realise benefits are fully established meaning that new benefit processes are not yet fully embedded. Once the new processes for benefit delivery and realisation are in place and fully embedded it should be ensured that they are effective so that risks of benefits not being realised, value for money not being achieved, and public confidence being eroded do not materialise.

Deputy Chief Constable Comments

I note the findings from the sample-based audit. The core framework for benefits management is in place but there is still work to do to ensure more rigour in application of that process. A key area of work is for staff officers and PAs to ensure that there is effective management of papers, decisions and benefits that pass through COG, and there is a revised process for this being implemented this month. I note the bullet-point management response, and the points laid out cover the main areas that need addressing. It is clear that the Change Manager needs substantial support and a clear mandate to enact the required changes, so I have instructed Ch Supt Hogan to ensure that he is fully supported, that a clear action plan is set to deliver the required steps, and that she manages any barriers to progress that may be encountered by the Change Manager.

DCC Mark Webster
24th February 2022

Management Action Plan

High Priority

Audit finding	Management response
Benefits Delivery Framework A new benefits realisation policy and procedure was approved in June 2021 and training sessions on the new process were held in late June and early July 2021. Progress with the benefit delivery process has been made since last year's audit but has been slower than expected with mechanisms to deliver the policy and procedure not fully developed and not fully embedded. As such, we have been unable to test some arrangements for their adequacy and effectiveness. **Processes not yet fully established / issues identified**: Approval of benefits • The Change Manager has recently identified that some reports which contain benefits may be authorised by governance boards other than COG. This presents a risk that the Change Manager may be unaware of all benefits that have been approved and as a result not all approved benefits are included on the benefits register to be managed and tracked. • The Change Manager has also identified that it is possible that not all COG approved benefits have been identified and included on the register. We were informed that the Change Team are to establish an additional control to ensure all identified benefits are captured on the benefits register. The mechanism will be to contact the Constabulary Secretaries, Staff Officers, and their line manager at the start of every month to request all approved papers from the previous month. Whilst	Agreed management action: *The Change Manager to implement the following actions, overseen by Supt. Andy Wilkinson:* *To be completed by 31/03/2022:* • Ensure ICT/DDAT actions are added to the central register • Ensure Secretaries and Staff Officers respond to the request for benefits that have been agreed • Ensure the processes within Change Team and Police Futures align, including writing a procedure for the administration of benefits. Including an internal SLA of 14 days to add new benefits to the register • Report to COG with current status of Benefits, including update on the register 31/03/2022.

this control appears reasonable, and a recurring reminder to undertake this task has been set in the Change Team members calendars for the first day of each month, it could not be tested as it is only due to start in February 2022. • The Change Manager confirmed that further work needs to be undertaken to identify whether there are any benefits, approved since the new benefits process was introduced, that the Change Team are unaware of, and which need to be included on the benefits register. • A couple of examples of reports containing benefits and their approval by COG were provided for audit testing. However, the benefits could not be traced to the benefits register despite the reports containing the benefits being approved 14 and 70 days before the date of the benefits register. It was stated that these examples highlighted a gap in the process, a delay between paper / decision and updating the register, which the 1st of the month reminder email to secretaries will aim to shorten. When we subsequently confirmed that these benefits had now been included on the benefits register it was noted that the column to record the governance board they had been agreed at had not been completed (we were told that this was an error). <u>Updates from benefits owners</u> • We were informed that the Policing Futures Team will request quarterly benefit updates from benefit owners (an extract from the benefits register and deadline for a response will be included in the update request). Whilst this arrangement appears reasonable, at the time of the audit no updates had been requested so testing could not be undertaken to confirm the effectiveness of it. <u>Reporting to COG</u> • It was reported in the March 2021 update to the Joint Audit Committee that 'a format for quarterly reporting to COG and Governance Boards will be established and in	*To be completed by 30/06/2022:* • Finalise standard format of COG reporting • Report to COG at the end of Q1 2022/2023. This will allow for financial reconciliation vs. 2021/2022 benefits • Establish 'lessons learnt' process

place by 31/03/21'. Quarterly reporting to COG is referenced in the benefit realisation policy and procedure, however it is yet to be established. Reporting is under development, with a report template for this still to be finalised. The aim is for COG to receive their first benefit update report by the end of the 2021/22 financial year. As such, no testing could be undertaken on this area. <u>Risks</u> • It was stated that risks to benefit delivery and any non-delivery issues should be included in the quarterly updates provided by benefit owners. Again, whilst this control appears reasonable, we have been unable to test it as no updates have yet been requested from benefit owners. <u>Quality Assurance</u> • The Change Manager informed us that, in terms of a quality assurance control for benefits, COG is expected to scrutinise and challenge benefit information they receive. As reporting to COG has not yet started this process is not sufficiently progressed for us to be able to test it. <u>Financial benefits</u> • We were informed that financial benefits will be reconciled with Finance annually (in June), after each year end, but we were unable to test this as the new benefits process has not been in place long enough for this to have been undertaken. <u>Benefits from ICT projects</u> • We were informed that ICT maintain their own benefit register for projects they were involved in and that these benefits were to be transferred to the new central register.	

This has not yet taken place meaning the benefits register does not currently include all agreed benefits. The Change Manager said he would follow this up. Management of the benefits register • One of the original drivers for changing the previous benefit process was that the number of benefits to be monitored was numerous and unwieldly. Despite this, we were informed that, under the new benefit process, there is no limit on the number of benefits that can be included, and that there is not a specific arrangement in place to periodically review the number of benefits to ensure the process remains manageable. The Change Manager stated that he is confident that the Policing Futures team has the capacity to request quarterly updates from benefit owners and that action could be taken if it was identified that there were too many benefits to monitor (for example, they could stop monitoring qualitative benefits). Administrative procedures and guidance • There are no documented procedures / guidance for the administrative side of the benefits delivery process (i.e. processes to be performed by the Change Team and the Policing Futures Team) despite it being recognised that the Change Manager is currently the single point of failure for benefits. Management of unanticipated benefits • There is no step in the new benefit process on how unanticipated benefits should be managed and reported. Lessons learnt	

• There are no arrangements in place to learn lessons from benefits delivery which could be used to improve the benefits process and increase the successful delivery of future benefits. <u>Completion of the benefits register</u> • Our review of the benefits register identified that it is not fully populated, for example the RAG status column shows some benefits have a status comment in this column, but all do not. Some benefits reported as ‘complete – benefit delivered’ do not include an actual saving against the baseline benefit savings or include an actual delivery date. Whilst the lack of population against some benefits is because information is to be requested as part of the first quarterly update from benefit owners or because the benefits are historic, this does not account for all gaps.	
Recommendation 1: Arrangements to deliver the benefits realisation policy and procedure should continue to be fully developed and embedded, then subsequently assessed for effectiveness, taking into account the points outlined above.	
Risk exposure if not addressed: • Benefits anticipated from significant financial investments are not achieved. • Strategic priorities are not delivered because the projects / programmes designed to meet strategic priorities don’t achieve the desired outcomes. • Lack of accountability. • Value for money is not achieved. • Loss of public confidence.	Responsible manager for implementing: Change Manager Date to be implemented: 30/06/2022

Appendix A

Audit Assurance Opinions

There are four levels of assurance used, these are defined as follows:

Assurance Level	Definition
Substantial	Sound frameworks of governance, risk management and internal control are in place and are operating effectively. Recommendations, if any, will typically be no greater than advisory.
Reasonable	Frameworks of governance, risk management and internal control are generally sound with some opportunities to further develop the frameworks or compliance with them. Recommendations will typically be no greater than medium priority.
Partial	Weaknesses in the frameworks of governance, risk management and/or internal control have been identified or there are areas of non-compliance with the established control framework which place the achievement of system / service objectives at risk. Recommendations will typically include high and medium priority issues.
Limited	There are significant gaps in the governance, risk management and/or internal control frameworks or there are major lapses in compliance with the control framework that place the achievement of system / service objectives at significant risk. Recommendations will include high priority issues.

Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are three levels of audit recommendations used; high, medium and advisory, the definitions of which are explained below:

Grading	Definition
High	A recommendation to address a significant gap in governance, risk management or internal control frameworks or to address significant non-compliance with controls in place.
Medium	A recommendation to address a gap in governance, risk management or internal control frameworks or to address aspects of non-compliance with controls in place.
Advisory	A recommendation to further strengthen governance, risk management or internal control frameworks or to improve compliance with existing controls.

Cumbria Shared Internal Audit Service

Internal Audit report for Cumbria Constabulary

Audit of the COVID-19 Response

Draft Report Issued: 2nd February 2022

Final Report Issued: 28th February 2022

Audit Resources

Title	Name	Email	Telephone
Audit Manager	Emma Toyne	emma.toyne@cumbria.gov.uk	07810532759
Lead Auditor	Sarah Fitzpatrick	Sarah.fitzpatrick@cumbria.gov.uk	07464522833

Audit Report Distribution

For Action:	Carl Patrick (Superintendent – Public Contact & Engagement)
For Information:	Jonny Blackwell (T/Assistant Chief Constable) Mark Webster (Deputy Chief Constable)
Audit Committee:	The Joint Audit Committee which is due to be held on 16th March 2022 will receive the report.

Note: Audit reports should not be circulated wider than the above distribution without the consent of the Audit Manager.

Executive Summary

Background

This report summarises the findings from an audit of the Constabulary's Covid-19 Response. This was a planned audit assignment which was undertaken in accordance with the 2021/22 Audit Plan.

The Covid-19 pandemic presented a period of unprecedented change and the need for the Constabulary to manage difficult circumstances and complex risks. The policing world changed during this period, and it was important for the Constabulary to respond appropriately, move towards recovery and renewal and continue to support the delivery of objectives in the Police and Crime Plan for Cumbria 2016-20 and Vision 2025.

The Constabulary responded to the Covid-19 pandemic through a gold, silver, bronze command and control structure. This is the established framework for emergency services to respond to major incidents. The response was named 'Operation Lectern' and fed into the Cumbria wide multi-agency command structure of the Local Resilience Forum.

A Coronavirus Business Continuity Plan was developed to support the Constabulary to put threat mitigation measures in place to protect critical services. An Operation Lectern Action Plan was created to capture and manage actions agreed to mitigate the risks presented by Covid-19 and respond effectively.

Audit Approach

Audit Objectives and Methodology

Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems. A risk-based audit approach has been applied which aligns to the five key audit control objectives. Detailed findings and recommendations are set out within the Management Action Plan.

Audit Scope and Limitations

The Audit Scope was agreed with management prior to the commencement of this audit review. The Client Sponsor for this review was Jonny Blackwell (T/Assistant Chief Constable). The agreed scope of the audit was to provide assurance over management's arrangements for governance, risk management and internal control around the following:

- Structures in place to respond to Covid-19 with a specific focus on governance and risk management
- Business Continuity Planning
- Arrangements to equip and support officers to apply Covid-19 Regulations
- Staff communications during the pandemic

There were no instances whereby the audit work undertaken was impaired by the availability of information.

Assurance Opinion

Each audit review is given an assurance opinion, and this provides Joint Audit Committee and Officers with an independent assessment of the overall level of control and potential impact of any identified system weaknesses. There are 4 levels of assurance opinion which may be applied. The definition for each level is explained in **Appendix A.**

From the areas examined and tested as part of this audit review, we consider the current controls operating around the Covid-19 Response provide **Substantial Assurance**.

This opinion recognises the level of controls in place and the notable strengths, as set out below. The Covid-19 pandemic made it necessary for the Constabulary to progress business continuity arrangements at an unprecedented pace and scale, under constant public scrutiny so that they could continue to provide effective policing services to the people of Cumbria.

An operational policing response and command structure was applied to manage the incident, taking decisions, and making changes at speed. This inevitably meant that in some instances, established controls were not applied as fully as would be expected under normal circumstances. For example, the Government announcements about new or amended regulations were frequent, and often at short notice, which presented a need to produce guidance and brief staff, sometimes within hours and at times without going through the usual approval process. Similarly, there was a need to produce a Business Continuity Plan quickly that would consider the longevity of the Covid-19 pandemic, and its wide ranging implications, and then update the plan to reflect changes as the virus evolved. Formal approval was not always secured and evidenced for the various versions of the plan. However, in the context of a fast-moving pandemic and constant public scrutiny this does not appear unreasonable in the circumstances, and the Deputy Chief Constable had oversight of what was happening.

Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.

Summary of Audit Findings and Recommendations

Controls were operating effectively in the following areas:

Structures in place to respond to COVID-19:

Governance

- The governance structure provided clear lines of command and allowed for key decisions to be made in a fast-changing environment due to the frequency of meetings and seniority of staff involved in the meetings. Key decisions were captured in decision logs for transparency and reference.
- The Covid-19 governance structure included senior officers, directors and heads of department from across the organisation and ensured representation across the various functions, both operational and support.
- The governance structure allowed for effective information flow between the command levels within the force but also externally through representation on multi-agency Covid-19 groups.

Risk management

- An Operation Lectern Action Plan captures actions to mitigate the key risk areas and the actions are clearly allocated, with deadlines and regular progress updates. The system provides for effective monitoring of actions with status updates in table or graphical format and at summary or detailed level depending on requirements. At the time of the audit review there were over 1,200 actions allocated to more than 200 individual action owners, with only 10 actions incomplete. This demonstrates the level of quality assurance and monitoring arrangements in place to oversee plan progress.

Business Continuity Planning:

- The Coronavirus Business Continuity Plan was prepared with reference to national and local guidance and learning from previous business continuity events (such as significant flooding) to improve organisational resilience.

- The Coronavirus Business Continuity Plan was updated and adapted as the threat in Cumbria evolved, different variants emerged, and a pattern of Covid-19 waves developed, to ensure an appropriate and proportionate response was maintained. Examples of this include changing the frequency of operation lectern silver and gold meetings and staff briefings, reconfiguring the workspace and transferring staff to alternative sites.

- It is clear that Cumbria Constabulary was at the forefront of police Covid-19 response planning, developing and building on much of the guidance material distributed nationally via the National Police Chiefs' Council (NPCC) and providing assistance at an international level through the Joint International Police Hub. Examples include providing a copy of Cumbria Constabulary's Coronavirus Plan to the Ghana Police Service.

- Opportunities have been taken to review the Constabulary's response to Covid-19 and share learning. The chair of Operation Lectern Silver meetings and the Chief Superintendent Gold support (Strategic Advisor to UK NPCC Civil Contingencies Lead) prepared a presentation entitled 'Business Continuity Management, Covid-19 and Lessons Learned to Improve Organisational Resilience'. The presentation was delivered to the Nigerian Law Enforcement Community and included Cumbria's response to the UK's national experience of policing in a pandemic (HMICFRS Review). The Chief Constable received a letter of thanks from the Nigerian High Commissioner for this support.

Staff communications during the pandemic

- A Covid-19 Information Cell was quickly established to receive national communications via 'Operation Talla', and other sources, for review by the appropriate professional leads and timely dissemination across the organisation. Care was taken to choose the most appropriate communication methods and styles, provide clarity and consistency and reduce information overload wherever possible. Communications were concise, but provided hyperlinks and embedded documents for readers to access additional, and more detailed information if required.

- A Covid-19 SharePoint site was established to provide staff with easy access to all communications and supporting information (guidance, bulletins, procedures, regulations, forms etc.). A Yammer channel was also developed on the SharePoint site to share and reinforce information, promote positive news stories and generally support staff.

- Operation Lectern Silver and Gold meetings included standard agenda items for staff communications and both meetings included senior representation from the Marketing and Communications Team. Minutes show that the Deputy Chief Constable was involved in discussions and decision making around staff communications and participated in staff video messages.

Arrangements to equip and support officers to apply Covid-19 Regulations:

- The constabulary made wider and improved use of technology as working practices were forced to adjust. Examples include moving from traditional spreadsheets for tracking actions towards better utilisation of Microsoft technology, the provision of equipment to support agile working and better use of management information software to provide more timely data and analysis (e.g. staff absence, Covid-19 test results, and action plan progress).

- Good arrangements were in place to equip and support officers to apply Covid-19 Regulations in practice. Regulations received from Operation Talla and the College of Policing were translated into clear procedures in a local format, communicating exactly what was expected of staff in different roles. Further steps were taken to guide officers through Covid-19 breaches utilising the 4E's Strategy (Engage, Explain, Encourage and Enforce) with the innovative development of a 4E's App. The application provided forms for officers to complete when engaging with individuals breaching Covid-19 regulations and ensured all relevant information was captured. The process reinforced the Constabulary's commitment to maintaining community cohesion whilst enforcing regulations.

There are no audit recommendations arising from this audit review.

Deputy Chief Constable Comments

I note the substantial assurance opinion. This was a difficult policing and management challenge for all involved, and required the whole organisation to demonstrate flexibility and agility in a very dynamic environment where the 'ask' of government was ever-changing. The officers and staff did this very effectively, demonstrating their very best in doing so. I am pleased that these efforts have been recognised on the inspection.

DCC M Webster
25th Feb 2022

Appendix A

Audit Assurance Opinions

There are four levels of assurance used, these are defined as follows:

Assurance Level	Definition
Substantial	Sound frameworks of governance, risk management and internal control are in place and are operating effectively. Recommendations, if any, will typically be no greater than advisory.
Reasonable	Frameworks of governance, risk management and internal control are generally sound with some opportunities to further develop the frameworks or compliance with them. Recommendations will typically be no greater than medium priority.
Partial	Weaknesses in the frameworks of governance, risk management and/or internal control have been identified or there are areas of non-compliance with the established control framework which place the achievement of system / service objectives at risk. Recommendations will typically include high and medium priority issues.
Limited	There are significant gaps in the governance, risk management and/or internal control frameworks or there are major lapses in compliance with the control framework that place the achievement of system / service objectives at significant risk. Recommendations will include high priority issues.

Cumbria Shared Internal Audit Service

Internal Audit report for Cumbria Constabulary

Audit of Financial Systems - Inventory

Draft Report Issued: 28th January 2022 (Updated 15th February 2022)

Final Report Issued: 1st March 2022

Audit Resources

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Audit Report Distribution

For Action:	Amy Wharton (Commercial Manager) Keith Hewitt (Commercial Manager)
For Information:	Barry Leighton (Head of Commercial) Michelle Bellis (Deputy Chief Finance Officer) Stephen Kirkpatrick (Director of Corporate Support) Roger Marshall (Joint Chief Finance Officer)
Audit Committee:	The Joint Audit Committee which is due to be held on 16th March 2022 will receive the report.

Note: Audit reports should not be circulated wider than the above distribution without the consent of the Audit Manager.

Executive Summary

Background

This report summarises the findings from the audit of **Financial Systems - Inventory**. This was a planned audit assignment which was undertaken in accordance with the 2021/22 Audit Plan.

An effective inventory system is important to the Constabulary, both to ensure that there is enough stock on hand to meet the demands of the organisation and that stock levels are not maintained at unnecessarily high levels, which could lead to incur unintended costs and ineffective use of resources.

The inventory management module is part of the Oracle Fusion system, which has been in use since October 2020. Use of the module should result in more efficient, accurate inventory management than the previous system.

A conscious decision was taken to initially limit the functionality of the module to ensure that those elements being used are used effectively and the team are competent and confident in its use. The functionality will be expanded on a planned basis so that each element can be used to its potential and adds value to the process, the ultimate aim being to enhance accuracy and reduce administration.

Audit Approach

Audit Objectives and Methodology

Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems. A risk based audit approach has been applied which aligns to the five key audit control objectives. Detailed findings and recommendations are set out within the Management Action Plan.

Audit Scope and Limitations

The Audit Scope was agreed with management prior to the commencement of this audit review. The Client Sponsor for this review was Stephen Kirkpatrick (Director of Corporate Support). The agreed scope of the audit was to provide assurance over management's arrangements for governance, risk management and internal control in the following areas:

- Stock requests and approval (self service)
- Catalogue maintenance
- Stock issue
- Stock control (replenishing and receipting stock, write on and off and stock counts)
- Security
- Transfer of data to financial module

There were no instances whereby the audit work undertaken was impaired by the availability of information.

Assurance Opinion

Each audit review is given an assurance opinion and this provides Joint Audit Committee and Officers with an independent assessment of the overall level of control and potential impact of any identified system weaknesses. There are 4 levels of assurance opinion which may be applied. The definition for each level is explained in **Appendix A.**

From the areas examined and tested as part of this audit review, we consider the current controls operating within Financial Systems - Inventory provide **Reasonable Assurance**.

Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.

Summary of Audit Findings and Recommendations

Controls were operating effectively in the following areas:

- User roles, approval rules and limits have been defined and are set up in the system and for the sample tested were operating effectively.
- Through our sample testing we confirmed that:

  Stock request and approval

  - requisitions under £250 are auto-approved within the system

- requisitions over £250 had been approved by the appropriate cost centre manager
- coding of the transactions were appropriate
- items requisitioned were reasonable in relation to the role of the person requesting the item

Catalogue maintenance

- access to cost / re-cost items is restricted to two nominated individuals which provides resilience to maintain up to date catalogue prices in the absence of the primary post holder.

Stock issue

- items requisitioned had been shipped to the requisitioner

Stock control

- Stock orders under £250 are auto approved within the system
- Stock orders over £250 were approved in accordance with the agreed scheme of delegation (within procurement)
- Stock items had been receipted into the system with an appropriate segregation of duties between ordering and receipting the items.

Security

- Roles within the Inventory Module of Oracle Fusion are assigned to individuals. Only those with the assigned roles have access to certain features which ensures that an appropriate separation of duties exists, and access to the system is via individual login and passwords.
- Security arrangements in respect of access to the stores has recently been improved by the introduction of security system controlled by via fob access.

Transfer of data to the financial module

- Oracle system processes run at various intervals during the week, pulling information from the different sub modules within the system and posting the transactions into the accounts ledger.
- Sample testing confirmed posting to appropriate codes in the financial ledger had taken place.

- A set of Process maps and test scripts have been prepared to illustrate processes and provide step by step guidance for the various stages of the Inventory process.

- Guidance in the form of videos and help notes is available to Users on the Oracle Fusion Requisitions home page.
- Physical Inventory Guidance has been produced, which includes the process of how to create inventory reports, enter stock counts and request approval within Oracle Fusion.

The recommendations arising from this review can be summarised as follows:

High	Medium	Advisory	Total
0	1	2	3

The three levels of audit recommendation are defined in **Appendix A**.

Areas for development: Improvements in the following areas are necessary in order to strengthen existing control arrangements:

High Priority Issues:

- None identified

Medium Priority Issues:

- The Oracle Fusion System has a number of functions available in relation to Inventory. When the system was introduced management made a conscious decision to limit the functionality of the module which will be expanded on a stepped basis so that staff can become proficient in the use of the system before further functionality is added. Plans are in place to increase the functionality of the inventory module over time. Implementation of the additional functionality within inventory module is being monitored by management and once the system is fully implemented the Senior Reporting Officer (SRO) should inform Management Board that the module is used as intended and benefits have been realised.

Advisory issues:

- Building a suite of standard reports is in the early stages and there are currently no reports available that show the history / turnover of an item, detailing for example the number that have been issued in a period / how often they are issued.
- The documented 'Physical Inventory Guidance' procedure setting out the stock taking process only include the Fusion processes, they do not specify the operational human element of the process, for example that two people are required to count together.

Director of Corporate Support and Joint Chief Finance Officer Comments

I am pleased to note that the recent Internal Audit review of the Inventory systems and processes has achieved a reasonable level of assurance which I feel is an accurate reflection of performance in this area of business.

It is fair to observe that the implementation of the new inventory system, along with associated processes, proved very challenging. The team are now focusing on introducing additional capabilities as part of an ongoing programme of developments, as recognised in recommendation 1.

Despite the challenges faced with the system implementation, it is reassuring to note that the review identified that controls are operating effectively across a wide range of areas, specifically including segregation of duties where required.

Looking forward the, one medium and two advisory, recommendations will help the Constabulary focus on further developing this area of business to ensure we continue to enhance the services provided to support both operational and corporate activities.

The positive findings within this report are a direct result of the excellent efforts across the Commercial and other teams to successfully achieve a challenging implementation that has resulted in the inventory services now operating on a secure and supported platform that will continue to develop on a continuous improvement basis.

Stephen Kirkpatrick – Director of Corporate Support 01/03/22

The implementation of the Oracle inventory module has and continues to be challenging. Members of the Commercial and Finance teams continue to work diligently and collaboratively to ensure that the system works as efficiently as possible. The Constabulary’s governance boards will continue to be updated on progress through the benefits management process.

Roger Marshall – Joint Chief Finance Officer 01/03/22

Management Action Plan

Medium Priority

Audit finding	Management response
Planned Developments The Oracle Fusion System has a number of functions available in relation to Inventory that are currently not being utilised by the Constabulary. This was a conscious decision taken by management to ensure that the new system and processes were fully embedded and operating correctly before additional functionality was implemented. It is intended that functionality will be increased on a planned, stepped basis to ensure that each element of the system can be used as intended to its full potential. Planned developments for the future include: Min-Max Planning The Min-Max planning function allows management to set the minimum and maximum inventory levels for individual stock items and to replenish the stock by automatically generating an order when the stock level falls to the set minimum level. This will assist in ensuring that stock levels were maintained at an optimal level. Cycle Count A Cycle Count facility within the inventory module can automatically select a percentage of stock items to be counted throughout the year (the frequency for this can be determined when the cycle count is created). This should enhance inventory accuracy and allow for timely investigation into any stock discrepancy. Cycle counting could also be used to help in identifying any patterns in any errors found, such as regular discrepancies on similar types of item or human error.	Agreed management action: Final features, as described by the inventory team to the auditors, remain outstanding and are currently being implemented by the Commercial team and Oracle in order to achieve full implementation and benefit from the system. Credit should be given to the team who, without previous experience and with increased “day job” demands replaced a system that would have become vulnerable to cyber attacks (without significant investment) with a new, efficient state of the art lean system that is future proof, provides vfm meets the requirements of Vision 25 and provides features such as auto approval and self service. Achieved benefits have included enabling a Commercial Department redesign, £67k Budget saving and Headcount reduction which has created additional bandwidth to focus on many strategic contracts.

<table>
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<u>Punchout</u>
Punchout provides a direct link to the supplier's catalogues which suppliers maintain themselves. Use of the Punchout would remove the need for the Stores team to manually upload internal Blanket Purchase Agreements (BPA) to the system which is currently the practice. This function would reduce administration in relation to BPA catalogue maintenance and would also remove the potential for human error in the accuracy of pricing for any purchase orders raised via the BPAs. We are advised that the first Punchout is currently in development.

Once implemented these additional functions would streamline processes for the team and create efficiencies.

We are informed that the Joint CFO, as Senior Reporting Officer (SRO) for the project, has oversight regarding progress on implementing the additional functionality and benefits delivered, and is responsible for reporting progress to the Management Board.

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As the SRO is a member of Chief Officers Group, Executive team, Management Board, Collaboration Board and Service Design Board each of these Boards has been briefed on updates.

In addition the Head of Commercial provided a briefing at the annual review at the Joint Audit Committee.

As the material benefits identified at the start of the transformation program have now been delivered, the final features will deliver smoother operation rather than material benefits.

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Recommendation 1:
Once the system is fully implemented this should be formally reported by the SRO to Management Board to confirm that the improvements have been delivered and benefits realised.

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Risk exposure if not addressed:
• Improvements are not implemented on a timely basis
• Planned efficiencies are not delivered

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Responsible manager for implementing:
Head of Commercial
Date to be implemented:
31/12/2022

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Advisory issue

Audit finding	Management response
Stock Turnover Reports Although stock levels in the Oracle Fusion system automatically update following items being reserved and shipped to the requester, there are currently no reports available that would show the history / turnover of an item, detailing for example the number that have been issued in a period / how often they are issued. We are advised that a library of reports is still in the early stages of being developed. If such a report was in place it could provide useful management information to identify any trends and also help in determining more accurate minimum - maximum levels.	Agreed management action: A range of reports are under discussion/review
Recommendation 2: Management should consider developing a report that provides details on the number / frequency an item has been issued / re-ordered.	
Risk exposure if not addressed: • Insufficient stock in hand to meet demands of the Service	Responsible manager for implementing: Barry Leighton Date to be implemented: 12/2022

Advisory issue

<table>
<tr><th>Audit finding</th><th>Management response</th></tr>
<tr><td>Stock Taking Procedures
A ‘Physical Inventory Guidance’ document has been produced to set out the various processes within the Fusion system (for example, creating an inventory, enter a stock count and requesting approvals etc).

We are advised that the annual stores count is carried out in pairs with one member of the stores team and a person from another department. Once the count has been completed, the stock sheet is signed / initialled by both participants.

The Commercial Manager will carry out an additional check if there are any discrepancies or there is a need for a re-count and will sign to confirm his involvement.

The documented ‘Physical Inventory Guidance’ procedure only includes the Fusion system processes, they do not specify the operational human element of the process, for example that two people are required to count together.</td><td rowspan="2">Agreed management action:
Written instructions that are in place will be clarified to include the recommendation</td></tr>
<tr><td>Recommendation 3:
Management should ensure that stock taking procedures are updated and include the operational aspects of how the stock counts should be undertaken, for example by two people and the steps to take should a recount be required.</td></tr>
<tr><td>Risk exposure if not addressed:
Ineffective systems of internal control in place due to procedures being inadequately defined</td><td>Responsible manager for implementing:
Barry Leighton
Date to be implemented:
03/2022</td></tr>
</table>

Appendix A

Audit Assurance Opinions

There are four levels of assurance used, these are defined as follows:

Assurance Level	Definition
Substantial	Sound frameworks of governance, risk management and internal control are in place and are operating effectively. Recommendations, if any, will typically be no greater than advisory.
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Partial	Weaknesses in the frameworks of governance, risk management and/or internal control have been identified or there are areas of non-compliance with the established control framework which place the achievement of system / service objectives at risk. Recommendations will typically include high and medium priority issues.
Limited	There are significant gaps in the governance, risk management and/or internal control frameworks or there are major lapses in compliance with the control framework that place the achievement of system / service objectives at significant risk. Recommendations will include high priority issues.

Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are three levels of audit recommendations used; high, medium and advisory, the definitions of which are explained below:

Grading	Definition
High	A recommendation to address a significant gap in governance, risk management or internal control frameworks or to address significant non-compliance with controls in place.
Medium	A recommendation to address a gap in governance, risk management or internal control frameworks or to address aspects of non-compliance with controls in place.
Advisory	A recommendation to further strengthen governance, risk management or internal control frameworks or to improve compliance with existing controls.

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Joint Audit Committee

CUMBRIA
Peter McCall

Title: OPCC Risk Management Monitoring

Date: 02 March 2022
Agenda Item No: 10(a)
Originating Officer: Joanne Head, OPCC Governance Manager
CC:

Executive Summary:
The Office of the Police and Crime Commissioner (OPCC) is responsible for providing policing services within Cumbria. This takes place in a constantly changing and challenging environment and the OPCC must ensure that it has robust systems and processes in place to monitor and react appropriately to risk.

Recommendation:
That, the committee notes the changes regarding the OPCC's strategic risk register, the oversight undertaken of the Constabulary's risk management; and the front sheet of the OPCC's operational risk register.

1. Introduction & Background

1.1 The Office of the Police and Crime Commissioner (OPCC) is responsible for providing policing services within Cumbria. To enable it to carry out this function effectively it must monitor and react appropriately to risks. The Joint Audit Committee as part of their role, ensures that the OPCC is actively managing strategic risks and one member of the committee has been appointed as the lead member for risk.

2. Issues for Consideration

Strategic Risk Register

2.1 Appended to this report at Appendix 1 is the OPCC's strategic risk register, which has been reviewed and updated since the last meeting of the Committee. There are 4 identified risks, these being:

- R1 - Strategic Finance
- R2 - The Emergency Services Mobile Communications Programme
- R3 – Insurance
- R4 – Fire and Rescue Governance Business Case

2.2 The scoring for R1 remains at 9. Current government funding protection is only provided in cash terms, requiring the Commissioner to meet inflation and other service pressures from increased precept or savings. This risk may be impacted as a result of the announcement that the Home Office intends to undertake a review of the Police Funding Formula for implementation in 2023/24, but as the make-up of the formula are unknown at this stage the risk score has not been amended.

2.3 R2 score remains at 12 following review as there is continued uncertainty on final costs. Financial modelling based on a national finance model has added a further £3m to the forecast capital cost of the project over 10 years.

2.4 Risk R3 re insurance remains on the strategic risk register. Recent insurance renewals have raised concerns that Cyber insurance may be difficult to procure in future. This has been awarded a total score of 8 and therefore been escalated. The insurance renewal tender exercise for autumn 2022 has commenced.

2.5 A new risk in relation to the Fire & Rescue Governance Business Case has been placed on the strategic risk register. In July 2021 the Government announced that Cumbria would be divided into two unitary local authorities with one of the outcomes being that CFRS governance responsibility would need to move as it currently sits with Cumbria County Council which will no longer exist as of 1 April 2023. The Commissioner has developed a business case which is currently out for consultation until 21 March 2022. The risk will be reviewed following the outcome of the consultation.

Operational Risk Register

2.6 The OPCC has also reviewed its operational risk register, rationalising it to reflect the operational risks it faces. A review of the operational risk register is carried out on a quarterly basis with all staff being required to review their own risks and make any necessary changes and updates. The OPCC Executive Team consider both the strategic and operational risk registers every quarter as part of their meetings. A copy of the front sheet is attached at Appendix 2. This illustrates whether the scores for the individual risks have risen, remained the same or decreased and assists the Committee to understand how the risks are managed.

2.7 A number of low scoring operational risks remain on the register, these being Risks 3 Financial Governance, Risk 4 Shared Services, and Risk 5 Asset management. They remain to show illustrated monitoring of these areas of business which are important to the OPCC's overall Governance regime.

2.8 Risk No 10 – as indicated in the November 2021 report this risk has now been removed from the OPCC operational risk register.

2.9 In the November 2021 report to the committee, Risk No 13 in relation to the OPCC's response to the COVID 19 pandemic was updated and reduced in score. It remains on the register following the Government's announcement to lift isolating restrictions and the removal of free Lateral Flow Tests. All staff have been advised that should they contract COVID 19 then they should work from home to avoid spread of the virus. The Constabulary still have a supply of LFT's which staff are able to use. The wearing of face coverings when moving around offices and sanitising hands is still encouraged. The OPCC's Business Continuity Plan would be invoked should a number of staff become ill at any one time.

2.10 The OPCC Chief Executive met with the Constabulary's Lead for Risk Management on 23 February 2022. This was as part of the OPCC's quarterly oversight of the Constabulary's strategic risks.

2.11 Discussions took place in relation to the two separate risk registers, the risks identified therein and any risks that may impact upon the other organisation which may need to be recorded within the relevant strategic risk register if it does not already appear. Both the OPCC and Constabulary's strategic risk registers retained risks in relation to Strategic Finance and ESMCP with appropriate scoring. The Constabulary will report further on their strategic risk register at the meeting.

3. Implications

3. 1 Financial - the inability of the OPCC to successfully identify and manage its organisational and strategic risks could impact financially on not only the OPCC but Cumbria Constabulary and other partner organisations which are financially dependent.

3.2 Legal - the OPCC could face legal challenge on some areas of its business, therefore it is essential that these are identified at an early stage and effectively mitigated and managed.

3.3 Risk - if the OPCC does not identify and mitigate risks then it may mean that the OPCC cannot carry out its statutory function efficiently and effectively.

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OFFICE OF THE POLICE & CRIME COMMISSIONER – STRATEGIC RISK REGISTER

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	Impact	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

			Risk Owner		Actions		Reviews
Risk No.	**Risk Title**	**Total Score**	**Risk Owner**	**Action Owner**	**Any outstanding actions YES/NO**	**Actions to be completed**	**Date of next review**
R1	Strategic Finance	9 ⇔	Chief Executive	Joint Chief Finance Officer	No	Continued review of the MTFF as part of the budgeting process. Further development and refinement of savings options in conjunction with the Constabulary.	June 2022
R2	The Emergency Services Mobile Communications Programme (ESMCP)	12 ⇔	Chief Executive	Chief Executive / Constabulary Lead Officer	No	Continue to monitor the national position and take appropriate actions to prepare for implementation.	June 2022
R3	Insurances	8 ⇔	Chief Executive	Chief Finance Officer	Yes		June 2022
R4	Fire & Rescue Service Governance Business Case	**4**	Chief Executive	Joint Chief Finance Officer	Yes		March 2022

Scores:

8 – 16	Review within 3 months
4 - 6	Review within 6 months
3 or less	Review within 12 months

POLICING AND CRIME OBJECTIVES

Risk No:	Risk Title:	
R1	**STRATEGIC FINANCE**	The Police and Crime Commissioner is required to set a balanced budget. Resources from central Government formula grant provide the significant majority of funding to deliver police services. Real term reductions in that funding will have a substantial impact on the level of policing that can be provided and on the potential to deliver the Commissioner's wider responsibilities. **Police & Crime Plan Objectives – 1** Focus on Crime & Causes of Crime; **2** Visible & Effective Police Presence; **3** Focus on Victims; **4** Prevent Offending & Reduce Reoffending; **6** Ensuring the Police are at the Forefront of the Response; **7** Integrating Blue Light Services

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	Impact	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(s)**	**Review Date**
Reduction in real term resources within the medium term time horizon to provide sufficient funding for the Commissioner and Constabulary to deliver current levels of policing service. Current government funding protection is only provided in cash terms, requiring the Commissioner to meet inflation and other service pressures from increased precept or savings. This risk may be impacted as a result of the announcement that the Home Office intends to undertake a review of the Police Funding Formula for implementation in 2023/24, but as the make-up of the formula are unknown at this stage the risk score has not been amended.	This risk may lead to a reduction in the level of police services and/or result in Cumbria Constabulary not being viable as an independent force. Alternative options for delivering a police service in Cumbria may have to be considered. This may impact on the extent to which services respond to local needs in Cumbria. During the period of change there may be reductions in public assurance/confidence.	4	4	**16**	3	3	**9**	Chief Executive (Reduce)	The budget and medium term financial forecast (MTFF) are reviewed and updated on a regular basis. The budget has been balanced in the short term and reserves provide additional security. Both the 2020/21 and 2021/22 grant settlements were more favourable than expected providing appropriate funding for additional officers recruited as part of Operation Uplift and continued flexibility to raise council tax. However, this does not fully alleviate the longer-term concerns regarding the sustainability of Government funding. On balance the short-term risk has been reduced, which is reflected in the risk score. Scenario planning to identify potential longer-term savings and service	Budget monitoring processes and internal controls are in place to manage financial commitments. The financial control environment is tested annually by internal and external audit. HMIC Peel inspections and external auditors review overall financial resilience and the track record of delivering savings. The most recent audit review of preparedness for funding cuts provided reasonable assurance.	Continued review of the MTFF as part of the budgeting process. Further development and refinement of savings options in conjunction with the Constabulary.	Chief Finance Officer	June 2022

									re-engineering is on-going in both the OPCC and Constabulary. The Commissioner has joined the National Rural Crime Network to support rural policing issues.				

Risk No:	Risk Title:	
R2	**Emergency Services Mobile Communications Programme**	The Emergency Services Network is a major national project to replace the current Airwave radio communications system across all emergency services with Mobile Phone technology. There are national and local risks in relation to uncertainty over the cost and timing of implementation of the new system. Cumbria also specific risks in relation to the coverage due to the topography of the county. **Police & Crime Objectives: 1** Focus on Crime & Causes of Crime; **2** Visible & Effective Police Presence; **4** Preventing Offending & Reducing Reoffending; **6** Ensure the Police are at the Forefront of the Response; **7** Integrating Blue Light Services

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	Impact	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(s)**	**Review Date**
The Emergency Services Mobile Communications Programme (ESMCP) is a collaboration between the police, fire and ambulance Emergency Services (3ES) in England, Scotland and Wales to replace the existing mobile radio system known as Airwave. ESCMP will deliver the Emergency Services Network (ESN) which will provide integrated critical voice and broadband data over an enhanced 4G commercial network. This is a significant project. At the present time there are concerns around cost, coverage and timescales for delivery, which has been subject to a series of delays. Recent cost updates have indicated that forces will have to meet an increased share of the cost, hence an increase in the risk score.	This risk may result in significant additional costs and coverage issues may impact upon the Commissioner's ability to ensure Cumbria has an efficient and effective policing service, which could lead to reputational risk.	4	3	**12**	4	3	**12**	Chief Executive (Reduce)	The Commissioner is working regionally with other North West Commissioners and nationally through the APCC to highlight concerns. The Chief Constable is a member of the national reference group and Cumbria has seconded a staff member to the regional implementation team. Appropriate staffing resources have been identified within the ICT team to deliver the project and prudent estimates of costs have been included in the capital programme and medium-term financial forecast.	Work being undertaken regionally and nationally provides some assurance. The critical nature of this national project and delays in national implementation mean it will be a significant risk for a protracted time period.	Continue to monitor the national position and take appropriate actions to prepare for implementation. Update Nov 2021 Continued uncertainty on final costs. Firmer indications are that the project will go ahead, is picking up pace and will progress. However cost and operational risk are continuing to increase. Update Feb 2022 Financial modelling based on a national finance model has added a further £3m to the forecast capital cost of the project over 10 years.	Chief Executive	June 2022

Risk Number: R3 (Op 06)	Risk Title: Insurances	The Commissioner and Chief Constable take out insurance to transfer the financial risks in respect of a range of liabilities/risks including public and employee liability, assets, investment fraud. **Police & Crime Plan Objectives: 2** Visible & Effective Police Presence; **6** Ensuring the Police are at the Forefront of the Response

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	Impact	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(s)**	**Review Date**
Failure to adequately insure the organisation against all of the risks that it faces and/or failure to procure sufficient insurance cover/failure of the insurance provider	Potential significant financial implications should either the insurer fail commercially or the insurance cover taken fall short of the full liability incurred	4	2	**8**	4	2	**8**	Chief Executive Reduce/Accept	An insurance broker is procured to provide specialist advice on the level of cover. Broker advice includes a rating for the financial stability of the insurance provider. Deputy CFO provides detailed insurance schedules to ensure broker and insurers have a full understanding of the business and risks Business managers in specialist areas are asked to advise on options regarding additional/bespoke insurance policies Annual report from the Director of Legal in respect of significant public and employee liability claims.	Bi-annual external actuarial review of levels of insurance liability against existing provision and reserves. Decisions on level of cover and whether to self-insure are taken for review to the Executive Board and determined by the Commissioner and Chief Constable providing further scrutiny. Recent insurance renewals have raised concerns that Cyber insurance may be difficult to procure in future. Negotiations are on-going.	Update Feb 2022 The insurance renewal tender exercise for autumn 2022 has commenced.	Chief Finance Officer	June 2022

Risk Number: R4 (Project R3)	Risk Title: Fire & Rescue Governance Business Case	Police & Crime Plan Objective 7 – Integrate Blue Light Services • Continue to build relationships between blue light services (Police, Fire and Ambulance services) to ensure they are run as efficiently as possible • Understand the implications of Local Government Reorganisation for policing and other local services

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	Impact	Likelihood – over the next 4 years
1	Low	Not expected to happen, but is possible
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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(s)**	**Review Date**
Following the Government's announcement of the proposed two unitary local authorities in Cumbria, the Police & Crime Commissioner has developed a Business Case to review the option of transferring the governance of Cumbria Fire & Rescue Service to the OPCC. There is a risk that the Business Case is not financially viable.	This will result in the Commissioner not submitting the Business Case to the Home Secretary leading to reputational damage and potential loss of confidence by communities.	2	4	**8**	2	2	**4**	Reduce	A Business Case has been developed and supported by a governance structure to oversee its development. This structure operates within an already well-established collaboration arrangement agreed between the blue light services. The is made up of weekly Blue Light Programme Board meetings with a membership of senior officers from across the three blue light services, Cumbria County Council, the Office of the Police & Crime Commissioner and BearingPoint Consultants. This group is responsible for facilitating access to financial data as well as other information, knowledge and insight	The development of the Business Case has been carried out through the multi-agency Blue Light Programme Board. The Blue Light Executive Board has overseen this work and approved the Business Case, prior to consultation. Throughout the Business Case development, a project risk register has been developed and reviewed by the OPCC Executive Team.	Continue to engage with Home Office representatives with regards all aspects of the Business Case.	Joint Chief Finance Officer	March 2022

									which has informed the Business Case. Ongoing analysis of the financial information is been carried out and will help inform the Commissioner’s decision of whether to submit the Business Case to the Home Office at the end of March 2022.				

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OFFICE OF THE POLICE & CRIME COMMISSIONER – OPERATIONAL RISK REGISTER

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	Impact	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

8 – 16	Review within 3 months
4 - 6	Review within 6 months
3 or less	Review within 12 months

			Risk Owner		Actions		Reviews
Risk No.	**Risk Title**	**Total Score** (direction of travel)	**Risk Owner**	**Action Owner**	**Any outstanding actions YES/NO**	**Actions and dates to be completed**	**Date of review**
	FINANCE						
01	Budget Management	**6** ⇔	Joint Chief Finance Officer	Deputy CFO	No	Current forecasts indicate expenditure for 2021/22 is broadly on budget.	Apr 2022
02	Investment Counterparty Risk	**3** ⇔	Joint Chief Finance Officer	Deputy CFO	No	None	Apr 2022
03	Financial Governance	**2** ⇔	Joint Chief Finance Officer	Deputy CFO	No	None	Apr 2022
04	Shared Services	**2** ⇔	Chief Executive	Deputy Chief Executive	No	Governance agreements will be reviewed on an on-going basis.	Apr 2022
05	Asset Management	**2** ⇔	Chief Executive	Chief Finance Officer	No	None	May 2022
06	Insurance	**8** ⇔	Chief Executive	Chief Finance Officer	No	None	June 2022
	PARTNERSHIPS & COMMISSIONING						
07	This risk has been removed						
08	Partnerships & Collaboration	**6** ⇔	Chief Executive	Partnerships and Strategy Manager	Yes	Work with partners through the Safer Cumbria Commissioning Group to review the Bridgeway budget.	Sept 2022
09	Commissioning of Services	**6** ⇔	Chief Executive	Partnerships and Strategy Manager	Yes	Staffing issues have been raised with the Constabulary to support staff and ensure delivery of Keep Safe to all victims of crime.	April 2022
	COMMUNICATION AND BUSINESS SERVICES						
10	This risk has been removed						
12	This risk has been removed						
13	OPCC Business Disruption	**6** ⇔	Chief Executive	Governance Manager	No		September 2022

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Joint Audit Committee

TITLE OF REPORT:	**Constabulary Risk Management Update**
DATE OF MEETING:	**16th March 2022**
ORIGINATING OFFICER:	**Strategic Development, Insight and Performance**
PART 1 or PART 2 PAPER:	**PART 1 (OPEN)**

Executive Summary:

The purpose of this paper is to provide the Joint Audit Committee with an update on the Constabulary's risk management arrangements, including a review of the current strategic risk register.

As part of this process, Strategic Development carried out quality assurance checks of all departmental and operational risk registers, to ensure that risk is effectively managed across the organisation. Since the last report to the Joint Audit Committee, the Strategic Risk Register has been reviewed twice by COG (on 29th November 2021 and 21st February 2022).

At these meetings it was agreed that:

- The two risks relating to ESMCP (Risk 25 and Risk 32) be be closed and replaced with 3 new ones which more accurately reflect the current situation.
- Risk 44 (infrastructure, hardware, software) should be transferred to the Digital Transformation Board.
- Increase the likelihood score of Risk 2 (Vision 25) from 2 to 4 in light of the increased challenges faced.
- Increase the likelihood score of Risk 46 (PIP detectives) from 2 to 3.

Recommendations:

That the Joint Audit Committee:

Note the Constabulary's current strategic risks, and that a review of all risk registers was completed in accordance with the Risk Management Policy in January/February 2022.

MAIN SECTION

1. Introduction and Background

1.1 Strategic Risks

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

Each risk is managed at the level where the control to manage the risk resides. Strategic risks are managed by the Chief Officer Group, significant operational risks are managed by the Operations Board and significant strategic business risks are managed in the relevant directorate or by nominated senior managers. Projects and programmes also have their own risks that are managed by the project / programme teams.

Strategic risks are those affecting the medium to long term objectives of the Constabulary and are the key, high level and most critical risks that the Constabulary faces. Best practice indicates that the number should be between 5 and 10. Currently the Constabulary has 8 strategic risks.

The Constabulary's mission is to deliver an outstanding police service to Keep Cumbria Safe. The Constabulary's overarching purpose is:

1. Tackling criminality
2. Helping those in need
3. Connecting with communities

The strategic risks identified by the Constabulary are concerned with:

1. Capacity and capability of the analytical function.
2. The implications of longer-term reductions in budget and the level of savings required.
3. Failure to deliver Cumbria Vison 25 and its associated efficiency plan.
4. Covid-19.
5. Serious Crime within the Constabulary will not be investigated by trained and accredited PIP 2 detectives.
6. Force capital and revenue costs will not sustain the implementation, maintenance, and operational change of ESMCP.
7. ESMCP and ESN - unknowns around the device security, H&S concerns, and the availability of in-building coverage.
8. ESMCP and ESN - insufficient capacity, lack of network & service availability, limited availability of extended area service (EAS).

The table on page three outlines the Constabulary's eight strategic risks and provides the RAG rating (Red, Amber, and Green) for each risk (**RAG risk rating = impact x likelihood**). It also indicates which of the Constabulary' core policing objectives the risks link to.

Strategic Risk Register

Risk Ref No	Responsible Officer(s)	Risk Description	Impact	Likelihood	*Score before mitigation*	Latest Score	Link to Strategic Objectives	Summary of mitigating actions already taken - update
47	Director of Intelligence	Insufficient capacity and capability of analytical resource to meet demand and key strategic products.	High	Very High	*20*	16	All	A structures review is currently underway in order to mitigate the risk. Following a Hay Panel meeting due to take place this month, any management of change required will be progressed and the recruitment for the agreed posts will commence. The aim is to have all the agreed resources in place by the new financial year.
28	Chief Financial Officer / Director of Corporate Support	There may be a detrimental and significant impact on the available budget and a requirement for substantially increased savings, as a result of: • a combination of the inflationary pressures on police budgets particularly pay • the lack of provision for inflation in Government grant allocation • proposed changes to police pension contributions • the impact of national projects and initiatives such as ESN and PEQF, and • potential changes to the police funding formula (including the removal of dampening funding) This would result in a compromise to public safety, significant loss of public	Very High	Very High	25	16	All	Although the grant settlement for 2022/23 and Government spending review were broadly favourable, a combination of increased inflation and required growth means that savings still need to be identified from 2023/24 onwards.

Risk Ref No	Responsible Officer(s)	Risk Description	Impact	Likelihood	*Score before mitigation*	Latest Score	Link to Strategic Objectives	Summary of mitigating actions already taken - update
		confidence and serious damage to the Constabulary's reputation.						
2	Director of Corporate Improvement & Director of Corporate Support	The Constabulary may not have the capacity to deliver the Cumbria Vision 25 and its associated Efficiency Plans. If this risk occurs the Constabulary would have to find further savings.	High	Low	*10*	16	All	On target for successful delivery against the efficiency targets agreed within the 21/22 plan. However refresh of the MTFF following the Dec 21 financial settlement indicates a significantly increased efficiency challenge by 26/27. Need for a full refresh of the efficiency plan agreed at Strategy Day (26/01/22) with Gold group established. Scoring increased accordingly to reflect increased challenges faced.
42	ACC	The Constabulary is unable to maintain business as usual through the high abstraction of staff; procurement constraints, and change in demand profile, caused by the spread of Covid-19 This would result in the Constabulary diverting resources to maintain core functions.	Very High	High	25	15	All	The Covid Internal Gold Group continues to meet in order ensure that all arrangements are in place within the Constabulary. As changes to restrictions and health and safety requirements change, the force is able, through the gold silver and bronze structure, to respond effectively and efficiently.
46	Det Supt Crime	Serious Crime within the Constabulary might not be investigated by trained and accredited PIP 2 detectives, caused by an insufficient number, which may result in a poor service to victims, staff welfare concerns, and reputational damage.	High	Medium	*12*	*12*	All	Currently have only 33% of our FTE establishment at DC level trained/accredited on our frontline CAST, however, the ongoing recruitment work and cycle of training/completion of portfolios goes in some way to mitigate the risk-as it has done previously. The direct entry detective scheme is still in its early days, so we are yet to see the benefits. The main barriers remain release from TPA to commence roles and attrition rates to temporary/permanent specialist posts and serious

Risk Ref No	Responsible Officer(s)	Risk Description	Impact	Likelihood	*Score before mitigation*	Latest Score	Link to Strategic Objectives	Summary of mitigating actions already taken - update
								ongoing investigations remains high due to competing/changing demands and force priorities. There is now a Critical Resource Management Meeting convening monthly between the commands to negotiate the release of officers into CAST. The situation has become somewhat worse with the likelihood now raised from Low (2) to Medium (3).
50	ESMCP Programme Executive	Risk that Force capital and revenue costs will not sustain the implementation, maintenance and operational change of ESMCP, caused by the financial benefits suggested by Home Office ESMCP not being realised and a potential increase in operational resources, equipment and fleet.	High	Medium	*12*	12	All	Separate workshops held with the finance team to inform 10-year capital replacement planning. Still unknowns around finance. A regional finance model continues to be developed.
48	ESMCP Programme Executive	ESMCP and ESN have the potential to breach the Constabulary's risk capacity, caused by unknowns around the device security, H&S concerns, and the availability of in-building coverage.	Medium	Medium	*9*	9	All	Awaiting development and deployment of ESN Assure 2. Not due till 2023.
49	ESMCP Programme Executive	ESMCP and ESN have the potential to breach what the Constabulary would consider as acceptable levels of service provision, caused by insufficient capacity, lack of network & service availability, limited availability of extended area service (EAS).	Medium	Medium	*9*	9	All	Awaiting development and deployment of ESN Assure 2. Not due till 2023.

Risk Tolerance Levels

Risk Score 1-4	Risk Score 5-12	Risk Score 15-25
Acceptable. No action is required but continue monitoring.	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.	Unacceptable. Urgent attention is required. Investigate and take steps to mitigate or avoid within a specified short term.

1.2 Drivers for Change

Effective risk management is a key component of effective corporate governance. Managing risk will contribute towards delivery of the strategic priorities. There are potential significant consequences from not managing risk effectively.

Robust risk management will help improve decision-making and drive corporate activity that represents value for money.

Effective risk management will help protect the reputation of the Constabulary and the Office of the Police and Crime Commissioner, safeguard against financial loss and minimise service disruption.

1.3 Consultation processes conducted or which needs to be conducted

Individual risk owners have been consulted as part of the standard risk management arrangements.

1.4 Impact assessments and implications on services delivered

Not applicable- described in the risk register where appropriate.

1.5 Timescales for decision required

Not applicable to this report.

1.6 Internal or external communications required

None.

2. Financial Implications and Comments

Any financial implications are described in the relevant risks outlined within this report.

3. Legal Implications and Comments

Any legal implications are described in the relevant risks outlined within this report.

4. Risk Implications

The Constabulary's risks are described in section one of this report.

5. HR / Equality Implications and Comments

Any HR / Equality implications are described in the relevant risks outlined within this report.

6. ICT Implications and Comments

Any ICT implications are described in the relevant risks outlined within this report.

7. Procurement Implications and Comments

Any procurement implications are described in the relevant risks outlined within this report.

8. Supplementary Information

8.1 List any relevant documents and attach to report

Appendix 1	Risk Scoring Matrix

8.2 List persons consulted during the preparation of report

- All Departmental risk owners.
- Territorial Policing and Crime Command risk owners.
- Chief Officer Group.

Appendix 1

Risk Scoring Matrix

Impact Score	Description					
		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 IPCC 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 25% 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.

		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**

Joint Audit Committee 16 March 2022 Agenda Item 11

Monitoring Key Audit Recommendations

Introduction

This report is designed to monitor the implementation of recommendations and actions arising from Audit and Inspection. The report fulfills the assurance responsibilities of the Joint Audit Committee with regards to the implementation of control recommendations and best practice arising from Audit and Inspection work.

Appendix A provides a table of all internal audit reports finalised in the current year, the level of assurance provided by the audit and the number of audit recommendations by grade of recommendation.

Report Summary

The table below shows the number of outstanding actions brought forward from the previous update to members and also of new recommendations since the last report.

Summary of Actions	PCC	CC	Joint	Total
Open actions b/fwd from last report	0	5	0	5
New actions since last report	0	4	2	6
Total actions this report	**0**	**9**	**2**	**11**
Actions completed since last report	0	5	1	6
Open actions c/fwd to next report	**0**	**4**	**1**	**5**

Members have requested that this summary of recommendations report provides an update on actions where the recommendation was graded High/Medium only. Minor Advisory recommendations are monitored by individual managers.

The table below shows the status of all recommendations, **Appendix B** provides a high level summary of the current status of individual actions and **Appendix C** provides narrative updates in respect of individual recommendations.

Summary of Total Actions by Status	PCC	CC	Joint	Total
Completed	0	5	1	6
Ongoing (within original timescale)	0	1	0	1
Ongoing (original timescale extended)	0	0	0	0
Overdue/ timescale exceeded	0	0	0	0
Not yet due	0	3	1	4
Total	**0**	**10**	**1**	**11**

Key to Grade:

Cumbria Shared Internal Audit Service

Grade/Priority	
High	Significant risk exposure identified arising from a fundamental weakness in the system of internal control.
Medium	Some risk exposure identified from a weakness in the system of internal control.
Advisory	Minor risk exposure/suggested improvement to enhance the system of control.

External Audit – Grant Thornton

Grade/Priority	
High	Significant effect on control system
Medium	Effect on control system
Low	Best practice

Monitoring of Individual Audit Reports 2021/22

Audit Report	CC/ PCC/ Joint	Reported Date	Assurance Opinion				Audit Recommendations (Grade)			
			Substantial	Reasonable	Partial	Limited /None	High	Medium	Advisory	Total
Main Accounting System	Joint	26/04/21		✓			0	1	0	**1**
Sickness Reporting	CC	29/03/21	✓				0	0	0	**0**
Reflective Practice Review	CC	10/05/21			✓		2	3	0	**5**
Sickness Management	CC	12/05/21	✓				0	0	2	**2**
Police Pensions	CC	12/05/21	✓				0	0	0	**0**
Financial Sustainability	Joint	13/05/21		✓			0	0	0	**0**
Contract Management	CC	01/06/21		✓			0	3	1	**4**
Business Transformation Project Finance	CC	01/06/21		✓			0	1	1	**2**
Contract Management	PCC	06/05/21	✓				0	0	0	**0**
Total to JAC 23/06/21			**4**	**4**	**1**	**0**	**2**	**8**	**4**	**14**
External Audit of Financial Statements	Joint	October 2021					0	1	0	**1**
Total to JAC 04/11/21							**0**	**1**	**0**	**1**
Agile Workforce	PCC	04/08/21	✓				0	0	0	**0**
Complaint Review Process	PCC	24/09/21	✓				0	0	2	**2**
Agile Workforce	CC	11/10/21		✓			0	0	0	**0**
Total to JAC 17/11/21			**2**	**1**	**0**	**0**	**0**	**0**	**2**	**2**
Payroll	Joint	17/02/22		✓			0	1	0	**1**
Digital Leadership Programme	CC	24/02/22		✓			0	2	0	**2**
Preparedness for McCloud Remedy	CC	24/02/22		✓			0	1	0	**1**
Benefits Delivery Process	Joint	25/02/22			✓		1	0	0	**1**
Covid-19 Response	CC	28/02/22	✓				0	0	0	**0**
Inventory	CC	01/03/22		✓			0	1	2	**3**
Total to JAC 16/03/22			**1**	**4**	**1**	**0**	**1**	**5**	**2**	**8**

Audit Report	Recommendation Summary	Current Status					
		Completed	Ongoing (within original timescale)	Ongoing (original timescale extended)	Overdue/ timescale exceeded	Not Yet Due	For detail see page
Totals B/Fwd Recommendations							
Reflective Practice Review (CC)	R1) A plan for rolling out training on RPRP-PRI should be developed, approved by management and delivered across the Constabulary. Items to consider as part of the plan should include timescales, who the training will be initially focussed at (e.g. line managers and supervisors), arrangements for cascading and embedding the training throughout the organisation and how the training will be delivered (e.g. through e-learning, classroom based, as part of the promotion process etc.).	✓					6
Reflective Practice Review (CC)	R2) Arrangements should be put in place to identify whether any themes are emerging from the RPRP-PRI process which highlight organisational learning and would require a corporate response (this links to recommendation 1 on awareness raising and training).	✓					7
Reflective Practice Review (CC)	R5) Arrangements for recording RPRP-PRI should be explored to ensure that the information is captured and retained organisationally.	✓					8
Contract Management (CC)	R2) Contract management roles, responsibilities and accountabilities should be clearly defined and documented.	✓					9
Contract Management (CC)	R3) Arrangements should be in place to determine what contract management training is required, by whom and ensure that it is delivered.	✓					10
Total B/Fwd Recommendations		**5**	**0**	**0**	**0**	**0**	
New Recommendations Since Last Report							
Payroll (Joint)	R1) Details of the various checks to be undertaken within the Resource Co-ordination Team on monthly claims should be documented.	✓					11
Digital Leadership Programme (CC)	R1) There are lessons to be learnt from the implementation of the DLP programme regarding the ability to demonstrate good governance arrangements. These lessons should be applied to future collaborative projects.					✓	12

Audit Report	Recommendation Summary	Current Status					
		Completed	Ongoing (within original timescale)	Ongoing (original timescale extended)	Overdue/ timescale exceeded	Not Yet Due	For detail see page
Digital Leadership Programme (CC)	R2) Measures to demonstrate the impact of training and development in the workplace should be considered during the development of future training programmes.					✓	13
Preparedness for McCloud Remedy (CC)	R1) The documented governance arrangements for the McCloud Remedy should be reviewed to ensure that they correctly reflect the intended / actual arrangements in place.		✓				14
Benefits Delivery Process (Joint)	R1) Arrangements to deliver the benefits realisation policy and procedure should continue to be fully developed and embedded, then subsequently assessed for effectiveness, taking into account the points outlined above.					✓	15
Inventory (CC)	R1) Once the system is fully implemented this should be formally reported by the SRO to Management Board to confirm that the improvements have been delivered and benefits realised.					✓	16
Total New Recommendations		**1**	**1**	**0**	**0**	**4**	
Total All Recommendations		**6**	**1**	**0**	**0**	**4**	

Audit Report: Audit of Reflective Practice Review Process – Practice Requiring Improvement

Date Issued:	Date Considered by JAC:	Report of:	Report for:
10/05/2021	23/06/2021	Shared Internal Audit Service	CC

Recommendation:	Grade:
R1) A plan for rolling out training on RPRP-PRI should be developed, approved by management and delivered across the Constabulary. Items to consider as part of the plan should include timescales, who the training will be initially focussed at (e.g. line managers and supervisors), arrangements for cascading and embedding the training throughout the organisation and how the training will be delivered (e.g. through e-learning, classroom based, as part of the promotion process etc.).	High

Agreed Actions:	Due Date:
We will develop a plan for rolling out training on RPRP-PRI. The plan will include timescales to enable delivery of training throughout the organisation. We are now utilising the MLE Training Package which will provide input in two formats. 1) Supervisors 2) All members of staff (recipients) It is anticipated this initial phase will see completion by ~~Autumn 2021~~ updated to 30 November 2021 following JAC discussion in June).	Plan to be drawn up by end April 2021 **Responsible Person:** Head of Professional Standards DCI Craig Smith

Subsequent Updates:

August 2021 - Process is progressing. All DCI and CI have been briefed around the process. The Head of Professional Standards is currently working with Media and Marketing to formulate a Streams video for wider organisational learning.

November 2021 - This is still ongoing with Media and Marketing however, the use of RPRP is increasing widely, last quarter the process used 16 times.

March 2022 - Training and awareness training is continuing and is being raised with the Prevent Officer across the organisation. All new Sgts and Insp have RPRP now included as a development module with their promotion framework to ensure compliance.

Status:	Agreed Changes to Due Date: *(N.B. any changes to due date must be agreed by COG or a Governance Board)*	New Date:	Where & When Approved:
Completed		30/11/2021	JAC June '21

<table>
<tr><td colspan="4">Audit Report: Audit of Reflective Practice Review Process – Practice Requiring Improvement</td></tr>
<tr><td>Date Issued:
10/05/2021</td><td>Date Considered by JAC:
23/06/2021</td><td>Report of:
Shared Internal Audit Service</td><td>Report for:
CC</td></tr>
<tr><td colspan="3">Recommendation:
R2) Arrangements should be put in place to identify whether any themes are emerging from the RPRP-PRI process which highlight organisational learning and would require a corporate response (this links to recommendation 1 on awareness raising and training).</td><td>Grade:
High</td></tr>
<tr><td colspan="3" rowspan="2">Agreed Actions:
The process to identify themes and organisational learning identified through RPRP-PRI will be built into the plan to be developed as part of recommendation 1

We are currently working with IT to develop an existing process (Secondary Business Interests), as a model to address this priority.
It is anticipated the adoption of this system will facilitate the individual and organisational learning that will fall out of the process.</td><td>Due Date:
Themes & organisational learning to be identified by March 2022 once arrangements have had sufficient time to embed.</td></tr>
<tr><td>Responsible Person:
Head of Professional Standards

DCI Craig Smith</td></tr>
<tr><td colspan="4">Subsequent Updates:
August 2021 - The IT solution has been given the highest priority regarding to resolving this solution. Work is ongoing with IT and is to be completed by 30 November 2021.

November 2021 - IT solution is now in “Test” phase with an anticipated delivery before Christmas.

March 2022 - The IT solution went live in late December. The IT platform is being utilised across the organsiation. Analytically, we will look at the identification of thematics on a quarterly basis. The new Prevent Officer (based in PSD), will then focus on organisational learning and ensure that key messages/ learning is shared.</td></tr>
<tr><td>Status:</td><td rowspan="2">Agreed Changes to Due Date:
(N.B. any changes to due date must be agreed by COG or a Governance Board)</td><td>New Date:</td><td>Where & When Approved:</td></tr>
<tr><td>Completed</td><td></td><td></td></tr>
</table>

Audit Report: Audit of Reflective Practice Review Process – Practice Requiring Improvement			
Date Issued: 10/05/2021	**Date Considered by JAC:** 23/06/2021	**Report of:** Shared Internal Audit Service	**Report for:** CC
Recommendation: R5) Arrangements for recording RPRP-PRI should be explored to ensure that the information is captured and retained organisationally.			**Grade:** Medium
Agreed Actions: We are currently working with IT to develop an existing process (Secondary Business Interests), as a model to address this priority. It is anticipated the adoption of this system will facilitate the individual and organisational learning that will fall out of the process. Timescales are currently looking at 4 – 6 months to implement following agreement of the proof of concept.			**Due Date:** 4-6 months following agreement of the proof of concept **Responsible Person:** Head of Professional Standards DCI Craig Smith
Subsequent Updates: **August 2021 -** update as per R2 above. **November 2021** - The process of organisational learning will be supported through the use of a PSD "Diversion Officer" who will have responsibility for this and other reflective learning practices. **March 2022** - The processes and procedure is now in place. Key areas of learning will be identified and shared to address organisational learning. It is anticipated, this will reduce misconduct and or public complaints and have a positive influence on Standards of Professional Behaviour.			
Status:	**Agreed Changes to Due Date**: *(N.B. any changes to due date must be agreed by COG or a Governance Board)*	**New Date:**	**Where & When Approved:**
Completed			

<table>
<tr><td colspan="4">Audit Report: Contract Management</td></tr>
<tr><td>Date Issued:
01/06/2021</td><td>Date Considered by JAC:
23/06/2021</td><td>Report of:
Shared Internal Audit Service</td><td>Report for:
CC</td></tr>
<tr><td colspan="3">Recommendation:
R2) Contract management roles, responsibilities and accountabilities should be clearly defined and documented.</td><td>Grade:
Medium</td></tr>
<tr><td colspan="3" rowspan="2">Agreed Actions:
A Contract Performance dashboard, based on the Central Government model, is to be produced for critical contracts as a pilot. This will be populated by “contract managers” from the business (with designated Commercial Team support) and presented to Business Board each quarter.</td><td>Due Date:
30 September 2021</td></tr>
<tr><td>Responsible Person:
Head of Commercial
Barry Leighton</td></tr>
<tr><td colspan="4">Subsequent Updates:
September 2021 - Progress is underway and expected to be complete late Sept early October within the document referred to in Recommendation 1.
November 2021 - Draft in place based on CIPS and CIPFA documents. Stakeholder discussions commenced targeting publication January 2022.
March 2022 - Contract Management model developed and to be implemented on new critical contracts where other models are not in place. Custody Medical and Translation will be in first tranche.</td></tr>
<tr><td>Status:</td><td rowspan="2">Agreed Changes to Due Date:
(N.B. any changes to due date must be agreed by COG or a Governance Board)</td><td>New Date:</td><td>Where & When Approved:</td></tr>
<tr><td>Completed</td><td>31/01/2022</td><td>TBC</td></tr>
</table>

Audit Report: Contract Management			
Date Issued: 01/06/2021	**Date Considered by JAC:** 23/06/2021	**Report of:** Shared Internal Audit Service	**Report for:** CC
Recommendation: R3) Arrangements should be in place to determine what contract management training is required, by whom and ensure that it is delivered.			**Grade:** Medium
Agreed Actions: Training will be provided and an assessment for suitability is underway of the Government Commercial Function Contract Management Training Program. This program provides training at introductory, intermediate and advanced level and could be adapted for Police Forces. The intention is for Commercial Business Partners to receive intermediate level training and then train nominated contract managers within the business.			**Due Date:** 30 September 2021 **Responsible Person:** Head of Commercial Barry Leighton
Subsequent Updates: **September 2021 -** Progress is underway and expected to be complete late Sept early October. Delivery will be in a timely manner dependent on requirements. **November 2021** - Wider delivery of training is through Bluelight Commercial not available until 2022. **March 2022** - Contract Management Training booked with Bluelight for April and May 2022			
Status:	**Agreed Changes to Due Date**: *(N.B. any changes to due date must be agreed by COG or a Governance Board)*	**New Date:**	**Where & When Approved:**
Completed		31/03/2022	TBC

<table>
<tr><td colspan="4">Audit Report: Payroll</td></tr>
<tr><td>Date Issued:
17/02/2022</td><td>Date Considered by JAC:
16/03/2022</td><td>Report of:
Shared Internal Audit Service</td><td>Report for:
Joint</td></tr>
<tr><td colspan="3">Recommendation:
R1) Details of the various checks to be undertaken within the Resource Co-ordination Team on monthly claims should be documented.</td><td>Grade:
Medium</td></tr>
<tr><td colspan="3" rowspan="2">Agreed Actions:
Note and agree the recommendation, whilst the checks are detailed as part of the process map we will formalise these into a monthly procedure document.

Action – A monthly checklist document will be produced with a list of each step of the process map that needs to be completed, which will be version controlled with the date and signature the action was carried out and who by. This checklist will be used each month through the process until the file has been sent to CSD for checking and then continue their stage.

This will be implemented ahead of the next Payroll run due March w/c 07/03/22.</td><td>Due Date:
31 March 2022</td></tr>
<tr><td>Responsible Person:
Karen Thomson – Resource Coordination Team Leader</td></tr>
<tr><td colspan="4">Subsequent Updates:
March 2022 – A document to be completed each month detailing the checks on the payroll fille before it is produced and sent to CSD has been created. The payroll extract process map has been updated to reflect this.</td></tr>
<tr><td>Status:</td><td rowspan="2">Agreed Changes to Due Date:
(N.B. any changes to due date must be agreed by COG or a Governance Board)</td><td>New Date:</td><td>Where & When Approved:</td></tr>
<tr><td>Completed</td><td></td><td></td></tr>
</table>

<table>
<tr><td colspan="4">Audit Report: Digital Leadership Programme</td></tr>
<tr><td>Date Issued:
24/02/2022</td><td>Date Considered by JAC:
16/03/2022/</td><td>Report of:
Shared Internal Audit Service</td><td>Report for:
CC</td></tr>
<tr><td colspan="3">Recommendation:
R1) There are lessons to be learnt from the implementation of the DLP programme regarding the ability to demonstrate good governance arrangements. These lessons should be applied to future collaborative projects.</td><td>Grade:
Medium</td></tr>
<tr><td colspan="3" rowspan="2">Agreed Actions:
The DLP goes from strength to strength and has developed into a National Digital Leadership Academy.

Whilst governance between two forces can be more difficult, especially when innovating, the focus needs to be on the innovation and ambition.

The programme was successfully delivered across two forces and whilst it was not presented to both forces as per the audit findings it was mitigated through a joint Chief Superintendent leading for both forces at that senior level.

A debrief will take place and lessons learned will be disseminated.</td><td>Due Date:
30/09/2022</td></tr>
<tr><td>Responsible Person:
ACC Blackwell</td></tr>
<tr><td colspan="4">Subsequent Updates:</td></tr>
<tr><td>Status:</td><td rowspan="2">Agreed Changes to Due Date:
(N.B. any changes to due date must be agreed by COG or a Governance Board)</td><td>New Date:</td><td>Where & When Approved:</td></tr>
<tr><td>Not yet due</td><td></td><td></td></tr>
</table>

Audit Report: Digital Leadership Programme			
Date Issued: 24/02/2022	**Date Considered by JAC:** 16/03/2022/	**Report of:** Shared Internal Audit Service	**Report for:** CC
Recommendation: R2) Measures to demonstrate the impact of training and development in the workplace should be considered during the development of future training programmes.			**Grade:** Medium
Agreed Actions: Whilst the programme has been delivered, I agree that how effective we are digitally should be a future focus. That said, the outcome framework is something that is being grappled with nationally. There are no national standards, national performance frameworks or national APP guidance or other available guidance. As we are innovating in a field ahead of all other police forces, its stands to reason that we will have to create a measured outcome framework. This will be done as part of the Digital Leadership Academy working with other forces and national bodies.			**Due Date:** 30/09/2022 **Responsible Person:** ACC Blackwell
Subsequent Updates:			
Status:	**Agreed Changes to Due Date**: *(N.B. any changes to due date must be agreed by COG or a Governance Board)*	**New Date:**	**Where & When Approved:**
Not yet due			

Audit Report: Preparedness for McCloud Remedy			
Date Issued: 24/02/2022	**Date Considered by JAC:** 16/03/2022	**Report of:** Shared Internal Audit Service	**Report for:** CC
Recommendation: R1) The documented governance arrangements for the McCloud Remedy should be reviewed to ensure that they correctly reflect the intended / actual arrangements in place.			**Grade:** Medium
Agreed Actions: A new Terms of Reference for the Pensions Challenge (Cumbria Police) Board will be created which clearly defines its role, expanding to cover all pensions related matters. This Board TOR will reference the role of the Project Team which will provide improved governance and clarity around roles and responsibilities of each group.			**Due Date:** 01/04/2022 **Responsible Person:** Ann Dobinson, Head of Central Services
Subsequent Updates: **March'22** – This was discussed at the project board meeting on 03/03/22, the terms of reference will be updated in line with the identified timescales.			
Status:	**Agreed Changes to Due Date**: *(N.B. any changes to due date must be agreed by COG or a Governance Board)*	**New Date:**	**Where & When Approved:**
Ongoing (within original timescale)			

<table>
<tr><td colspan="4">Audit Report: Benefits Delivery Process</td></tr>
<tr><td>Date Issued:
25/02/2022</td><td>Date Considered by JAC:
16/02/2022</td><td>Report of:
Shared Internal Audit Service</td><td>Report for:
Joint</td></tr>
<tr><td colspan="3">Recommendation:
R1) Arrangements to deliver the benefits realisation policy and procedure should continue to be fully developed and embedded, then subsequently assessed for effectiveness, taking into account the points outlined above.</td><td>Grade:
High</td></tr>
<tr><td colspan="3" rowspan="2">Agreed Actions:
The Change Manager to implement the following actions, overseen by Supt. Andy Wilkinson:
To be completed by 31/03/2022:
• Ensure ICT/DDAT actions are added to the central register
• Ensure Secretaries and Staff Officers respond to the request for benefits that have been agreed
• Ensure the processes within Change Team and Police Futures align, including writing a procedure for the administration of benefits. Including an internal SLA of 14 days to add new benefits to the register
• Report to COG with current status of Benefits, including update on the register 31/03/2022.

To be completed by 30/06/2022:
• Finalise standard format of COG reporting
• Report to COG at the end of Q1 2022/2023. This will allow for financial reconciliation vs. 2021/2022 benefits
• Establish ‘lessons learnt’ process</td><td>Due Date:
31/03/22 and 30/06/2022</td></tr>
<tr><td>Responsible Person:
Adam Sutton, Change Manager</td></tr>
<tr><td colspan="4">Subsequent Updates:</td></tr>
<tr><td>Status:</td><td rowspan="2">Agreed Changes to Due Date:
(N.B. any changes to due date must be agreed by COG or a Governance Board)</td><td>New Date:</td><td>Where & When Approved:</td></tr>
<tr><td>Not yet due</td><td></td><td>TBC</td></tr>
</table>

Audit Report: Inventory			
Date Issued: 01/03/2022	**Date Considered by JAC:** 16/03/2022	**Report of:** Shared Internal Audit Service	**Report for:** CC
Recommendation: R1) Once the system is fully implemented this should be formally reported by the SRO to Management Board to confirm that the improvements have been delivered and benefits realised.			**Grade:** Medium
Final features, as described by the inventory team to the auditors, remain outstanding and are currently being implemented by the Commercial team and Oracle in order to achieve full implementation and benefit from the system. Credit should be given to the team who, without previous experience and with increased "day job" demands replaced a system that would have become vulnerable to cyber attacks (without significant investment) with a new, efficient state of the art lean system that is future proof, provides vfm meets the requirements of Vision 25 and provides features such as auto approval and self-service. Achieved benefits have included enabling a Commercial Department redesign, £67k Budget saving and Headcount reduction which has created additional bandwidth to focus on many strategic contracts. As the SRO is a member of Chief Officers Group, Executive team, Management Board, Collaboration Board and Service Design Board each of these Boards has been briefed on updates. In addition, the Head of Commercial provided a briefing at the annual review at the Joint Audit Committee. As the material benefits identified at the start of the transformation program have now been delivered, the final features will deliver smoother operation rather than material benefits.			**Due Date:** 31/12/2022 **Responsible Person:** Barry Leighton Head of Commercial
Subsequent Updates:			
Status:	**Agreed Changes to Due Date**: *(N.B. any changes to due date must be agreed by COG or a Governance Board)*	**New Date:**	**Where & When Approved:**
Not yet due			TBC

Peter McCall

Capital Strategy 2022/23

Peter McCall

Office of the Police and Crime Commissioner Report

Public Accountability Conference 16 February 2022

Title: Capital Strategy 2022/23

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. This capital strategy is 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 08b & 08c).

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.

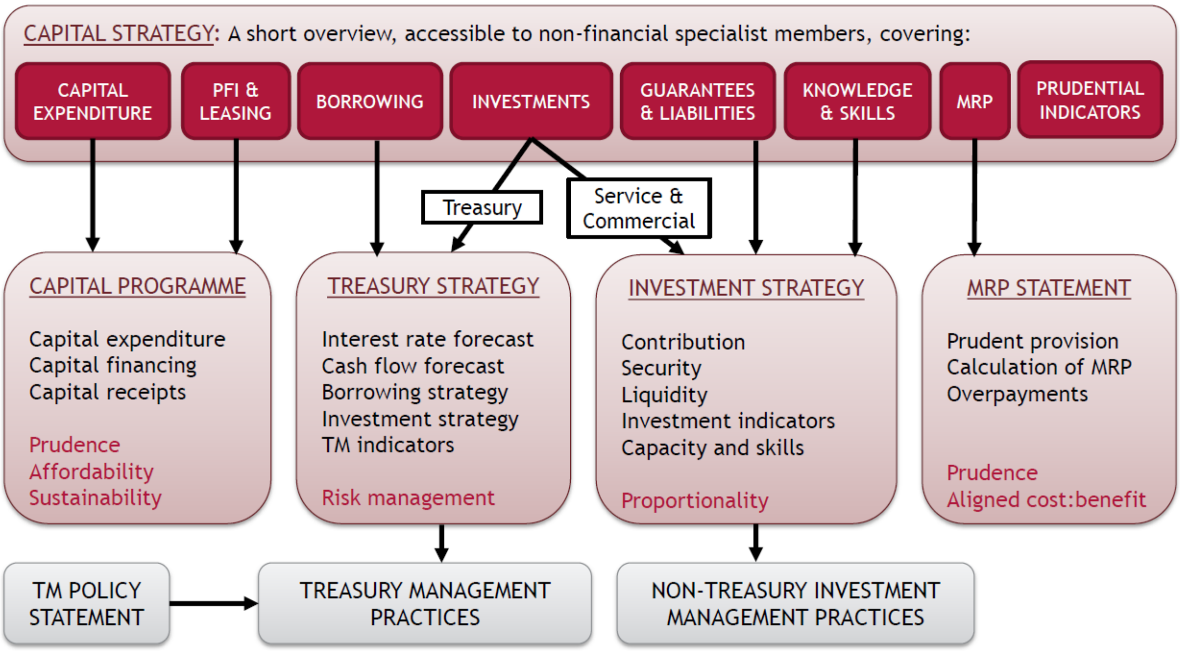
2. Recommendations

2.1. The Commissioner is asked to approve 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 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. New codes were issued in December 2021 but the accompanying guidance notes have not yet been released. The most urgent changes around commercialisation strategies are not relevant to the Police and Crime Commissioner and all other changes must be adopted for the 01 April 2023.

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 Digital, Data and Technology 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 Fleet Strategy, which aims to satisfy the Constabulary's vehicle needs within a sustainable financial model.

4.3. A workplan is developed annually to support delivery of each strategy. 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 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 five year medium term are shown below:

Capital Expenditure	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2025/26 Estimate £m
Capital Expenditure	2.81	6.76	7.22	12.28	12.23	3.71	9.69

4.5. The profile of capital expenditure fluctuates annually. Across the current five year programme, annual average expenditure typically comprises £1.4m to replace fleet vehicles, £2.9m on estate schemes (although by their nature these investments tend to be more lumpy) and around £4.4m for replacement of ICT systems and equipment.

4.6. The 2022/23 capital programme includes ICT expenditure on development and roll out of mobile technology and smartphones, consideration of options for ICT infrastructure and a move to more cloud based systems. In addition, preparatory work on the national programme to replace the Police Radio System (Airwave) with an Emergency Services Network (ESN) will continue, in advance of significant expenditure to implement the system in future years. Investment in the on-going replacement of vehicles in accordance with the Fleet Strategy will continue. Expenditure on Estates schemes over the 5 years is dominated by the need to evaluate options and provide a territorial headquarters in the west of the County upon the expiry of the existing PFI arrangement in 2026. Work will also be undertaken to assess the capital investment requirements to equip the additional officers recruited through Operation Uplift and some provision has been made for this in the programme.

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, meaning that they can be progressed without further scrutiny. Schemes which have been approved in principle but need some detailed work may be 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 Constabulary Chief Officer Group and 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 has previously defined an 'Affordable, Prudent and Sustainable' programme as being fully funded (from the sources outlined above) for the medium term financial forecast (MTFF) period of 4 years. The MTFF has recently been extended to cover a 5 year time frame in accordance with best practice. 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 projected costs in the later years of the capital programme become increasingly indicative and should be treated with caution. Nevertheless, the funding gap identified beyond year 4 of the capital programme presents a risk that it will no longer meet the tests of 'affordability, prudence and sustainability' as set out in the Prudential Code. The only ways in which this can be realistically addressed is through either capital savings or further increased support from the revenue budget, which will, in turn, increase the requirement to deliver revenue savings. 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 zero, the potential to generate future capital receipts is low and capital reserves are likely to have been fully utilised in the next two 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 to an annual figure of £3.8m by the end of the 10 year 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. Capital financing assumes 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 2022/23 to 2031/32 (item 08b 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 Deputy Chief Finance Officer. 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 08c).

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 2022 is forecast to be £20.97m.

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 around 2.4+% where investments are currently making less than 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 is 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 0.1%) and long-term fixed rate loans where the future cost is known but higher (currently 2.4%+). Current forecasts show that a small amount of short term borrowing, probably from other local authorities, may be required at the start of 2023/24 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 08c).

6. Other Liabilities

6.1. In relation to other external liabilities the Commissioner's balance sheet currently shows debt of £4.403m 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 £1.522bn 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 £1.395m 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 is 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 these pension liabilities crystallising and requiring payment is monitored by the Finance Services team. Further details on liabilities and guarantees are on page 92 of the 2020/21 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 08c).

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. In addition, a direct contribution is made from revenue budget towards funding the capital programme. In 2022/23 this direct revenue contribution will amount to £4.4m.

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	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Minimum revenue provision for the financial year	0.61	0.63	0.65	0.68	0.71	0.93	0.59

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	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Investment income	0.02	0.01	0.01	0.01	0.01	0.01	0.01
MRP	0.61	0.63	0.65	0.68	0.71	0.93	0.59
Financing Costs	**0.59**	**0.62**	**0.64**	**0.67**	**0.70**	**0.92**	**0.58**
Net Revenue Stream	118.76	123.13	129.97	132.57	135.95	138.93	141.93
Ratio	0.50%	0.50%	0.49%	0.51%	0.52%	0.66%	0.41%

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 one employee in the final stages of studying at Level 3/4 (AAT) and has in December/January had one employee complete qualification studies at Level 3/4 (AAT) and another at 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 Office of the Police and Crime Commissioner

Title: Capital Programme 2022/23 & Beyond

Public Accountability Conference: 16th February 2022

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 2022/23 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. Police and Crime commissioner is asked to note the proposed capital programme for 2022/23 and beyond as part of the overall budget process for 2022/23.

2.2. The Commissioner is asked to approve the status of capital projects as detailed in appendices 2 to 5.

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**". In previous years the test that has been applied to meet these requirements is that 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. In compliance with CIPFA best practice guidance the medium-term financial timeframe for both revenue and capital expenditure planning has now been extended to 5 years.

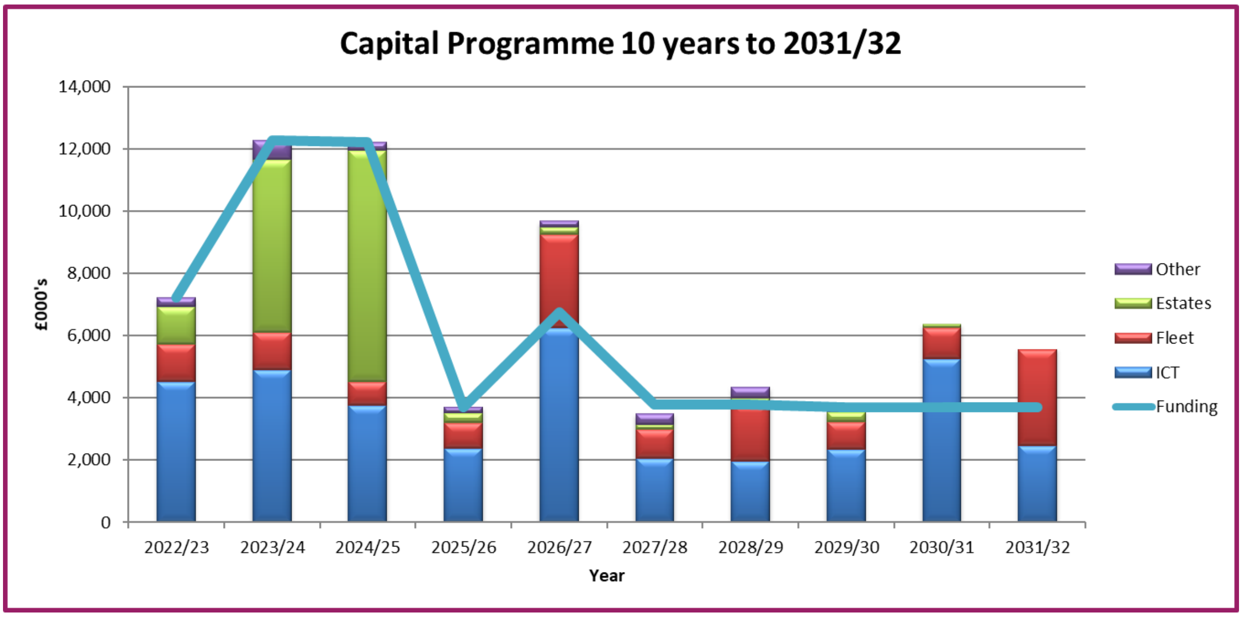
3.2. There are three main recurring elements to the Commissioner's capital programme namely: Fleet Schemes, Estates Schemes and ICT Schemes. In addition to these, there are currently a small number of "other schemes" which do not fall into the broad headings above and include the replacement of the countywide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

3.3. The profile of capital expenditure fluctuates annually. Across the current ten-year programme, annual average expenditure typically comprises £1.5m to replace fleet vehicles and around £3.5m for replacement of ICT systems and equipment. The profile of Estates schemes is 'lumpier', with peaks of expenditure when major buildings are replaced. ICT Expenditure reflects the Constabulary Strategy to invest in digital technology and the national programme to replace the Police Radio System (Airwave) with an Emergency Services Network (ESN).

3.4. The table below provides a high-level summary of the proposed capital programme and associated capital financing over the five-year timeframe of the medium-term financial forecast (2022/23 to 2026/27).

Capital Expenditure	Yr 0 2021/22 £	Yr 1 2022/23 £	Yr 2 2023/24 £	Yr 3 2024/25 £	Yr 4 2025/26 £	Yr 5 2026/27 £
ICT Schemes	2,361,763	4,530,120	4,892,291	3,768,847	2,388,379	6,248,985
Fleet Schemes	2,700,594	1,191,000	1,215,840	749,216	821,500	2,995,704
Estates Schemes	1,395,726	1,206,249	5,550,000	7,440,000	300,000	245,000
Other Schemes	299,426	291,719	617,829	267,829	200,000	200,000
Total Capital Expenditure	6,757,509	7,219,088	12,275,960	12,225,892	3,709,879	9,689,689
Capital Financing	**Yr 0 2021/22 £**	**Yr 1 2022/23 £**	**Yr 2 2023/24 £**	**Yr 3 2024/25 £**	**Yr 4 2025/26 £**	**Yr 5 2026/27 £**
Capital Receipts	(84,800)	0	(1,182,217)	(380,864)	(105,997)	(3,113,091)
Revenue Contributions	(4,652,774)	(4,415,946)	(4,406,701)	(4,465,028)	(3,603,882)	(3,632,587)
Capital Grants	(1,999,935)	(2,203,142)	(1,687,042)	0	0	0
Capital Reserves	(20,000)	(600,000)	(3,380,000)	0	0	0
Borrowing	0	0	(1,620,000)	(7,380,000)	0	0
Total Capital Financing	(6,757,509)	(7,219,088)	(12,275,960)	(12,225,892)	(3,709,879)	(6,745,678)
(Excess)/Shortfall	0	0	0	0	0	2,944,011

3.5. The diagram below shows the make up of the capital programme over 10 years. The large block of Estates work in 2023/24 and 2024/25 relates to the planned replacement of the Territorial Policing HQ in West Cumbria at the end of the current PFI contract. An options evaluation with regard to this project is currently being progressed and formal approval will be required before the scheme commences.



3.6. Since the last capital strategy was agreed by the Commissioner in February 2021 a number of new capital demands have emerged. These have included short term requirements to replace kenneling for police dogs £1.5m, adapting the HQ site primarily to provide increased learning and development capacity in the context of increased recruitment from Operation Uplift £0.4m and the replacement of the Police Records Management System by 2024/25 at an estimated cost of £3m. These additional short term capital demands will be financed through a combination of draw-down of revenue reserves and direct support from the revenue budget.

3.7. Increased costs are also forecast in the later years of the ten-year capital programme. In particular, a re-assessment of the costs of implementing the Emergency Services Network (ESN) has been undertaken based on revised modelling issued by the Home Office. This work has identified an upward revision of the implementation costs of the new system by £3m, with the bulk of the additional cost arising around the point of transition in 2026/27. ESN is a complex national project, which has been subject to repeated delays and uncertainty regarding the proportion of costs which will ultimately be borne by forces.

3.8. In addition, recent increases in the costs of vehicles have also added a further £3m to the cost of fleet replacement over the ten-year forecast period. There is also a risk that additional vehicles to meet the needs of the additional officers recruited through Operation Uplift will be required, which will require a business case, but would add further to the fleet programme costs.

3.9. Historically the capital programme has been financed through a combination of capital grants, capital receipts, capital reserves, borrowing and contributions from the revenue budget. Reserves and accumulated capital grants will be largely exhausted by 2023/24. In addition, the Government's grant settlements over recent years had successively reduced the level of specific capital grant funding to £97k p.a. by 2021/22. Capital grant funding was removed altogether from the 2022/23 police settlement, although the Policing Minister has made it clear that the additional revenue funding for Operation Uplift has included a capital element to support the infrastructure costs required to equip the additional officers in their roles.

3.10. As a result of the reducing funding sources described above and 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 programme 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 2023/24 and 2024/25 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 see para 3.5.

3.11. The capital programme has therefore become ever more reliant on revenue contributions to finance capital expenditure. Historically, the annual contribution from the revenue budget was set at £1.2m. The following increases have been approved since then

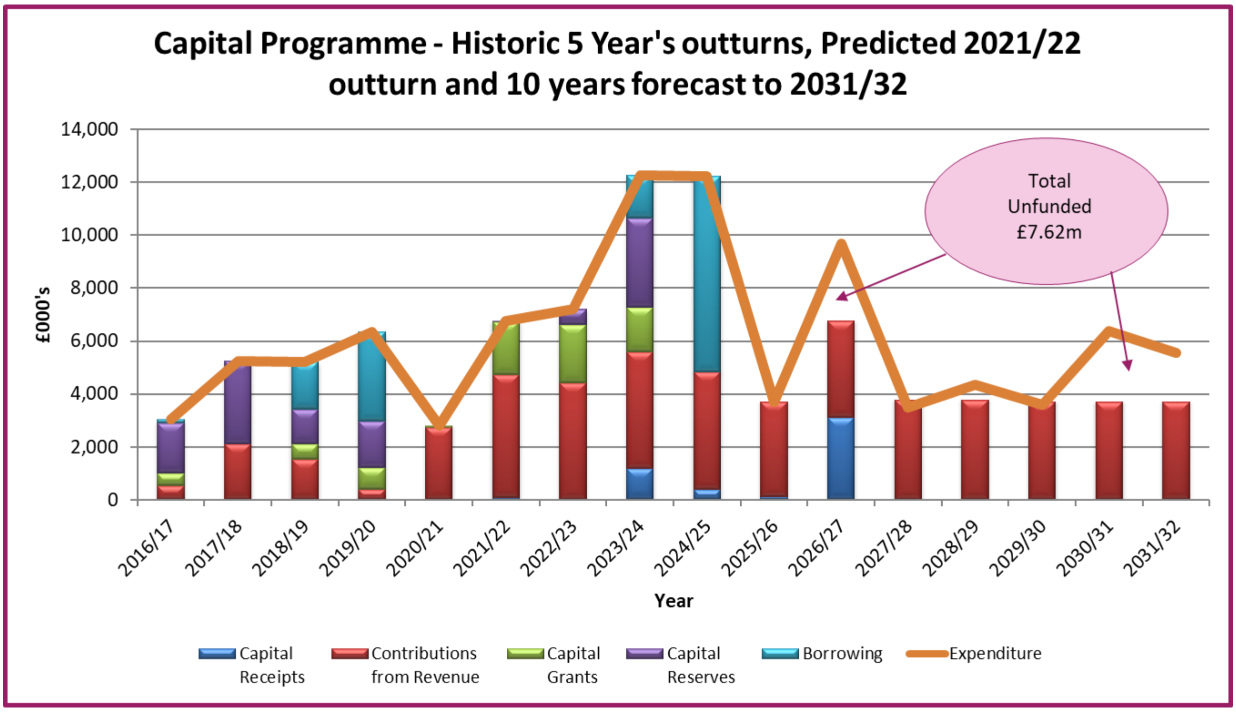
- PCP Jan 2017 - Increase of £0.48m to £1.68m for 2018/19 and 2019/20.
- PCP Jan 2017 – Increase of £1.3m to £2.98m for 2020/21 onwards.
- PCP Jan 2019 – Increase £0.3m to £3.28m from 2020/21.
- PCP Feb 2020 – Increase £0.27m to £3.56m from 2020/21.

3.12. A summary of the 10-year capital programme is provided for information at **Appendix 1**. Whereas the ten-year capital programme in previous years was fully balanced, the increased capital expenditure and reduced funding outlined in the preceding paragraphs has given rise to a total capital funding deficit of £7.62m in years 5 to 10. 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 projected costs in the later years of the capital programme become increasingly indicative and should be treated with caution. Nevertheless, the funding gap identified beyond year 4 of the capital programme presents a risk that it will no longer meet the tests of 'affordability, prudence and sustainability' as set out in the Prudential Code. The only ways in which this can be realistically addressed is through either capital savings or further increased support from the revenue budget, which will, in turn, increase the requirement to deliver revenue savings. The ten-year capital programme deficit of £7.62m would equate to an increase in revenue support of £0.76m pa over 10 years or £1.27m pa over the later 6 years.

3.13. Of particular concern is the projected deficit of £2.9m in 2026/27, which is largely as a result of the implementation of ESN. Given the higher than usual level of complexity and uncertainty regarding this project, further work will be undertaken within the Constabulary to validate the costs of ESN. However, there may ultimately be no option but to increase the level of support to the capital programme from the revenue budget.

3.14. Whilst the proposed capital programme meets the prudential code test of 'affordability, prudence and sustainability' that it fully funded over 4 years, it would no longer do so if the test were extended to 5 years due to the costs of implementing ESN. Further work will therefore be undertaken in 2022/23 to assure the programme's sustainability over the longer term.

The chart below illustrates capital expenditure and funding over a historic five-year period and forecast for ten-year period which illustrates how the capital programme will become almost entirely dependent upon revenue funding in future and also highlights the funding gap, where the orange expenditure line exceeds the funding in the bars.



3.15. **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 Digital Strategy.

The ICT Capital Programme also makes provision for a large number of national ICT programmes, which include changes of major strategic importance, in particular, 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 £5.40m over the five years of the MTFF and £10.1m over 10 years (an increase of £3m from the programme presented in February 2021). 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. The timescales for the project are constantly changing 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 pandemic has provided the Constabulary with an opportunity to assess the current agile working and look at how this will affect future working arrangements. This will help determine the ICT infrastructure that is needed to support a more agile future. The Infrastructure is currently a consolidation of server hardware in an on-site data centre. The desire is to move away from this expensive hardware and towards cloud storage. The project budget to deliver these changes has begun with a budget that is spread all 10 years (slightly front loaded) to reflect more accurately the financing of a managed solution. Such a solution could ultimately be classed as revenue expenditure but until such time that a 'Proof of Concept' provides us with a firm pathway to Cloud, the budget is provisioned for in capital.

The ICT programme 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. Current exploratory work is underway to understand the best way forward to allow us to keep ahead of the evolving complexities of policing technologies and join all our information in one place. To facilitate these developments a record management system has been added to the programme with a value of £3m.

If these three large schemes are discounted, the programme shows that the ICT capital programme presented remains broadly flat over the 10 years at an average of £1.5m 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. 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.

3.16. **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 update of progress against which was presented to the Commissioner as part of the budget setting process in the autumn. 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 2021/22 100 vehicles were planned for replacement (including 62 slipped from 2020/21) at an estimated cost of £2.7m. Many of these vehicles were to replace the 'Single Vehicle platform' vehicles that were originally rolled out in 2014/15. The pandemic delayed delivery of a large number of vehicles in 2020/21, which have all now been received. The delays caused some operational difficulties associated with managing and rotating an aging fleet but these vehicles have now all been replaced. Of the 38 vehicles in the programme for 2021/22 22 have been ordered with 13 of those being received and a further 6 expected close to the year end. Of the remaining 16 vehicles yet to be ordered 11 are pool cars. A review of pool car usage and the type of replacement vehicles required will determine the timescales for replacement. The suitability of hybrid and fully electric vehicles are being considered. The effects of Brexit and the pandemic are being felt and the prices of some vehicles have risen. As a result of this the current year budget includes an increase of £66k to accommodate this price inflation.

The plan for 2022/23 is to replace 32 vehicles with a budget of £1,191k. This is made up with a mix of operational vehicles for territorial policing and several CSI vehicles. The budget has been created on pricing from current frameworks and recent purchases which reflect the recent price increases.

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

3.17. **Estates Schemes**

The Commissioner's estate currently consists of 29 premises (including police headquarters, larger police stations/Territorial Policing Area HQ, which include custody suites, smaller police stations, leased in and leased out property together with surplus assets subject to disposal). The estates schemes are supported by the estates strategy, an annual update of progress against this was presented to the Commissioner as part of the budget setting process for 2022/23. 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 main focus of the strategy in recent years (following the development of the new Learning & Development Centre and replacement hostel accommodation on the HQ site at Penrith) has been on smaller life cycle replacements at various premises, including roof repairs, heating and ventilation and improvements to the uninterrupted power supply.

As mentioned in section 3.6 there have been some new schemes added to the 2021/22 programme.

- The investment in additional Police Officers (Operation Uplift) requires some internal changes to the Learning and Development Centre to support the increased level of police officer recruitment at a value of £0.3m.
- The opportunity has arisen to replace the HQ kennels at a cost of £1.5m.
- Internal building work in the Occupational Health Building to create a purpose-built Taser training facility at a value of £50k.

The emphasis shifts for the coming years to focus on improved premises in the west of the county in response to major flooding incidents in recent years, options for which will continue to be developed over 2022/23. The west scheme accounts for the majority of the estates capital spend £13m out the £14.6m planned over the medium term, with some smaller items of life cycle replacement making up the difference. Beyond this, in the 10 year plan, the estates capital budget reduces significantly once the west scheme is complete, to leave on average £221k per year for replacement schemes.

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

3.18. **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 property receipts of £5.021m. At 31 March 2021 there was a balance of property receipts unapplied of £2.096m plus the 2021/22 receipt of £0.253m, this means that £2.672m 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. In addition to the property receipts there are £85k of receipts from the sale of obsolete radio equipment, realised during the recent replacement of the airwave handsets. These will be drawn down to help finance the ESN radio replacement project.

4.2. The remainder of the capital receipts will be applied to the capital programme from 2023/24 as reserves and grants will all have been used to fund expenditure.

5. Supplementary information

<u>Attachments</u>

Appendix 1	Capital Expenditure and Financing 10 years 2022/23 to 2031/32
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 2021 and January 2022
Appendix 7	Capital Receipts Breakdown 2009/10 to 2021/22

Capital Expenditure and Financing 10 years 2022/23 to 2031/32

Capital Expenditure	Yr 0 2021/22 £	Yr 1 2022/23 £	Yr 2 2023/24 £	Yr 3 2024/25 £	Yr 4 2025/26 £	Yr 5 2026/27 £	Yr 6 2027/28 £	Yr 7 2028/29 £	Yr 8 2029/30 £	Yr 9 2030/31 £	Yr 10 2031/32 £	Yr 1-10 Total £
ICT Schemes	**2,361,763**	**4,530,120**	**4,892,291**	**3,768,847**	**2,388,379**	6,248,985	2,066,298	1,955,588	2,341,451	5,257,998	2,466,162	35,916,119
Fleet Schemes	**2,700,594**	**1,191,000**	**1,215,840**	**749,216**	**821,500**	2,995,704	915,750	1,859,816	886,350	1,003,400	3,084,520	14,723,096
Estates Schemes	**1,395,726**	**1,206,249**	**5,550,000**	**7,440,000**	**300,000**	245,000	170,000	185,000	320,000	105,000	0	15,521,249
Other Schemes	**299,426**	**291,719**	**617,829**	**267,829**	**200,000**	200,000	350,000	350,000	43,000	0	0	2,320,378
Total Capital Expenditure	**6,757,509**	**7,219,088**	**12,275,960**	**12,225,892**	**3,709,879**	**9,689,689**	**3,502,048.30**	**4,350,403.56**	**3,590,800.90**	**6,366,398.06**	**5,550,682.39**	**68,480,841.77**

Capital Financing	Yr 0 2021/22 £	Yr 1 2022/23 £	Yr 2 2023/24 £	Yr 3 2024/25 £	Yr 4 2025/26 £	Yr 5 2026/27 £	Yr 6 2027/28 £	Yr 7 2028/29 £	Yr 8 2029/30 £	Yr 9 2030/31 £	Yr 10 2031/32 £	Yr 1-10 Total £
Capital Receipts	**(84,800)**	**0**	**(1,182,217)**	**(380,864)**	**(105,997)**	(3,113,091)	0	0	0	0	0	(4,782,169)
Revenue Contributions	**(4,652,774)**	**(4,415,946)**	**(4,406,701)**	**(4,465,028)**	**(3,603,882)**	(3,632,587)	(3,775,353)	(3,779,209)	(3,711,926)	(3,710,693)	(3,709,429)	(39,210,755)
Capital Grants	**(1,999,935)**	**(2,203,142)**	**(1,687,042)**	**0**	**0**	0	0	0	0	0	0	(3,890,184)
Capital Reserves	**(20,000)**	**(600,000)**	**(3,380,000)**	**0**	**0**	0	0	0	0	0	0	(3,980,000)
Borrowing	**0**	**0**	**(1,620,000)**	**(7,380,000)**	**0**	0	0	0	0	0	0	(9,000,000)
Total Capital Financing	**(6,757,509)**	**(7,219,088)**	**(12,275,960)**	**(12,225,892)**	**(3,709,879)**	**(6,745,678)**	**(3,775,353)**	**(3,779,209)**	**(3,711,926)**	**(3,710,693)**	**(3,709,429)**	**(60,863,108)**
(Excess)/Shortfall	**0**	**0**	**0**	**0**	**0**	**2,944,011**	**(273,305)**	**571,194**	**(121,125)**	**2,655,705**	**1,841,253**	**7,617,734**

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

ICT Schemes

ICT Summary	Yr 0 2021/22 £	Yr 1 2022/23 £	Yr 2 2023/24 £	Yr 3 2024/25 £	Yr 4 2025/26 £	Yr 5 2026/27 £	Yr 6 2027/28 £	Yr 7 2028/29 £	Yr 8 2029/30 £	Yr 9 2030/31 £	Yr 10 2031/32 £	Yr 1-10 Total £
ICT End User Hardware Replacement (002x)	447,864	1,287,545	698,084	1,163,579	643,628	446,621	698,538	661,125	881,714	450,871	406,609	7,338,314
ICT Core Hardware Replacement (003/004x)	957,534	2,015,546	998,150	764,110	1,043,719	1,234,347	1,490,748	1,547,009	991,478	1,272,254	1,625,325	12,982,687
ICT ESN Radio Replacement (Airwave)	264,275	382,420	69,200	200,000	588,000	4,452,778	0	0	189,540	3,740,750	742,500	10,365,188
ICT Core Infrastructure Replacement	0	96,094	285,000	0	0	0	0	0	0	0	0	381,094
ICT Infrastructure Solution Replacement (Projects)	692,090	1,748,514	1,841,857	1,641,158	113,033	115,239	222,488	277,081	765,620	124,503	126,934	6,976,426
Savings Target - 15% Year 5-10 (linked to ICT tech advances)	0	0	0	0	0	0	(345,476)	(529,628)	(486,901)	(330,381)	(435,205)	(2,127,591)
General Prudent Slippage (linked to workloads and staffing levels)	0	(1,000,000)	1,000,000	0	0	0	0	0	0	0	0	0
Total ICT Summary	***2,361,763***	***4,530,120***	***4,892,291***	***3,768,847***	***2,388,379***	***6,248,985***	***2,066,298***	***1,955,588***	***2,341,451***	***5,257,998***	***2,466,162***	***35,916,119***

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 2022/23 to 2025/26, covering the period for which the capital programme is fully funded.

Appendix 3

Fleet Schemes

Fleet Summary	Status	*Number of Vehicles in Category*	Yr 0 2021/22 £	Yr 1 2022/23 £	Yr 2 2023/24 £	Yr 3 2024/25 £	Yr 4 2025/26 £	Yr 5 2026/27 £	Yr 6 2027/28 £	Yr 7 2028/29 £	Yr 8 2029/30 £	Yr 9 2030/31 £	Yr 10 2031/32 £	Yr 1-10 Total £
Covert	Firm	**14**	139,062	26,000	92,820	114,400	29,680	91,908	50,600	101,920	125,400	32,480	100,418	765,626
Neighbourhood Policing	Firm	**91**	1,382,377	485,000	403,920	0	63,600	1,722,708	533,500	443,520	0	0	1,922,338	5,574,586
Specialist Vehicles	Firm	**28**	288,524	30,000	113,220	74,880	233,200	119,448	113,300	450,856	126,540	40,600	241,428	1,543,472
Dog Vehicles	Firm	**10**	297,759	0	0	0	74,200	297,864	0	0	0	81,200	366,744	820,008
Motor Cycles	Firm	**8**	0	0	0	0	149,460	0	0	0	0	17,400	0	166,860
Pool Cars	Firm	**29**	174,200	15,000	63,240	37,856	19,080	122,796	14,300	220,640	17,100	71,920	42,952	624,884
Protected personnel Carriers	Firm	**9**	0	240,000	0	0	0	129,600	0	201,600	0	278,400	0	849,600
Roads Policing Vehicles	Firm	**20**	239,391	40,000	306,000	312,000	195,040	367,200	110,000	224,000	551,760	162,400	0	2,268,400
Crime Command	Firm	**39**	30,000	0	198,900	112,320	57,240	112,320	33,000	0	0	278,400	92,040	884,220
Crime Scene Investigators	Firm	**10**	20,500	270,000	0	0	0	0	0	0	23,370	0	318,600	611,970
Garage	Firm	**6**	0	0	0	0	0	0	0	151,200	0	0	0	151,200
VIP	Firm	**2**	0	0	37,740	36,400	0	0	0	0	42,180	40,600	0	156,920
Above Strength Vehicles	Firm	**29**	0	0	0	0	0	0	0	0	0	0	0	0
Adaptations	Firm	**0**	128,781	0	0	0	0	0	0	0	0	0	0	0
Partnership Vehicles	Firm	**14**	0	85,000	0	61,360	0	31,860	61,050	66,080	0	0	0	305,350
Total Fleet Summary		***309***	***2,700,594***	***1,191,000***	***1,215,840***	***749,216***	***821,500***	***2,995,704***	***915,750***	***1,859,816***	***886,350***	***1,003,400***	***3,084,520***	***14,723,096***
Number of Vehicles Replaced Each Year			***109***	***32***	***45***	***29***	***30***	***99***	***29***	***54***	***21***	***39***	***97***	

Status - Fleet Replacement - It is recommended that all fleet replacement schemes are approved as firm for 2022/23 only. This provides authority to procure on the basis of the currently approved fleet strategy. The strategy will be reviewed during 2022/23 to inform the status of the capital programme in future years.

Appendix 4

Estates Schemes

Estates Summary	Status	Yr 0 2021/22 £	Yr 1 2022/23 £	Yr 2 2023/24 £	Yr 3 2024/25 £	Yr 4 2025/26 £	Yr 5 2026/27 £	Yr 6 2027/28 £	Yr 7 2028/29 £	Yr 8 2029/30 £	Yr 9 2030/31 £	Yr 10 2031/32 £	Yr 1-10 Total £
Existing Schemes													
Roof Repairs - Kendal Police Station	Firm	0	56,249	0	0	0	120,000	0	0	25,000	0	0	201,249
Roof Repairs & Glazing - Durranhill		0	0	0	0	0	75,000	0	0	0	0	0	75,000
Police Headquarters HVAC		0	0	0	0	300,000	0	0	0	200,000	0	0	500,000
Barrow HVAC		0	0	0	0	0	0	60,000	0	0	0	0	60,000
Comms Centre Cooling plant		0	0	0	0	0	0	0	0	70,000	0	0	70,000
UPS Durranhill	Firm	0	0	0	60,000	0	0	0	0	0	0	0	60,000
UPS HQ	Firm	17,923	0	0	0	0	0	0	30,000	0	0	0	30,000
UPS Kendal		0	0	0	0	0	0	0	30,000	0	0	0	30,000
UPS Barrow		0	0	0	0	0	0	60,000	0	0	0	0	60,000
Garage Provision	Indicative	0	0	500,000	0	0	0	0	0	0	0	0	500,000
Durranhill CCTV system and cell call	Indicative	0	0	50,000	0	0	0	0	0	0	0	0	50,000
Kendal CCTV and Cell Call		0	0	0	0	0	0	50,000	0	0	0	0	50,000
Barrow CCTV camera replacement		0	0	0	0	0	0	0	35,000	0	0	0	35,000
West Estate	Indicative	20,000	600,000	5,000,000	7,380,000	0	0	0	0	0	0	0	12,980,000
HQ Static invertor		0	0	0	0	0	0	0	50,000	0	0	0	50,000
HQ window conservation		0	0	0	0	0	50,000	0	0	0	0	0	50,000
Learning and Development Centre life cycles		0	0	0	0	0	0	0	0	0	25,000	0	25,000
Gas suppression cylinder replacements	Firm	(2,197)	0	0	0	0	0	0	0	25,000	0	0	25,000
Kendal M&E plant		0	0	0	0	0	0	0	20,000	0	0	0	20,000
Kendal - yr 10 electrical and plant		0	0	0	0	0	0	0	0	0	50,000	0	50,000
Carlisle M&E plant (area 2)	Firm	0	60,000	0	0	0	0	0	20,000	0	0	0	80,000
Durranhill curtain walling life cycles		0	0	0	0	0	0	0	0	0	30,000	0	30,000
Sub Total Existing Estates Schemes		***35,726***	***716,249***	***5,550,000***	***7,440,000***	***300,000***	***245,000***	***170,000***	***185,000***	***320,000***	***105,000***	***0***	***15,031,249***
New Estates Schemes 2022/23													
Learning and Development - ground floor	Firm	30,000	290,000	0	0	0	0	0		0	0	0	290,000
PST - Occ Health	Firm	30,000	0	0	0	0	0	0	0	0	0	0	0
Dog Section	Firm	1,300,000	200,000	0	0	0	0	0	0	0	0	0	200,000
Sub Total New Estates Schemes		**1,360,000**	***490,000***	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	***490,000***
Total Estates Schemes		***1,395,726***	***1,206,249***	***5,550,000***	***7,440,000***	***300,000***	***245,000***	***170,000***	***185,000***	***320,000***	***105,000***	***0***	***15,521,249***

Estates Scheme Status Recommendations*

It is recommended that schemes to provide premises in the West of the county, the garage provision and the custody CCTV 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 2021/22 and 2024/25 only unless otherwise stated.

Appendix 5

Other Schemes

Other Schemes		Status	Yr 0 2021/22 £	Yr 1 2022/23 £	Yr 2 2023/24 £	Yr 3 2024/25 £	Yr 4 2025/26 £	Yr 5 2026/27 £	Yr 6 2027/28 £	Yr 7 2028/29 £	Yr 8 2029/30 £	Yr 9 2030/31 £	Yr 10 2031/32 £	Yr 1-10 Total £
CCTV	1	Indicative	0	173,890	350,000	0	0	0	150,000	350,000	0	0	0	1,023,890
Taser CED migration (T60 package /T7 * 79)		Firm	67,829	67,829	67,829	67,829	0	0	0	0	0	0	0	203,488
X26 taser fleet replacement	2	Indicative	0	0	200,000	200,000	200,000	200,000	200,000	0	0	0	0	1,000,000
Glock Pistol Replacement		Firm	45,167	0	0	0	0	0	0	0	0	0	0	0
Portable Ballistic Protective Equipment			0	0	0	0	0	0	0	0	43,000	0	0	43,000
Laser Scanning		Firm	4,954	0	0	0	0	0	0	0	0	0	0	0
Barrow - custody CCTV upgrades (support digital roll out)	3	Indicative	0	50,000	0	0	0	0	0	0	0	0	0	50,000
Operation Uplift		Firm	181,475	0	0	0	0	0	0	0	0	0	0	0
Total Other Schemes			**299,426**	**291,719**	**617,829**	**267,829**	**200,000**	**200,000**	**350,000**	**350,000**	**43,000**	**0**	**0**	**2,320,378**

Other Scheme Status Recommendations*

1. It is recommended that the wholescale replacement of the CCTV system in 2022/23 and 2023/24 be subject to a business case.
2. It is recommended that the capital aspects of the taser replacement programme commencing in 2023/24 be subject to a business case.
3. It is recommended that the roll out of digital CCTV in custody be subject to a business case.

*scheme status applies to the financial profile between 2021/22 and 2024/25 only unless otherwise stated.

Appendix 6

Analysis of the change in Capital Programme between February 2021 and the January 2022 proposal.

EXPENDITURE	Yr 0 2021/22 £	Yr 1 2022/23 £	Yr 2 2023/24 £	Yr 3 2024/25 £	Yr 4 2025/26 £	Yr 5 2026/27 £	1-5 Year TOTAL £
Capital Strategy - Approved (February 2021)	5,210,913	16,366,556	9,635,969	3,195,123	3,962,068	5,219,972	38,379,688
Capital Strategy - Proposed (December 2021)	6,757,509	7,219,088	12,275,960	12,225,892	3,709,879	9,689,689	45,120,509
Difference (decrease)/Increase	1,546,597	(9,147,468)	2,639,991	9,030,769	(252,189)	4,469,717	6,740,821
Difference by Type							
- ICT Schemes	(330,776)	(2,191,156)	2,041,922	1,780,908	(514,129)	3,704,903	4,822,448
- Fleet Schemes	932,220	105,720	30,240	(147,968)	111,940	564,814	664,746
- Estates Schemes	1,145,726	(6,503,751)	(50,000)	7,130,000	(50,000)	0	526,249
- Other Schemes	(200,574)	(558,281)	617,829	267,829	200,000	200,000	727,378
Difference (decrease)/Increase	1,546,597	(9,147,468)	2,639,991	9,030,769	(252,189)	4,469,717	6,740,821
Explanation of the Difference by Type							
- ICT Schemes							
2020/21 outturn	704,973	0	0	0	0	0	0
Slippage	(1,204,774)	905,879	0	0	(220,000)	220,000	905,879
Airwave	0	100,000	69,200	0	45,000	0	214,200
ESN	0	(2,381,401)	10,199	210,672	(554,864)	3,150,950	435,556
Revenue	(1,321,925)	599,078	(307,577)	(309,997)	(296,472)	(115,003)	(429,971)
Additional funding / approvals	421,600	(316,600)	0	0	0	0	(316,600)
Smartphones	0	0	350,000	350,000	0	0	700,000
RMS	0	1,000,000	1,000,000	1,000,000	0	0	3,000,000
CRF slippage and reprofile	(552,220)	101,887	(79,900)	530,233	0	0	552,220
Converged	784,000	(200,000)	0	0	0	0	(200,000)
Prudent Slippage & Savings	1,000,000	(2,000,000)	1,000,000	0	512,207	448,956	(38,837)
Budget Returned	(162,429)	0	0	0	0	0	0
- Fleet Schemes							
Qtr 4 Slippage	811,049	0	0	(110,000)	110,000	(7,400)	(7,400)
Slippage to 22/23	(85,000)	85,000	0	0	0	0	85,000
Expert Life Change	(15,330)	0	0	0	0	459,000	459,000
life doubled / replacement removed	0	0	0	(40,000)	0	0	(40,000)
Price Increases	181,501	42,000	52,000	24,000	8,000	112,300	238,300
TSU Conversion	40,000	0	0	0	0	0	0
Inflation	0	(21,280)	(21,760)	(21,968)	(6,060)	914	(70,154)
- Estates Schemes							
Roof Repairs - Kendal	0	56,249	0	0	0	0	56,249
Roof Repairs - Kennels	0	0	0	(250,000)	0	0	(250,000)
Gas suppression cylinder replacements	(2,197)	0	0	0	0	0	0
UPS HQ	17,923	0	0	0	0	0	0
Garage Provision	0	(500,000)	500,000	0	0	0	0
Durranhill CCTV system and cell call	0	0	50,000	0	(50,000)	0	0
West Resilience Flood Management	(230,000)	(6,550,000)	(600,000)	7,380,000	0	0	230,000
New Schemes	1,360,000	490,000	0	0	0	0	490,000
- Other Schemes							
CCTV	(150,000)	(176,110)	350,000	0	0	0	173,890
Curretn Taser Fleet Replacement	67,829	67,829	67,829	67,829	0	0	203,488
Future X26 taser fleet replacement	0	0	200,000	200,000	200,000	200,000	800,000
Glock Pistol Replacement	45,167	0	0	0	0	0	0
Laser Scanning	4,954	0	0	0	0	0	0
Barrow - custody CCTV	(50,000)	50,000	0	0	0	0	50,000
Operation Uplift	(118,525)	(500,000)	0	0	0	0	(500,000)
Difference (decrease)/Increase	1,546,597	(9,147,468)	2,639,991	9,030,769	(252,189)	4,469,717	6,740,821
Difference left to explain	0	0	0	0	0	0	0

Appendix 7

Property Disposals – Details of Sale Proceeds

Year	Premises Sold	Sale Proceeds £	Costs of Disposal £	Net Capital Receipts £
2021/22	Police House - 16 Hillswood Avenue	258,750	5,934	252,816
2020/21	There were no property sales	0	0	0
2019/20	There were no property sales	0	0	0
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	0	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				0
Total		**5,104,550**	**83,109**	**5,021,441**

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Public Accountability Conference
16 February 2022
Agenda Item No 08c

Joint Audit Committee
16 March 2022
Agenda Item No 12(c)

Office of the Police and Crime Commissioner Report

Title: Borrowing, Treasury Management, Investment and MRP Strategies 2022/23 (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. New codes were issued in December 2021 but the accompanying guidance notes have not yet been released. The most urgent changes around commercialisation strategies are not relevant to the Police and Crime Commissioner and all other changes must be adopted for the 01 April 2023. 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 2022/23.

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:

> **Treasury Management Definition**
>
> *'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 2022/23 as set out on pages 8-9
2. Approve the Investment Strategy for 2022/23 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 2022/23 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 2022/23
(Including Prudential Indicators)

Treasury Management Strategy Statement 2022/23

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 2022/23 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, 2017 and recently updated in 2021. 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 2022/23 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 2022 and for the following financial years are summarised below:

Estimated Treasury Position	Estimate 2022/23 £m	Estimate 2023/24 £m	Estimate 2024/25 £m	Estimate 2025/26 £m
External Borrowing	0.00	0.00	0.00	0.00
Interest Payments	0.00	0.00	0.00	0.00
Investments (average)	19.157	13.063	5.125	2.241
Interest Receipts	0.002	0.010	0.010	0.010

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 estimate for interest receipts in 2022/23 is £10k (latest forecast for 2021/22 is £2k). The estimated receipts have been left at the minimal level of £10k as the timing of future external borrowing is not known and decisions regarding the end of the PFI contract are still to be made.

The Commissioner's underlying need to borrow, as measured by the Capital Financing Requirement (CFR), is estimated to be £20.97m at the start of the 2022/23 financial year. This includes £4.20m 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 08b) 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.

Key Messages

Inflation is expected to peak in April and the likely response will be the next base rate increase

Interest Rates are forecast to rise steadily over the medium term.

Treasury Management Interest Rate Forecast

- The GDP in October rose by a disappointing 0.1% month on month which suggested that economic growth had already slowed to a crawl even before the Omicron variant was discovered in late November.
- The CPI inflation figure for November spiked up further from 4.2% to 5.1%, confirming again how inflationary pressures have been building sharply - gas and electricity inflation has generally accounted on average for about 60% of the increase in inflation in advanced western economies.
- The labour market statistics for the three months to October and the single month of October were released. The fallout after the furlough scheme ended on 30th September, (about one million people were still on furlough), was smaller and shorter than the Bank of England had feared - unemployment did not increase hugely in October. Indeed, vacancies rose to a record 1.219m in the three months to November showing there were acute shortages of labour.

These indicators were enough to give the Monetary Policy Committee (MPC) the assurance that it could press ahead to raise Bank Rate at this December meeting – a vote of 8-1 saw it rise by 0.15% from 0.10% to 0.25%. The next increase in Bank Rate was originally predicted to be in February or May, dependent on how severe an impact there is from Omicron. There were no January lockdowns so with inflation expected to peak between 5 and 6% in April, the MPC may want to be seen to be active in taking action to counter inflation on 5th May, the release date for its Quarterly Monetary Policy Report.

Bank Rate increases beyond May are difficult to forecast as inflation is likely to drop sharply in the second half of 2022. However, the MPC will want to normalise Bank Rate over the next three years so that it has its main monetary policy tool ready to use in time for the next downturn; all rates under 2% are providing stimulus to economic growth. The Commissioners advisors, Link Asset Services have added 0.25% increases into Q1 of each financial year from 2023 to recognise this upward bias in Bank Rate, as shown in the table below, but the actual timings in each year is difficult to predict.

Base Rate Estimates	2021/22	2022/23	2023/24	2024/25	2025/26
Quarter 1	0.10%	0.25%	0.75%	1.00%	1.25%
Quarter 2	0.10%	0.50%	0.75%	1.00%	1.25%
Quarter 3	0.10%	0.50%	0.75%	1.00%	1.25%
Quarter 4	0.25%	0.50%	0.75%	1.00%	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 2022/23 and beyond.

Capital Financing	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Balance B/fwd	22.21	21.60	20.97	20.32	21.26	27.93
Plus Capital Expenditure financed from borrowing	0.00	0.00	0.00	1.62	7.38	0.00
Less MRP for Debt Redemption	-0.61	-0.63	-0.65	-0.68	-0.71	-0.93
Balance C/Fwd	**21.60**	**20.97**	**20.32**	**21.26**	**27.93**	**27.00**

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 08b).

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 2022/23. Given that the CFR is forecast to be £20.97m this effectively means that the Commissioner will be funding over £16.77m of capital spend from internal resources (CFR £20.97m less £4.20m in relation to the PFI).

Currently, there is a significant differential between investment rates at 0.25% and the rate at which long term finance can be procured, which despite standing at historically low levels, will still cost over 2.4%+ 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 (Public Works Loans Board) 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.

Short Term Borrowing

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 2022/23 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 little to be gained from exposing the Commissioner to extra risk.

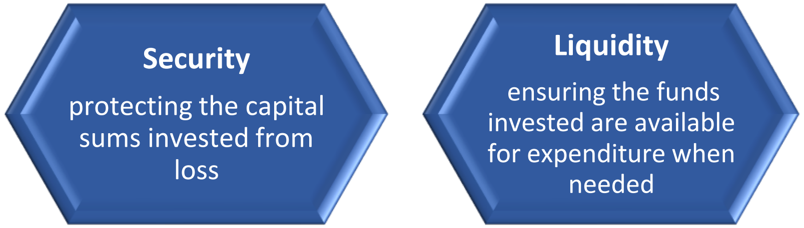
Investment Strategy

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 2021/22, the Commissioner's investment balance has ranged between £5.87m and £34.17m. The larger sum was due to the receipt in July 2021 of £21.07m pension top up grant from the Home Office, which is drawn down steadily over the remainder of the year. Balances in 2022/23 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 £31m.

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 2022/23 remains the same. The decision to enter into an approved 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. The use of property funds would further diversify the Commissioners' portfolio, provide a longer-term investment and increase yield whilst maintaining security. However, given the current economic uncertainty arising from Covid 19 recovery it is unlikely that they will be pursued.

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 2022/23. 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 assets. 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 2022/23 amounts to £10k (£10k 2021/22) 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	2021/22	2022/23	2023/24	2024/25	2025/26
Limit on principal invested beyond one year	£2m	£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. The new 2021 code makes this mandatory from 01 April 2023. 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 adhere to the code from 01 April and produce the liability benchmark.

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 2022/23

As per the 2017 CIPFA Prudential Code for Capital Finance (re-affirmed in the 2021 code) 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	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Capital Expenditure	2.81	6.76	7.22	12.28	12.23	3.71

Capital Financing	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Capital Receipts	0.00	0.08	0.00	1.18	0.38	0.11
Government Grants	0.07	2.00	2.20	1.69	0.00	0.00
Revenue Contributions	2.74	4.68	5.02	7.79	4.47	3.60
Total Financing	**2.81**	**6.76**	**7.22**	**10.66**	**4.85**	**3.71**
Borrowing	0.00	0.00	0.00	1.62	7.38	0.00
Total Funding	**0.00**	**0.00**	**0.00**	**1.62**	**7.38**	**0.00**
Total Financing and Funding	**2.81**	**6.76**	**7.22**	**12.28**	**12.23**	**3.71**

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 2022/23 (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	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Balance B/fwd	22.21	21.60	20.97	20.32	21.26	27.93
Plus Capital Expenditure financed from borrowing	0.00	0.00	0.00	1.62	7.38	0.00
Less MRP for Debt Redemption	-0.61	-0.63	-0.65	-0.68	-0.71	-0.93
Balance C/Fwd	**21.60**	**20.97**	**20.32**	**21.26**	**27.93**	**27.00**

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	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
External Borrowing	23.70	23.28	22.86	24.06	31.02	30.43
Other Long Term Liabilities	4.40	4.20	3.97	3.70	3.40	3.06
Total Authorised Limit	28.10	27.47	26.82	27.76	34.43	33.50

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 2022/23 (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	2020/21 £m	2021/22 £m	2021/22 £m	2022/23 £m	2024/25 £m	2025/26 £m
External Borrowing	22.20	21.78	21.36	22.56	29.52	28.93
Other Long Term Liabilities	4.40	4.20	3.97	3.70	3.40	3.06
Total Operational Boundary	26.60	25.97	25.32	26.26	32.93	32.00

Actual External Debt

The Commissioner's actual external debt as at 31 March 2021 will be £4.20m, comprising only of other long-term liabilities of £4.20m 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.

Key Messages

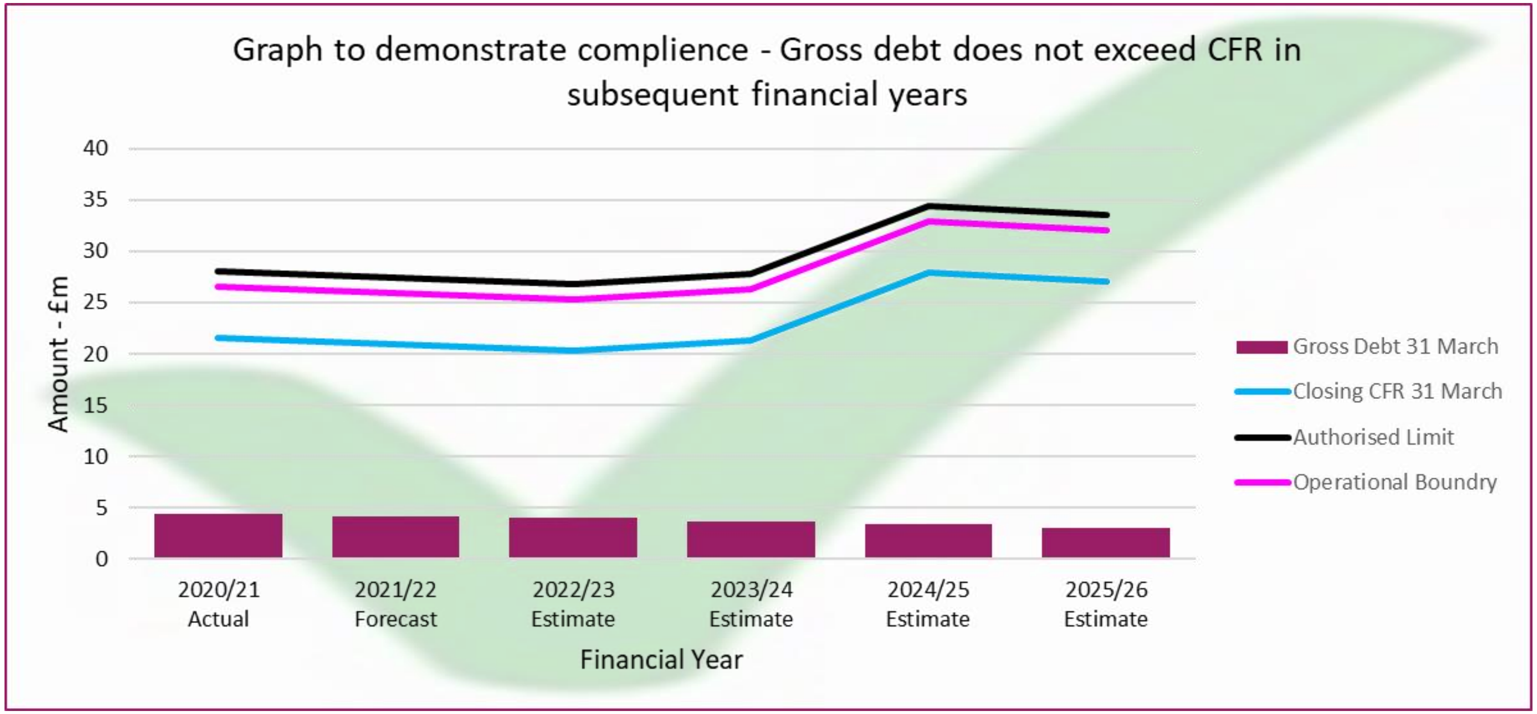
Other Prudential Indicators 2022/23 (Continued)

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	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Closing CFR 31 March	21.60	20.97	20.32	21.26	27.93	27.00
Gross Debt 31 March	4.40	4.20	3.96	3.70	3.40	3.06

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:



Other Prudential Indicators 2022/23 (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 no way meant to indicate planned increases in funding from Council Tax.

Ratio of Financing Costs to Net Revenue Stream	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Investment income	0.02	0.01	0.01	0.01	0.01	0.01
MRP	0.61	0.63	0.65	0.68	0.71	0.93
Financing Costs	**0.59**	**0.62**	**0.64**	**0.67**	**0.70**	**0.92**
Net Revenue Stream	118.76	123.13	129.97	132.57	135.95	138.93
Ratio	0.50%	0.50%	0.49%	0.51%	0.52%	0.66%

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 2022/23

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 2022/23 is unchanged from that of 2021/22 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 2022/23.

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 2022/23 compared to those in operation for 2021/22.

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 2022/23 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. If 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 2022/23 investment strategy are summarised 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

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

Key Messages

Whilst these limits also apply to the Commissioners 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 this strategy.

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 2022/23 are the same as the limits for 2021/22. 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

Credit Rating	Maximum	Investment Limits 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 2022/23 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.

CUMBRIA

Peter McCall

Joint Audit Committee
16 March 2022
Agenda Item No 12d

Members are asked to note that any changes in wording have been highlighted in green.

Treasury Management Practices 2022/23

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).

Service investments and Commercial investments are classed as non- treasury investments.
The Commissioner does not currently have, and does not intend to invest in, non-treasury investments so the detailed Treasury Management Practices below relate to Treasury Investments only.

Treasury Management Practices – Treasury investments

Contents

Finance staff have authority to undertake transactions on instruction from the Joint Chief Finance Officer as part of the arrangements for shared financial services.

Schedule 1

Summary Identifying Risks of Treasury Management

The "**Treasury Management in the Public Services: Code of Practice and cross sectoral guidance notes "**(the Code) identifies twelve areas where statements of Treasury Management practices (TMPs) should be developed to implement the full requirements of the Code.

TMP 1 Risk Management

The Joint Chief Finance Officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk. They will report at least annually on the adequacy / suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP6 – Reporting requirements and management information arrangements. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the schedule 2.

1. Credit and Counterparty Risk Management

The risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, capital, project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources.

The Commissioner regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 'approved instruments methods and techniques' and listed in schedule 2 of this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financial or derivative arrangements.

To ensure this it will maintain a defined list of authorised counterparties and the group deposit limits. In conjunction with The Commissioner's treasury advisors (Link Treasury Services Limited) the credit worthiness of counterparties is reviewed on an ongoing basis. Where such monitoring results in significant changes to the approved counterparty list, this will be reported to the Commissioner and the Joint Audit Committee through the quarterly treasury management activities report. The treasury advisory service provided by Link Treasury Services Limited gives daily updates on credit worthiness which allows immediate action where necessary. Any amendments are subsequently put to the Commissioner for ratification. A weekly statement will be presented to the Deputy Chief Finance Officer for approval detailing all the week's investment activity and a summary of all amounts deposited at any one time by counterparty and category together with details of any borrowings undertaken or repaid in the week and the total outstanding at close of business for the week. Copies of this information are also provided to the Joint Chief Finance Officer and the Director of Corporate Support. Where exceptional circumstances make it necessary to deviate from the approved lending list limits this will be approved by the Joint Chief Finance Officer (or in his/her absence by the Deputy Chief Finance Officer) in advance of the transaction being undertaken and will be reported to the Commissioner at the earliest opportunity.

2. Liquidity Risk Management

The risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the organisation's business / service objectives will be thereby compromised.

The Commissioner considers that the prospect of ongoing liquidity problems is remote due to the nature and timing of its main income sources and the substance of major items of expenditure. However, it will ensure that the Policing Body has adequate, though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives. This will be achieved through the use of a proven cash flow forecasting model. This is updated annually to include all known major income streams (e.g. Home Office Grant, precepts, pension grant etc.) and all major payments (e.g. payroll, HMRC, weekly payment run estimates, etc.).

The Commissioner will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities. There are currently no plans to borrow in advance of need.

3. Interest Rate Risk Management

The risk that fluctuations in the level of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

The Commissioner will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirements and management information arrangements.

The Commissioner will achieve this by the prudent use of approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be the subject to consideration and, if required, approval of any policy or budgetary implications.

The Commissioner will ensure that any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs and that the policy for the use of derivatives is clearly detailed in the annual strategy. There are currently no plans to utilise such instruments.

Revised interest forecasts for both the current and forward years are incorporated within the Commissioner's budget and medium term financial forecasts on a regular basis. An appropriate limit will also be defined in the annual strategy setting out the maximum amount of variable rate debt to be incurred. However, security of principal will always take precedence over interest returns in decisions over investment of our cash.

4. Exchange Rate Risk Management

The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

The Commissioner will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels. However, this is not considered to be an issue for the Commissioner at the moment, as all treasury transactions are currently undertaken in pounds sterling.

5. Refinancing Risk Management

The risk that maturing borrowings, capital, projects or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for refinancing, both capital and current (revenue), and / or that the terms are inconsistent with prevailing market conditions at the time.

The Commissioner will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured, documented and the maturity profile of the monies raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the Commissioner as can be reasonably achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.

6. Legal and Regulatory Risk Management

The risk that the organisation itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements and that the organisation suffers losses accordingly.

The Commissioner will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1(1) credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

An Investment Strategy, as required in Section 15 of the Local Government Act 2003 will be put to the Commissioner annually for ratification as part of the treasury management strategy statement.

The Commissioner recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

Regular scanning of the internal and external regulatory framework will be undertaken by the Deputy Chief Finance Officer to aid the above.

7. Fraud, Error and Corruption and Contingency Management

The risk that the organisation fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.

The Commissioner will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

8. Market Risk Management

The risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

The Commissioner will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

Only very secure instruments and institutions are chosen with strict limits placed on the value of deposit that can be made with each institution (including group limits) thus limiting its exposure.

TMP 2 Performance Measurement

The Commissioner is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the organisation's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in schedule 2.

TMP 3 Decision Making and Analysis

The Commissioner will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and the processes and practices to be pursued in reaching decisions are detailed in Schedule 2.

TMP 4 Approved Instruments, Methods and Techniques

The Commissioner will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in Schedule 2 and within the limits and parameters defined in TMP1 Risk Management.

Where the Commissioner intends to use derivative instruments for the management of risks, these will be limited to those set out in its annual treasury strategy. The Commissioner will seek proper advice and will consider that advice when entering into arrangements to use such products to ensure that it fully understands those products. There are currently no plans to utilise such instruments.

TMP 5 Organisation, Clarity, Segregation of Responsibilities and Dealing Arrangements

The Commissioner considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times clarity of treasury management responsibilities. A separate statement of responsibilities exists to facilitate this and is set out in Schedule 2.

The principle on which this will be based is a clear distinction, as far as is feasible between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions and the audit and review of the treasury management function.

The Joint Chief Financial Officer has overall responsibility for the treasury management activities but delegate's day-to-day management of the function to the Deputy Chief Finance Officer.

If and when the Commissioner intends, as a result of lack of resources or other circumstances, to depart from these principles, the Joint Chief Finance Officer will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirements and management information arrangements, and the implications properly considered and evaluated.

On behalf of the Joint Chief Finance Officer, the Deputy Chief Finance Officer will ensure that:

- there are clear written statements of the responsibilities for each post engaged in treasury management.
- there are appropriate arrangements for absence cover.
- that at all times, those engaged in treasury management will follow the policies and procedures set out.
- there is proper documentation for all deals and transactions.
- that procedures exist for the effective transmission of funds.

The present arrangements are detailed in schedule 2.

The delegations to the Deputy Chief Finance Officer in respect of treasury management are set out within schedule 2 of this document. The Deputy Chief Finance Officer will fulfil all such responsibilities in accordance with the organisation's policy statement and TMPs and, if a CIPFA member, the "Standard of Professional Practice on Treasury Management".

TMP 6 Reporting Requirements and Management Information Arrangements

The Commissioner will ensure that regular reports are prepared and considered on the implementation of treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum the Commissioner, will receive:

- an annual report on the strategy and plan to be pursued in the coming year (before 31 March).
- A rolling three year statement of treasury Indicators, combining those required by the prudential code and by the treasury management code.

- A mid-year review
- A quarterly summary of treasury management activity.
- An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the Commissioner's treasury management policy statement and TMPs. (Reported to both the Commissioner's Public Accountability Conference and the Joint Audit Committee).

In addition to the above, the **Joint Audit Committee** will receive:

- regular (no less than quarterly) monitoring reports on treasury management activities and risks. In addition, where ongoing monitoring of the credit worthiness of approved counterparties has revealed a significant change, this will also be reported to the Joint Audit Committee.
- an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the Constabulary's treasury management policy statement and TMPs. (Reported to both the Commissioner's Public Accountability Conference and the Joint Audit Committee).

The Joint Audit Committee will have responsibility for the scrutiny of treasury management strategy, policies and practices.

The present arrangements and the form of these reports are detailed in schedule 2.

TMP 7 Budgeting, Accounting and Audit Arrangements

The Joint Chief Finance Officer will recommend and the Commissioner will approve and if necessary, from time to time will amend an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 Risk management, TMP2 Performance measurement and TMP4 Approved instruments, methods and techniques. The Joint Chief Finance Officer will ensure the effective exercise of controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 Reporting requirements and management information arrangements.

The Commissioner will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force at that time.

The Commissioner will ensure that its auditors and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles. The Commissioner will also ensure that such information and papers demonstrate compliance with external and internal policies and approved practices.

TMP 8 Cash and Cash Flow Management

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Commissioner will be under the control of the Joint Chief Finance Officer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Joint Chief Finance Officer will ensure that these are adequate for the purposes of monitoring compliance with TMP 1 liquidity risk management. The present arrangements for preparing cash flow projections, and their form, are set out in Schedule 2

TMP 9 Money Laundering

The Commissioner is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and for reporting suspicions, and will ensure that staff involved in this is are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in schedule 2.

TMP 10 Training and Qualifications

The Commissioner recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. The Commissioner will therefore seek to appoint individuals who are both capable and experienced and will also provide training to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Deputy Chief Finance Officer will on behalf of the Joint Chief Financial Officer recommend and implement the necessary arrangements.

The Joint Chief Finance Officer will ensure that Joint Audit Committee members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure they have the necessary skills to complete their role effectively.

The present arrangements are detailed in schedule 2.

TMP 11 Use of External Service Providers

The Commissioner recognises that responsibility for treasury management decisions remains with the organisation at all times. It recognises that there may be potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid overreliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed as consistent with the Joint Procurement Regulations. The monitoring of such arrangements rests with the Joint Chief Finance Officer, and details of the current arrangements are set out in schedule 2.
The Commissioner has a formal contract with Link Treasury Services Limited, to provide a range of technical advice and information covering the treasury business.

TMP 12 Corporate Governance

The Commissioner is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Commissioner has adopted and implemented the key principles of the CIPFA Code of Practice on Treasury Management. This, together with the other arrangements detailed in Schedule 2, are considered vital to the achievement of proper corporate governance in treasury management, and the Joint Chief Finance Officer will monitor, and if and when necessary, report upon effectiveness of these arrangements.

Schedule 2

Treasury Management Practices

TMP 1 Risk Management

Liquidity Risk

In its day to day operations the Commissioner experiences wide fluctuations in its receipts and payments, although, the majority of its cash streams are known at least 3 days in advance. The policy will be to maintain the minimum cash balance hence make best use of potential income streams.

~~Performance measure – the daily bank balance on the main account should be maintained within a limit of + or - £7,500, this should be achieved 95% of the time (i.e. 347 days out of 365).~~ A minimum investment balance of £250k should be held to cover unforeseen expenditure; this should be placed on treasury deposit overnight, within the liquidity select account or within instantly accessible money market funds.

Standby Facilities

- The Deputy Chief Finance Officer will ensure that the daily investment function has adequate cover. On a day to day basis treasury management tasks are performed on rotation by two Financial Services Officers, under the guidance of the Financial Services Manager (Treasury) in the event of their absence, there is a clear order of personnel designated for cover and that order is communicated to all involved (see below).

  1) Financial Services Manager (Treasury)
  2) Deputy Chief Finance Officer

- All programs and systems are held within the main body of the Commissioner's IT systems and are therefore backed up daily. A ~~manual printed~~ weekly record of the daily transactions will be kept at least until External Audit has reviewed the statutory accounts.
- In the event that the Bankline system is not operational balances and transaction details can be obtained from the Nat West Corporate Office.
- Temporary borrowings / overdrafts will only be used in exceptional cases to manage day to day movements in cash balances

Interest Rate Risk

Details of approved interest rate exposure limits / Minimum / Maximum proportions of variable rate debt / interest
Previously the Commissioner is required to approve a series of Prudential Indicators, which includes recommended setting limits for upper limits on exposure to fixed and variable interest rates. The 2021 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 the commissioners 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.

Policies concerning the use of financial derivatives and other instruments for interest rate management.
Forward Dealing – forward dealing will not normally form part of the day to day activities other than arranging deposits to cover periods when signatory cover is limited and will be subject to approval by the Deputy Chief Finance Officer on behalf of the Joint Chief Finance Officer.

Forward Borrowing – would be considered as part of the long-term debt authorisation process and in each case will be looked at on its own merits. The Commissioner will only progress when prudent to do so.

It should be noted that the current strategy does not approve the use of such derivatives.

Exchange Rate Risk

This is currently not a concern to the Commissioner as all receipts are presently in sterling.

Credit and Counterparty Risk

Criteria to be used for creating / managing approved Counterparty lists / limits – the Joint Chief Finance Officer and the Deputy Chief Finance Officer will formulate suitable criteria for assessing and monitoring investment counterparties and shall construct a lending list comprising time, type, and specific Counterparty limits. An Investment strategy will be submitted to the Commissioner detailing selection procedures. Compliance with these limits and any significant changes to the approved counterparty list as a result of the ongoing review of the creditworthiness of counterparties will be included in the regular monitoring reports provided to the Commissioner and the Joint Audit Committee.

Refinancing Risk; Debt / Other Capital Financing Maturity Profiling, Policies and Practices.

The Prudential Code requires that:

“In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Commissioner should ensure that net external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next three financial years”.

To that end the Commissioner will set annual prudential indicators and then proceed to operate within those boundaries, thus showing that all decisions taken adhere to the above.

Fraud, Error, Corruption and Contingency Management

Policy on Delegated Powers – members of staff undertaking day to day management of cash are identified in TMP 5. There will always be complete segregation of duties between staff involved in carrying out transactions in the Money Market and those authorised to transfer cash (any amendments to these policies will be reviewed by Management/Internal Audit prior to implementation).

Policy on the use of Internet Systems – The Bankline system operated by NatWest for obtaining balances and making payments is an internet based system. In addition to this counterparties are increasingly providing services via the internet from checking rates to viewing details of investments. Prior to using such facilities, an assessment will be made of the security of such arrangements and, when satisfied, approval will be obtained from the Joint Chief Finance Officer.

Emergency and Business Continuity Arrangements – the following standby facilities will be maintained.

- All staff involved in the treasury management function will have designated absence cover (see Policy)
- All local programmes and systems will be backed up on a daily basis and also printed weekly records are maintained.
- Bank balances can be manually obtained from the bank in the event of a Bankline Systems failure.

- Evidence of any error or discrepancy will be notified to the Joint Chief Finance Officer and the Deputy Chief Finance Officer as soon as identified.
- Computer Systems are backed up on a daily basis by the IT department.
- Business Continuity Planning is actively managed, and includes all areas of finance and treasury.
- All staff involved in Treasury Management have mobile tablets which allow access to the treasury management records from another location if they are unable to operate from HQ (provided HQ systems are in operation).
- The Bankline system is internet based and as such bank account information can be accessed by appropriate staff from any location with internet access.

Treasury management is recognised as high priority for Financial Services and as such arrangements in the event of a business continuity event are detailed in the Financial Services Business Continuity Plan.

Insurance Cover Details – Fidelity Guarantee insurance is held for staff involved in treasury management processes at a suitable level and is reviewed annually.

Market Value of Investments

The investment strategy, whilst principally centred around investments with a fixed value such as cash fixed term deposits and AAA rated Money Market Funds has been extended to include AAA rated Money Market Funds with a variable net asset value (VNAV). The use of VNAV funds will be limited to longer term investments to minimise the risk of incurring a loss in value as a result of adverse market conditions funds and will be subject to advice and closely monitoring in conjunction with the Commissioner's treasury advisors Link Treasury Services Limited.

TMP 2 Performance Measurement

Frequency and Processes for Tendering

Banking Services. Arrangements for banking services will be reviewed every 5 years to ensure that the level of prices and service delivery reflect efficiency savings achieved by the supplier and current pricing trends.

Money Broking Services In the main, the Commissioner deals directly with financial institutions although, from time to time investments are placed with institutions facilitated by a broker. Usage of Brokers is monitored to ensure that investments placed through brokers are proportional and that overreliance on any one broker is avoided. There are currently two brokers approved for use by the Commissioner:

- RP Martin, Edinburgh
- King and Shaxson, London

Consultants/Advisors The Commissioner has appointed Link Treasury Services Limited as its treasury advisors for the financial year 01 April 2022 to 31 March 2023.

Methods to be Employed for Measuring the Performance of The Commissioner treasury management activities – Benchmarks will be used to assess the performance of the Treasury Management function in the following areas:

- ~~Day to day cash balances, management to within + - £7,500.~~
- Investments – the yield on investments for over 3 months in duration will be measured against the average Bank of England base interest rate over the period of the investment.
- Long term borrowing against budget.
- Temporary borrowing against budget.
- Annual investment performance against budget.

These statistics will be reported to the Commissioner and the Joint Audit Committee on an appropriate basis.

Benchmarking and Calculating Methodology – The Commissioner will continue to search for appropriate benchmarks which effectively compare investment performance.

TMP 3 Decision Making and Analysis

Funding, Borrowing, Lending and New Instruments & Techniques

In respect of every decision made the Commissioner will:

- Above all, be clear about the nature and extent of the risks to which it may be exposed.
- Be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained.
- Be content that the documentation is adequate both to deliver its objectives and protect its interests, and to deliver good housekeeping.
- Ensure that counterparties are judged satisfactory in the context of the organisation's credit worthiness policies, and that limits have not been exceeded.
- Be content that the terms of any transactions have been benchmarked against the market, and have been found to be competitive.

In respect of borrowing and other funding decisions, the Commissioner, in consultation with the Joint Chief Finance Officer, will:

- Consider the ongoing revenue liabilities created, and the implications for the Commissioner's future plans and indicative budgets.
- Evaluate the economic and market factors that might influence the manner and timing of any decisions to fund.
- Consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing, and private partnerships.
- Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use and, if relevant, the opportunities for foreign currency funding.

In respect of investment decisions, the Commissioner will:

- Consider the optimum period, in light of cash flow availability and prevailing market conditions.
- Consider alternative investment products and techniques available, especially the implications of using any which may expose the Commissioner to changes in the value of its capital.
- Ensure that asset security is always considered paramount in any investment.

TMP 4 Approved Instruments, Methods and Techniques

Approved Activities of the Treasury Management Function

- Borrowing.
- Lending.
- Debt repayment and rescheduling.
- Consideration, approval and use of new financial instruments and treasury management techniques.
- Managing the underlying risk associated with the capital financing and surplus funds.
- Managing cashflow.
- Banking activities.
- Leasing.
- Forecasting interest receipts and payments arising as a result of treasury activities.

Approved Instruments for Investment

- Deposits with banks and building Societies or local authorities up to 365 days
- Non-specified deposits with banks and building societies or local authorities up to 5 years
- Pooled Funds (including Triple A rated Money Market Funds both with a constant and variable net asset value).
- Registered Providers (including providers of social housing).
- Deposits with Government (including HM Treasury, Debt Management Office and Local Authorities).

Investment in any new instrument can only be undertaken following consultation with and approval by the Joint Chief Finance Officer.

Approved Methods and Sources of Raising Capital Finance

Borrowing will only be undertaken in keeping with the contents of the Prudential Code and within the limits determined through the approved Prudential Indicators and Treasury Management Strategy and, in respect of any long term borrowings, following consultation with the Joint Chief Finance Officer.

TMP 5 Organisation, Clarity, Segregation of Responsibilities and Dealing Arrangements.

Policy on Delegation, Review and Reporting Arrangements

The Commissioner will receive and review reports on its treasury management strategy, policies and practices, including as a minimum, an annual strategy and plan in advance of the year and an annual report after its close. They will also:

- Approve amendments to the treasury management policy statement and treasury management practices.
- Approve the division of responsibilities and delegation within the treasury management function.
- Endorse relevant Codes of Practice on treasury business.
- Receive a quarterly summary of treasury management activities.

Assurance with regards to monitoring of treasury management policies and practices is a function of the Joint Audit Committee. The Commissioner delegates overall arrangements for the treasury management function including determining appropriate strategy and procedures to the Joint Chief Finance Officer. The Joint Chief Finance Officer delegates to the Deputy Chief Finance Officer the undertaking of day to day treasury management activities in accordance with the strategies and procedures. All officers undertaking treasury management activity will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

The Commissioner nominates the Joint Audit Committee to be responsible for assurance in respect of effective scrutiny of the treasury management strategy and policies.

The **Joint Audit Committee** will:

- Receive and review regular monitoring reports in relation to treasury management activities which will include any significant changes to the approved counterparty list as a result of the ongoing review of the creditworthiness of counterparties.
- Review the treasury management policy and procedures and make recommendations to the Commissioner.
- Receive and review external and internal audit reports in relation to treasury management.

The **Joint Chief Finance Officer** will:

- Review the policy statement and annual strategy statement and present to the Commissioner.
- Review periodic treasury management reports and present to the Commissioner.
- Review the annual treasury management report and present to the Commissioner.
- Review compliance with relevant treasury Codes of Practice.
- Ensure that there is a written statement of responsibilities covering the complete treasury management function.
- Delegate the operation of the treasury management function to the Deputy Chief Finance Officer.
- Ensure the adequacy of internal audit, and liaising with external audit.
- Approve any long or short term borrowings.

The **Deputy Chief Finance Officer** will:

- Ensure arrangements are in place for the preparation of periodic treasury management policy statements and an annual strategy statement.
- Hold the Financial Services Manager (Treasury) to account for the day to day management of the treasury function.
- Review the periodic reports on treasury management activities.
- Review the annual report on treasury management as soon as possible after the end of a financial year.
- Review compliance with relevant treasury codes of practice.
- Ensure that all staff who deal in treasury matters understand and have access to the Non Investments Product Code and the CIPFA Code of Practice.
- Ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- Oversee and approve investments made for periods greater than three months.
- Review the performance of the treasury function at least twice each financial year.
- Ensure adequate separation of duties.
- Institute a range of performance measures for treasury management.
- Recommend the appointment of external service providers.
- Prepare an annual report on Treasury Management as soon as possible after the end of a financial year.
- Ensure compliance with relevant Treasury Codes of Practice
- Document and maintain 'Treasury Management Practices' as set out in the Code of Practice
- Review alternative methods of investment
- Provide advice to the Joint Chief Finance Officer in respect of any borrowings

The **Financial Services Manager (Treasury)** will:

- Have overall responsibility for the daily treasury management activities
- Prepare periodic reports on treasury management activities
- Review treasury systems documentation
- Prepare and keep up to date cash flow projections for a 12 month rolling period
- Liaise with the Deputy Chief Finance Officer for any investment over three months
- Deal with counterparties and make a record of such
- Comply with the Non Investments Product Code and the CIPFA Code of Treasury Management
- Ensure credit worthiness and maintain lending list
- Ensure the training of those listed for absence cover is kept up to date.
- Monitor performance of brokers and ensure a spread of brokers are used
- Supply the Deputy Chief Finance Officer with a weekly report on treasury activities for authorisation and supply an electronic copy to the Joint Chief Finance Officer and the Director of Corporate Support.

Absence Cover for Daily Dealing Arrangements

In the absence of the two designated Financial Services Officers the absence cover is to cascade thus:

1) Financial Services Manager (Treasury)
2) Deputy Chief Finance Officer

Each treasury deal transacted via the Bankline system requires a second individual to authorise the deal. The following posts will have responsibility for authorising Bankline deals:

1) Financial Services Officer – (5.3 FTE used subject to availability)

Before any planned absence all staff will be notified of their required responsibilities.

The **Financial Services Trainee/Apprentice** will:

- Reconcile treasury deals in the Commissioner cash book
- Receive and verify confirmation of treasury deals
- Reconcile general ledger entries in relation to treasury activity
- Produce management information for reporting treasury activities

Internal/Management Audit will:

- Complete periodic checks on the treasury management function and make recommendations where appropriate.
- Review compliance with agreed policies, procedures and Codes of Practice and make recommendations for improvement where appropriate.

Principles and Practices Concerning Segregation of Duties

The activities of the Treasury function will be carried out in accordance with the duties and responsibilities detailed above. In particular, day to day duties will be split to ensure that no one person can both initiate and then authorise payment.

Other than in the event of a technical failure all deposits will be initiated through the Bankline software – complete segregation of duties. It will be a disciplinary offence for individuals to release their personal operator cards or passwords. If a card is lost or stolen then the system administrator (Financial Services Manager (systems) or Financial Services Assistant) must be immediately informed - who will then immediately change all relevant computer access codes.

Dealing Limits

Approved dealers have the delegated power to enact transactions on a day to day basis within the constraints of the treasury management practice schedules and the procedure manual. They can, in particular operate within the limits laid down within the Counterparty Selection Criteria and Approved Counterparty List.

Policy on Broker's Services

In the main, the Commissioner deals directly with financial institutions, from time to time investments are placed with institutions facilitated by a broker. Usage of Brokers is monitored to ensure that investments placed through brokers are proportional and that overreliance on any one broker is avoided. There are currently two brokers approved for use by the Commissioner:

- RP Martin, Edinburgh
- King and Shaxson, London

Policy on Taping of Conversations

The Commissioner's does not tape conversations with brokers.

Direct Dealing Practices

Direct deals will if appropriate be undertaken with anyone on the agreed counterparty list. Approved dealers have the delegated power to enact transactions and all transactions require independent authorisation by an approver before funds are transferred via Bankline.

Settlement Transmission Procedures

Once a deal has been agreed, either with a broker or direct with a third party, funds will be transferred in accordance with Bankline procedures.

Documentation Requirements

All transactions will be recorded on a daily basis on the Investments spreadsheet.

Arrangements Concerning the Management of Counterparty Funds

The Commissioner will not undertake transactions on behalf of other organisations

TMP 6 Reporting Requirements and Management Information Arrangements

Annual Treasury Management Strategy Statement

The treasury management strategy will set out the broad parameters of the treasury function for the forthcoming financial year. The strategy will be submitted to the Commissioner for approval, alongside the budget, capital strategy, capital programme and prudential indicators before commencement of each financial year.

The treasury management strategy will cover the following elements:

- The prospects for interest rates, long and short term
- An investment strategy as set out in the Local Government Act 2003
- The expectations for debt rescheduling
- The treasury approach to risk management
- Any extraordinary treasury issue
- Any borrowing requirement under the Prudential Code
- Annual statement on MRP.

Policy on Interest Rate Exposure

The Joint Chief Finance Officer is responsible for incorporating the authorised borrowing limit determined as part of the Commissioner's Prudential Indicators into the annual treasury management strategy, and for ensuring compliance with the limit. Should it prove necessary to amend this limit, a report will be submitted for approval to the Commissioner.

Annual Report on Treasury Management Activities

An annual report will be presented to both the Commissioner and the Joint Audit Committee at the earliest practicable meeting after the end of the financial year. This report will include the following:

- A comprehensive picture for the financial year of all treasury policies, plans, activities and results
- Transactions executed and their revenue (current) effects
- Monitoring of compliance with approved policy, practices and statutory / regulatory requirements
- Monitoring of compliance with delegated powers
- Indication of performance especially for returns against budget, and performance against other like Authorities
- Comment on CIPFA Code requirements.

In addition, a mid-year review will be presented to the Commissioner and regular updates on Treasury Management activities will be presented to the Joint Audit Committee throughout the year.

Management Information Reports

Management information reports will be prepared weekly by the Financial Services Manager (Treasury), and will be presented to the Deputy Chief Finance Officer, Joint Chief Finance Officer and the Director of Corporate Support.

These reports will contain the following:

- An analysis of all investment decisions made during the week and by whom these decisions were made.
- An analysis of all investments currently placed by category.
- The current month's earned interest report, this will also show year to date and forecast budget.
- The current quarter's cashflow analysis.
- Any new borrowings or repayments in the week
- The amount of outstanding borrowings

Control reconciliation reports will be prepared monthly by the Financial Services Trainee/Apprentice, which will be presented to the Financial Services Manager (Treasury).

These reports will contain:

- Balance per the financial systems – this will be obtained after the monthly reconciliation of the bank
- Balance per the investment analysis as above.
- Explanation of any variance.

If for any reason any member of the treasury management team has reason to suspect any type of fraud or misappropriation he or she will this report directly to the Joint Chief Finance Officer or in his/her absence to the Deputy Chief Finance Officer or the Internal Auditor.

TMP 7 Budgeting, Accounting and Audit Arrangements

Accounts

The cost of the treasury management function amounts, in the main, to the salaries of those involved. If any external costs are to be incurred these will be reported separately during the budget monitoring process.

External Auditors

All records will be made available to both internal and external audit as and when required. As a minimum annual check external audit will gain third party confirmation of all year end balances on deposit.

TMP 8 Cash and Cash Flow Management

Cashflow Statements

A cashflow statement will be prepared before the beginning of each financial year to include all known elements of income from the revenue budget. The cash flow forecasts during the year will be maintained for a rolling 12 month period. Spending profiles will also be set out based on payroll projections and estimates of other payments. The cashflow statement will also be updated during the year on a daily basis to include major variations as or when they become known. The weekly activity report will also show the current quarter's cashflow projections.

TMP 9 Money Laundering

Policy for Establishing Identity/Authenticity of Lenders

No borrowing is currently undertaken other than with the Public Works Loan Board (PWLB), which is part of the UK Debt Management Office, an executive agency of HM Treasury. PWLB loans were taken out to replace equivalent debt transferred from Cumbria County Council upon the creation of freestanding police forces in 1995. The Prudential Code now provides a framework for additional borrowing, subject to that borrowing being prudent, sustainable and affordable. Any additional borrowing will properly recognise the potential for money laundering and will only be undertaken from lending instructions of the highest repute.

Methodology for Identifying Sources of Deposit

The Commissioner only lends to organisations that appear on the Financial Services Authority's (FSA's) list of authorised banks and financial institutions, other local authorities and the Governments through treasury bills or the Debt Management Office (DMO).

The Commissioner's Financial Regulations require the Joint Chief Finance Officer to be responsible for ensuring compliance with the Money Laundering Regulations 2007.

The Joint Chief Finance Officer will:

- Implement internal reporting procedures
- Ensure relevant staff receive appropriate training in the subject
- Establish internal procedures with respect to money laundering
- Obtain, verify and maintain evidence and records of the identity of new clients and transactions undertaken
- Report their suspicions.

TMP 10 Training and Qualifications

Statement of Professional Practice (SOPP)

The Joint Chief Financial Officer is a member of CIPFA, and has a professional responsibility through both personal compliance and by ensuring that relevant staff are appropriately trained.

The Deputy Chief Finance Officer is also a member of CIPFA and as such has the same duty of care in the provision of any financial information. Other staff employed in the treasury management function will be qualified to the level that is appropriate to their post (as per the job description). All staff are required to undertake basic training prior to undertaking day to day treasury business and will, in addition, be expected to undertake continuous training as appropriate to enable them to keep up to date with all aspects of treasury management within their responsibility.

All CIPFA members are required to abide by CIPFA's Ethics Standard on Professional Practice (SOPP) which includes a section in relation to treasury management.

Training courses run by CIPFA and other training providers will form the major basis of ongoing staff training. Records will be kept of all courses and seminars attended by staff in their personal training records file.

The Joint Chief Finance Officer will ensure that members charged with governance in relation to treasury management will receive appropriate training and that records of such training received will be maintained. Training may be provided internally or externally.

TMP 11 Use of External Service Providers

The Commissioner recognises that responsibility for treasury management decisions remains with the organisation at all times.

The use of any external service providers will, at all times, be subject to the Procurement Regulations / Financial Regulations of the Commissioner. The use of external services is currently restricted to banking services and treasury advice (investments and borrowing).

Advisers - The Commissioner has a formal contract with Link Treasury Services Limited, to provide a range of technical advice and information covering the treasury business. The contract is awarded following consultation with the Joint Chief Finance Officer.

Banking – Banking services will be reviewed every 5 years to ensure that the level of prices and service delivery reflect efficiency savings achieved by the supplier and current pricing trends.

Brokers - In the main, the Constabulary deals directly with financial institutions, from time to time investments are placed with institutions facilitated by a broker. Usage of Brokers is monitored to ensure that investments placed through brokers are proportional and that overreliance on any one broker is avoided. There are currently two brokers approved for use by the Commissioner:

- RP Martin, Edinburgh
- King and Shaxson, London

TMP 12 Corporate Governance

The Commissioner is fully committed to the CIPFA Code of Practice in Treasury Management and believes he has secured a framework for demonstrating openness and transparency of his treasury management function.

Free access to all information on our treasury management function will be given to all relevant interested parties.

Clear policies have been devised which outline the separation of roles in the treasury management function and the proper management of relationships both within and outside the Office of the Police and Crime Commissioner. All staff are fully appraised of their individual role and where the segregation of duty lies. Clear reporting lines also exist to report any breaches in procedure. This is further supported by well-defined treasury management responsibilities and job specifications.

The Commissioner seeks to ensure a fair distribution of business between brokers. The Joint Chief Finance Officer receives a weekly report to evidence this.

On an annual basis, a treasury strategy is approved prior to the year, by the Commissioner and a year-end summary of treasury activities is reported to the Joint Audit Committee.

Regular treasury management activity updates are submitted to the Commissioner and the Joint Audit Committee during the year.

The Annual Governance Statements which are published each year and accompany the Statutory Statement of Accounts outlines details of the Commissioner's and Constabulary's governance and risk management processes which are applicable to treasury management activities.

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