

Guildhall Gainsborough
Lincolnshire DN21 2NA
Tel: 01427 676676 Fax: 01427 675170

SUPPLEMENT AGENDA

This meeting will be webcast live and the video archive published on our website

**Governance and Audit Committee
Tuesday, 21st January, 2025 at 1.00 pm
Council Chamber - The Guildhall**

Members: Councillor Stephen Bunney (Chairman)
Councillor David Dobbie (Vice-Chairman)
Councillor Baptiste Velan (Vice-Chairman)
Councillor John Barrett
Councillor Mrs Jackie Brockway
Councillor Christopher Darcel
Councillor Sabastian Hague
Councillor Mrs Angela Lawrence
Alison Adams
Andrew Morriss

1. Public Reports for Consideration

- i) Contract Procedure Rules (PAGES 3 - 52)
- ii) Draft Treasury Management Strategy Statement 2025-26 (PAGES 53 - 113)
- iii) Internal Audit Progress Report (PAGES 114 - 128)
- iv) Constitution Review - Outcome of the Legal Health Check of the Constitution and Arising Recommendations (PAGES 129 - 152)

Agendas, Reports and Minutes will be provided upon request in the following formats:

Large Clear Print: Braille: Audio: Native Language

Ian Knowles
Head of Paid Service
The Guildhall
Gainsborough

Friday, 17 January 2025



**Governance and Audit
Committee**

Tuesday, 21 January 2024

Subject: Contract Procedure Rules update 2025

Report by:	Director of Corporate Services and Section 151 Officer
Contact Officer:	Emma Foy Director of Corporate Services and Section 151 Officer Emma.foy@west-lindsey.gov.uk
Purpose / Summary:	To present the draft revised Contract Procedure Rules to Governance and Audit Committee for approval and recommendation to Council at the Council meeting on the 27 January 2025.

RECOMMENDATION

Governance and Audit Committee recommends approval of the revised Contract Procedure Rules to Council for adoption on the 27 January 2025.

IMPLICATIONS

Legal: Risk Management is an essential and necessary function of the Council.

Financial:

There are no financial implications arising from this report however the finance team will work to ensure that all transparency data is correctly published.

Staffing: There are no staffing implications arising from this report. However, training will be provided to Members and Staff on the new policy.

Equality and Diversity including Human Rights:

There are no implications arising from this report.

Data Protection Implications:

There are no implications arising from this report.

Climate Related Risks and Opportunities:

No specific or direct climate related risks and opportunities.

Section 17 Crime and Disorder Considerations:

There are no implications arising from this report.

Health Implications:

There are no implications arising from this report.

Title and Location of any Background Papers used in the preparation of this report:

Procurement Act 2023 previous Contract Procedure Rules.

Risk Assessment:

Call in and Urgency:

Is the decision one which Rule 14.7 of the Scrutiny Procedure Rules apply?

i.e., is the report exempt from being called in due to urgency (in consultation with C&I chairman)

Yes

No

Key Decision:

A matter which affects two or more wards, or has significant financial implications

Yes

No

1.0 Introduction and scope of new legislation

- 1.1 The withdrawal of the UK from the European Union (EU) provided the opportunity for central government to introduce new legislation governing public sector procurement and contract management, as our previous regulations (as detailed in the Public Contract Regulations 2015) were the enactment of an EU Directive.
- 1.2 The resulting Procurement Act received royal ascent in 2023 (with the provisions coming into effect on 28th October 2024) and requires our processes, policies, regulations, constitution and practice to be updated. In line with normal practice, central Government are releasing guidance documents periodically to supplement the Act and as such the changes proposed at this time are not exhaustive but are reflective of the latest guidance available. Additionally, new regulations detailed in the 'Provider Selection Regime 2024' (covering health and social care) came into effect on 1st January 2024 and we are also seeking to formalise the changes required by this legislation. There have been many delays to guidance launched and information available, so this covering report is based on the latest information available.
- 1.3 As the new legislation will not operate retrospectively, the Council's existing contracts, as well as procurements which are already underway, are unaffected and will continue to operate under regulations within the Public Contract Regulations (PCR) 2015. This will require the Council to operate under both sets of regulations for some time. The current 'Light Touch Regime' will also remain for certain social, health and education services. The proposed updates to the Constitution, CPPR's and working practices all reflect this position and the changes will apply only to commercial activity which commences from the end of October 2024. The Council has carried out a significant amount of procurement work to ensure that everything that could be procured under the old regulations could be.
- 1.4 Officers have carried out a review of the procurement pipeline. In the period between January and December 2025 there are X procurements that will need to operate under the new regulations. All other procurements are too small to be significantly impacted by the new regulations.
- 1.5 The aim of the legislation is to deliver a simpler, more transparent and efficient system for public sector procurement, that benefits both businesses and the public sector whilst remaining compliant with international obligations. The key objectives of the act are detailed below:

Greater value for money

Spending less, spending well and spending wisely to maximise public benefit through having regard to a new National Procurement Policy Statement which includes national and local objectives.

Increased transparency & integrity

Enabling scrutiny of public spending throughout the commercial lifecycle with new requirements to publish data and information during the procurement and contracting stages.

Simpler and more flexible process & practices

Helping remove barriers for small businesses and social enterprises and increase efficiency through a central platform - containing all opportunities in

one place and enabling suppliers to upload their details once for all public sector procurements.

- 1.6 The new commercial process places additional transparency requirements on the Council for large contracts. Further information on spends KPIs and contract management will need to be recorded on a publicly available Government portal. We have no contracts that currently fall under this regime, and we anticipate letting X contracts under this regime within the next 12 months.
- 1.7 The new Act only allows for two procurement routes being open (as now) and competitive flexible where the Council can design its own process. The Council is still able to access frameworks as it has always done, and the Council can use exception processes subject to its own governance and transparency arrangements. There are also amendments to Select Lists and Dynamic Purchasing systems, but it is highly unlikely that this authority would ever procure using these methods.
- 1.8 The Act encourages better use of early market engagement prior to procurements taking place and use supplier engagement to help shape the procedure, award criteria and timetable as well as the opportunity to explore more innovative solutions with the market.
- 1.9 The Act whilst retaining value for money at the core promotes that we evaluate and favour the Most Advantageous Tender (MAT) as opposed to the previous required to award to the Most Economically Advantageous Tender (MEAT). This enables local and national priorities to be considered more easily.
- 1.10 The Act assumes that there will be a strict assessment, management and mitigation of conflicts of interest in the procurement process whether these be actual, potential or perceived. The Council will continue to seek declarations of interest at all stages of the procurement process and mitigate risks with the Monitoring Officer where needed.
- 1.11 New transparency arrangements will require us to publish a wider range of commercial information which we do not routinely publish for our largest contracts. As further guidance on this is issued Finance, Procurement and Legal Services will work together to produce this. It includes the publication of contract, changes, modifications and terminations of significant contracts. Setting out KPIs for significant contracts and recording and publishing spend data.
- 1.12 There will be new grounds for excluding other suppliers connected with the bidding supplier to stop suppliers that fail dissolving the business and setting up in a new name. There will also be a national debarment list which will include suppliers to be excluded from all future public sector activity.

2.0 **Proposed Operating Practices under the new act.**

To date Procurement Lincs and our own officers have trained all staff carrying our procurements on navigating the new procurement act, further training will be required. Contracts that cannot be let under light touch processes (i.e., the most significant contracts) have been identified, all of these procurements will be delivered by our officers and Procurement Lincs staff. We have also strengthened or conflict of interest process. The attached contract procedure rules have been drafted for approval and a toolkit will be developed to enable staff to carry out effective and efficient procurement processes supported by specialists. An Internal Audit of procurement will take place in February 2025 and its findings will be reported to the Governance and Audit Committee who will also receive bi-annual reports on both implementation of the Act and Procurement Exceptions granted.

3.0 **Detailed revisions to the Contract Procedure Rules to comply with the Act.**

Updates to the Contract Regulations include:

- The requirement to comply with the Procurement Act 2023 and the health. Care Services (Provider Selection Regime) Regulations 2023.
- The need to have regard to new Procurement Objectives as set out in Procurement Act 2023.
- That conflict of interests must be proactively monitored pre and post. procurement and declarations made accordingly.
- The existence of the new competitive flexible procedure and the change in award criteria to “Most Advantageous Tender” for procurements issued on or after the 28 October 2024.
- Reference to the new Central Debarment List and that decisions as to which suppliers may be excluded from a procurement are to be made on a case - by- case basis.
- The requirement that all contracts awarded including those awarded via an Exception Report with a value of over £5000 must be recorded on the Council's Contract Register to be held by the Commercial Team including extensions.

The opportunity of updating Contract Regulations has been used so to further enhance existing wording in the Regulations including:

- Linking conflict of interest wording expressly to both Members and Officers Codes of Conduct, Councillor involvement in Commercial Transactions and the Gift and Hospitality Protocols in Part 5 of the Constitution.
- Additional clarificatory drafting in respect of reporting requirements for exceptions.

- Emphasise the need to contact the Procurement Officers in respect of all procurement activity for the Council.



Contract and Procurement Procedure Rules (CPPRs)

Effective February 2025

Version number	Date	Page/Paragraph Ref	Amendment
1	04/12/24		

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Scope and Responsibilities

1 Scope and Responsibilities

West Lindsey District Council operates a procurement service with support and advice from the Procurement Lincolnshire (PL) shared service. This document is adapted from materials provided by the shared service.

1.1 Scope of Contract Procurement and Procedure Rules

- 1.1.1 These procedures inform of the mandatory minimum requirements for undertaking procurements and forming contracts. They must be followed. A glossary of terms is provided in Appendix 1.
- 1.1.2 Following approval, this document sits within the Council’s Constitution.
- 1.1.3 These CPPR’s do not contain procedures relating to making payment or undertaking purchasing activities such as raising purchase orders or using purchasing cards. These processes are found within the Financial Procedure Rules.
- 1.1.4 All values quoted within these CPPR’s are inclusive of any Value Added Tax (VAT), where applicable.
- 1.1.5 As set out in the document, Officers should obtain advice from the relevant Procurement Resource, as soon as possible when a procurement is required. Some useful contacts:

Procurement Resource	Business Development Officer Contracts and Procurement. anna.grieve@west-lindsey.gov.uk Procurement Lincolnshire (PL) procurement.lincolnshire@lincolnshire.gov.uk
Information Assurance	Data Protection Officer tom.carrington@west-lindsey.gov.uk
Compliance	Monitoring Officer Lisa.Langdon@west-lindsey.gov.uk
Legal Services	legalservices@lincolnshire.gov.uk

1.2 Basic Principles

1.2.1 A “contract” is any arrangement made by, or on behalf of, the Council, including arrangements for:

- a) The supply of goods;
- b) The execution of works;
- c) The delivery of services;
- d) The hire, rental, repair, maintenance or lease of goods or equipment

1.2.2 For the purpose of these CPPRs, “contracts” do not include:

- a) Contracts of employment which make an individual a direct employee of the Council;
- b) Agreements regarding the acquisition, disposal or transfer of land (Financial Regulations apply to these);
- c) Documents dealing with the award and use of Grant Monies

1.2.3 All contracting activity must:

- a) Comply with these CPPR’s; the Council’s Financial Procedures; applicable Grant fund spending regulations and relevant applicable legislation including the Public Contracts Regulations 2015 (PCR2015), Procurement Act 2023 (PA 2023).
- b) Have regard to statutory guidance released by the Cabinet Office and as required by PA 2023 (Procurement Policy Notes (PPN)).
- c) Have regard to national procurement objectives, the National Procurement Policy Statement (NPPS), which may be updated from time to time but currently include:
 - i. Achieving best value for public money
 - ii. Acting and being seen to act with integrity
 - iii. Maximising the public benefit
 - iv. Sharing information
 - v. Ensuring fairness, treating suppliers equally and not putting any supplier at an unfair advantage or disadvantage.
 - vi. Having regard to inclusion of Small and Medium size Enterprises (SMEs) and removing barriers that they may face to tender for the Council’s opportunities.
- d) Be consistent with the Council’s corporate plan and strategies
- e) Be legitimate, lawful and within the budget and policy framework

1.2.4 No use of the Procurement Exception Process nor use of the Provider Selection Regime (PSR) (current Standard Selection Questionnaire (SSQ)) is to be undertaken

by Officers without obtaining prior advice on the applicability and use of such process(es) from the relevant Procurement Resource.

1.3 Joint Commissioning and Procurement

1.3.1 Before any contract is entered into in collaboration with other public sector bodies, such as other Local Authorities, advice should be obtained from the relevant Procurement Resource, as the procurement may require approvals through Management Team or Committee.

1.3.2 Where a new agreement is put in place to establish a working arrangement with another public body that goes beyond a single requirement; commercial advice should be obtained from PL prior to entering into any agreement.

1.3.3 When a requirement is jointly commissioned or procured with other public sector bodies the following procedures shall apply:

- a) Officers will consult their Procurement Resource as soon as they are aware of such a requirement.
- b) The authorities involved will decide which of them is to act as the lead authority for the particular contract to be commissioned.
- c) The procedures of the lead authority shall be followed. Where a competitive process is undertaken no exception to these CPPRs is required.

1.4 Responsibilities

1.4.1 The Director of Corporate Services (Section 151) - has delegated responsibility for:

- a) Ensuring that procedures for procurement and contracting are sound and properly administered.
- b) For ensuring all income and expenditure is lawful.
- c) Ensuring that contracts are not split into smaller parts to avoid the necessary procurement procedures.
- d) Monitoring the use of exceptions to these procedures as set out in this document.

1.4.2 Directors' Responsibilities

Directors and Assistant Directors are responsible for:

- a) Ensuring all staff comply with transparency legislation by providing information to the Procurement Resource to ensure the details of all contracts valued at £5,000 and above are provided for completion of the Council's electronic Contract Register including any extensions and approved exceptions.

- b) Ensure that exceptions are sent to the Procurement Resource to be kept in a register of exceptions. The use of exceptions will be monitored by the Section 151 Officer and reported quarterly to Governance and Audit Committee.
- c) Ensure that a contract is signed by the Council and Supplier prior to any work commencing on the contract and that Officers provide an electronic copy of the signed contract to the Procurement Resource (where the contract is formed otherwise than by way of a purchase order).
- d) Ensure all staff work with their Procurement Resource in line with these rules.
- e) The appointment of consultants is in accordance with these rules and all contracts relating to the appointment of a consultant, where the value is above £5,000 is recorded on the Council's Contract Register.
- f) Ensuring all staff are aware of their responsibilities under these procedures and receive adequate training.

1.4.3 **Officer Responsibilities**

Officers are responsible for:

- a) Seeking advice from their Procurement Resource in accordance with these rules at an early stage and particularly when a procurement need has been identified. Officers will need to comply with these rules.
- b) Complying with appropriate legislation including the PCR 2015, PA 2023; the Councils Constitution, Financial Procedures, and these CPPR's.
- c) Seek advice from the Procurement Resource to identify if a suitable existing contract or Framework Agreement exists.
- d) Ensuring compliance with transparency legislation by providing information to the Procurement Resource to ensure the details of all contracts valued at £5,000 and above are provided for completion of the Council's electronic Contract Register including any extensions and approved exceptions.
- e) When appointing a consultant, the appropriate procedures in this document are followed.
- f) Seeking to protect the Council from the commercial and operational risks of TUPE by seeking advice from the Procurement Resource if required.
- g) Using the Council's e-tendering portal for all Request for Quotations and Tendering processes above £5,000.
- h) Comply with the procurement Conflict of Interest process.

1.4.4 Prior to the advertisement of any procurement by the Procurement Resource, officers using the template provided, must submit a summary of their Pre-Market Engagement activity for review by the Procurement Resource.

1.4.5 **Procurement Resource Responsibilities**

The Procurement Resource is responsible for :

- a) Complying with appropriate legislation including the PCR 2015, PA 2023; The Councils Constitution and these CPPR's. The Procurement Resource must pay due regard to any relevant statutory guidance issued from time to time by the Cabinet Office.
- b) Check whether a suitable existing contract or Framework Agreement (including EPSO, CCS) exists before undertaking any commissioning activity. Where such an agreement exists an assessment should be undertaken to determine if it is the best route to market and demonstrates value for money, particularly in the case of frameworks that can be called off from without competition. The recommended route to market must be recorded within the Procurement Strategy.
- c) Complying with all Notice and Transparency obligations.
- d) Supporting and advising Officers on procurement and commercial activity that are below threshold (see financial threshold limits at Section 2, para. 2.3).
- e) Managing the procurement process for above threshold contracts shall be conducted by the shared service Procurement Resource.
- f) Manage the Council's conflict of interest process.
- g) Recording the Councils Pre-Market Engagement conclusion summaries.

1.4.6 **Contract Manager Responsibilities**

Contract Managers are responsible for:

- a) Managing contracts in accordance with the Councils Contract and Risk Management Guidance document, so that a requirement is delivered in line with the contract terms.
- b) Complying with all transparency requirements during the management of the contract including when modifying contracts.
- c) Keep under review the value of contracts that are modified where permitted by legislation and consider if they become a convertible contract or exceed £5 million in value.
- d) Seeking appropriate advice from Procurement Resource in the event of supplier poor performance.
- e) Monitoring Suppliers performance against the requirements of the Contract including monitoring performance against Key Performance Indicators (KPIs) and reporting this performance where required.

1.5 Conflicts of Interest

- a) The Council must act with integrity when it undertakes any procurement activity, and a conflict-of-interest process needs to be followed. This section needs to be read alongside the Members and Officers Codes of Conduct, and any other relevant Council Protocols and procedures as set out in the Council's Constitution

relating to the management of fraud, bribery, corruption, bias, conduct in public life and any other internal business or organisational rules.

- b) A conflict of interest arises in a procurement context where there is a conflict between the interests of a person acting in relation to a procurement and those of the procurement itself. Conflicts of Interest relate to 'actual' conflicts or a 'potential' Conflict of Interest which may turn into an actual conflict if certain circumstances occur. A 'perceived' Conflict of Interest may also arise where it may be wrongly understood that there is a conflict.
- c) The Procurement Resource will advise on the process and specific steps required to mitigate and manage Conflicts of Interest, particularly if there is a conflict, or a potential conflict relating to a commercial matter. Steps will include but not limited to completing declarations of interest, checks of pre-existing declarations and any central registers held within the Council.
- d) Officers and the Procurement Resource will need to identify and keep under review actual and potential conflicts of interest. A formal conflict assessment will need to be prepared and this will need to be published with transparency notices and updated as necessary during the life of the procurement. The conflict assessment statement will also address any perceived conflicts of interest.
- e) Any conflict of interests identified within a procurement will be dealt with on a case-by-case basis. Officers and the Procurement Resource will take every step to mitigate the conflict of interest, and these mitigations will be published in the conflict assessment statement.
- f) Suppliers are to be excluded from a procurement whereby a conflict of interest puts the supplier at an unfair advantage and if steps cannot be taken to avoid the advantage or the supplier refuses to take any necessary steps to remove the conflict.
- g) For below threshold procurements, the principles around Conflicts of Interest still apply however the formal publication of conflict assessment statements are not required. Officers should seek advice from the Procurement Resource where required.

Selecting the correct procurement route

Including above and below threshold contracts and exceptions to the normal tendering route.

2 Procurement Routes and Pre-Procurement Considerations

2.1 Calculating the Estimated Total Contract Value

- 2.1.1 Before undertaking a procurement, exercise or contract modification Officers must calculate the Total Contract Value. The Total Contract Value includes VAT. Officers shall follow Council guidance on how to do this and seek advice from the relevant Procurement Resource where required.
- 2.1.2 Total contract value must be the maximum value payable under the whole contract lifecycle including implementation and exit arrangements. It must also consider any potential variables including:
- a) Options to supply additional goods/services/works.
 - b) Options to extend or renew the contract.
 - c) Price rises provided for in the contract.
 - d) The value of any goods, services or works provided by the Council under the contract other than payment.
- 2.1.3 Officers must not separate a requirement into smaller contracts to avoid a higher threshold procurement. unless there is a justifiable reason and approved by MT.
- 2.1.4 Where possible Officers should look to combine requirements with other service areas to avoid duplication of contracts and to increase the commercial attractiveness of opportunities.
- 2.1.5 Where it is not possible to calculate a contract value the Contract must be treated as above threshold and Officers must seek advice from their Procurement Resource before proceeding.

2.2 Procurement Routes

The relevant Procurement Resource will advise Officers whether an existing framework or existing Council corporate contract is available and should be used to demonstrate value for money.

Contract Type	Contract Value		Process	Award Procedure based on	Contract Publication	Documentation
	From	To				
All	£0	£5,000	Request for Quotation	One quotation sought – direct approach to single supplier.	Not required.	Officer to record details Local supplier to be used where appropriate (or reason for not using recorded).
All	£5,001	£30,000	Request for Quotations	At least two written quotations sought based on a simplified RFQ document with appropriate T&Cs At least one local supplier to be invited where possible.	Not required	Local supplier to be used where appropriate (or reason for not using recorded).
All	£30,001	PA 2023 Services Threshold (see para 2.3)	Request for Quotation	At least four written quotations (no group relationship) sought based on an RFQ document with appropriate T&Cs	Must be placed on Find a Tender Service first, if in addition wherever the Council chooses to advertise,	Must be based on a written specification with appropriate terms and conditions

Contract Type	Contract Value		Process	Award Procedure based on	Contract Publication	Documentation
	From	To				
				At least two local suppliers to be invited where possible.		
Supplies and Services	Above Services Threshold		Formal tender	Full tender process	Find a Tender Service, Pro-Contract Specialist publication, if appropriate, after advertised on Find a Tender Service	As required by the PA 2023 and detailed in the CPPR's
Works	Services Threshold (£214,904)	Works Threshold (£5,372,609)	Request for Quotation	At least five quotations based on an ITT document with appropriate T&Cs At least two local suppliers to be invited where possible.	Find a Tender Service, Pro-Contract, and Contracts Finder Specialist publication if appropriate	Must be based on a written specification with appropriate terms and conditions
Works	Above Works threshold		Formal Tender	Full tender process	Find a Tender Service, Pro-Contract, and Contracts Finder Specialist publication if appropriate	As required by the PA 2023 and detailed in the CPPRs

2.3 Legal Thresholds

2.3.1 The Thresholds that are prescribed by the Public Contracts Regulations 2015 are:

Type	Threshold
Supplies/ Services	£214,904
Works	£5,372,609
Light Touch Regime (applies to certain social, health, educational services)	£663,540

2.3.2 The PA2023 Schedule 1 Thresholds are updated by the Government every two years, most recently issued during January 2023, via a Procurement Policy Notice (PPN), when changes are made these CPPRs will be updated accordingly.

2.3.3 If the Total Contract Value is above these thresholds, then the Above Threshold process as outlined in this document must be followed. Failure to do so will result in a breach of the Procurement Regulations.

2.4 Pre-Procurement Considerations

2.4.1 Before undertaking a procurement, the officer shall:

- Consider all other means of satisfying the need (including recycling and re-use where appropriate);
- Take advice as necessary from the Council's Procurement Resource;
- Consider whether there is a Dynamic Market or Framework Agreement already in place that should be used;
- Engage with the market (see guidance within this document):

3 Governance and Exceptions to the Normal Tendering route

3.1 Governance

- 3.1.1 Prior to undertaking any procurement activity, the Officer must ensure that all the necessary governance processes have been followed and approvals obtained from Management Team, Commercial Board, Change Management Team or Committee and therefore plenty of time should be allowed for this.
- 3.1.2 Officers must seek advice from the relevant Procurement Resource to determine the correct procurement route.

3.2 Exceptions to the Normal Tendering Routes

- 3.2.1 Exceptions are provided for in exceptional circumstances where the Section 151 Officer believes that a normal tendering procedure cannot be followed.
- 3.2.2 If the Procurement Thresholds are exceeded, then an exception may not be legal. There are only limited circumstances where it is permitted to award a contract to a supplier without first running a competitive tendering procedure. Any exception must be discussed with the relevant Procurement Resource before any decision is made.
- 3.2.3 In these exceptional circumstances the authority must be obtained prior to contract award, from the following:

Contract Value		Who Approves	Process
From	To		
Above Threshold		Relevant Committee	Option A - Written Report via MT
£75,000	£214,904	Section 151 Officer in consultation with the Management Team	Option B - Written Report
£0	£75,000	Section 151 Officer	Option C - Written Report

Note: The Options are:

- A. Tendering exercise would not achieve best value, and the value of the contract is above the published threshold value.

- B. Quotation or Tender differs marginally from the original specification, only one potential supplier or contractor, and the value of the contract is between £75,000 and the CCS published threshold value.
- C. Value is below £75,000 , the requirement is of an urgent nature , social value is of high importance there is only one supplier or contractor and there is an unforeseen event.

3.2.4 Advice to be sought from the relevant Procurement Resource prior to submission of any Report for the purpose of an Exception to the normal tendering route. Officers are to send a copy of any exception report to the Business Development Officer Contracts and Procurement to be kept on the Register of Exceptions.

3.3 Urgency

3.3.1 In the event of an unforeseeable urgent or emergency to the normal tendering routes, Section 5 of the Procurement Act 2023 allows for the Direct Award of a contract subject to the urgent emergency protocol criteria being met. These cannot be situations that are attributable to the actions of the Council. If an Officer considers an urgent requirement has arisen, then you must consult the relevant Procurement Resource prior to awarding a contract.

3.3.2 The relevant Procurement Resource must put in place a contract that includes a commercially acceptable set of terms and conditions and a specification.

4 Specific requirements for certain types of procurement

4.1 Procuring with External Grant Monies

- 4.1.1 If a Contract is being procured that is being funded either entirely or in part by External Grant Monies, then the Officer must ensure that they are operating in accordance with the conditions of those grant monies when undertaking any procurement or contracting activities. Officers should seek support from the relevant Procurement Resource in this regard.

4.2 Procuring utilising a Framework Agreement

- 4.2.1 The Council encourages the use of Framework Agreements where they offer Value for Money. Officers will be advised by the relevant Procurement Resource when using a Framework Agreement.
- 4.2.2 When selecting a Framework to use in an above threshold procurement the relevant Procurement Resource shall ensure that the Council is permitted to use the Framework by checking that the Council is named in the Tendering Notice (or Contract Notice if the Framework was established before 24th February 2025) and that the Framework provider is a Contracting Authority.
- 4.2.3 Contracts awarded under a Framework Agreement must always be awarded in accordance with the rules set out within the Framework Agreement Documentation. It is the responsibility of the relevant Procurement Resource to check the Framework Agreement Documentation, and this may need to be requested from the Framework provider.

4.3 Procuring utilising a Dynamic Market

- 4.3.1 Dynamic Markets can only be established for contract values above the threshold for good and services but below the threshold for works and construction.
- 4.3.2 The Procurement Resource must lead on any Dynamic Market procurement.

4.4 Appointment of Consultants

- 4.4.1 The following procedure applies when it is necessary to appoint a consultant to provide services to the Council.
- 4.4.2 The Officer must obtain approval to use a consultant using the Council's decision-making processes, i.e., through report to Management Team or relevant Board.

- 4.4.3 Consultants should only be used whereby they will be providing advice to fill a knowledge gap by either identifying options and recommendations or advice to implement solutions and therefore will be time limited.
- 4.4.4 If the request is approved the Officer must then comply with the procedural requirements based upon the Estimated Total Contract Value.
- 4.4.5 Payment for the Consultancy Service should be based on the satisfactory completion of defined outputs along with clear terms and conditions.
- 4.4.6 Advice should be obtained from the relevant Procurement Resource prior to entering a contract with a consultant.
- 4.4.7 All Consultancy contracts must be added to the Council's Contracts Register regardless of the value.
- 4.4.8 For Agency appointments the Officer must refer to the HR Manager for direction.
- 4.4.9 The Officer must not engage with any agency to secure CVs, without prior engagement with the Human Resources Service, and without a full understanding of the agency's terms and conditions.

NOTE: Some agencies require you to accept their terms and conditions prior to receipt of CVs. These terms and conditions may include clauses regarding 'introductory fees' which may be payable even if no appointment is made through that agency. These fees are often substantial and pose significant financial risk to the Council.

4.5 Concession Contracts

- 4.5.1 A concessions contract is an agreement between the Council and a Supplier where the Supplier is given the right to exploit works or services provided for their own gain. This may still be the case even if the Council contribute some income.
- 4.5.2 If you consider that a contract may be a concession contract, then you must seek advice from PL.

4.6 Subsidy Control

- 4.6.1 A subsidy (previously known as State Aid) is any advantage granted by a public authority through state resources on a selective basis to any organisation that could potentially distort competition. The definition of subsidy is very broad because "an advantage" can take many forms. It is anything which an organisation engaged in economic activity could not get on the open market.
- 4.6.2 Subsidy Control rules can (amongst other things) apply to
 - a) Grants

- b) loans
- c) guarantees
- d) tax breaks
- e) the use or sale of state assets for free or less than market rate

4.6.3 Officers must seek advice from the PL who will seek advice from the Legal Resource before continuing with a procurement where there is any potential subsidy.

Below Threshold Procurements

5 Below threshold procurements

5.1 Principles of Below Threshold Procurement

- 5.1.1 Below threshold procurements are not subject to the all the requirements of the PA 2023. The specific legal requirements relating to below threshold procurements are listed in 5.2 below.
- 5.1.2 Even though below threshold procurements are not subject to full legislative requirements they must still follow the Council's processes as outlined in this section.

5.2 Requirements of the Procurement Act 2023

- 5.2.1 Proportionate to the value of the contract, the Procurement Resource should complete an appraisal of the market to assess Supplier interest, and advise as to whether conducting Pre-Market Engagement would benefit both the Council and the supply markets.
- 5.2.2 Within an open or below threshold tendering opportunity, Officers must not include an assessment of a bidder for the purpose of de-selection of bidders (i.e. short listing). The only exception to this is for works contracts that are above the supplies and services threshold but below the works threshold which can include a shortlisting stage.
- 5.2.3 Proportionate to the subject matter of the Contract, the procurement may assess a Bidders legal status; financial capacity or technical ability for performing the contract within an overall assessment.
- 5.2.4 Officers shall be mindful of the barriers that small and medium size enterprises (SMEs) may face when responding to opportunities and must take reasonable steps to remove these barriers. This might include requesting proportionate levels of insurance and experience.
- 5.2.5 The Procurement Resource must publish a Contract Details Notice on Find a Tender Service for all Contracts with a Total Contract Value of £30,000 (including VAT) and above.
- 5.2.6 All Contracts with a Total Contract Value of £5,000 or above shall be recorded on the Council's Contract register.

5.3 Advertising Contracts

- 5.3.1 Procurements below £30,000 are not required to be advertised on the Find a Tender Service.
- 5.3.2 In the interest of achieving value for money the Business Development Officer Contracts and Procurement may advise the advertising of a particular activity.

5.3.3 If the RFQ is valued at above £30, 000 the Procurement Resource must ensure it is advertised on Find a Tender Service before being advertised anywhere else.

5.4 Request for Quotations (RFQ) process

5.4.1 As outlined in this document, RFQs are the Council's preferred method of undertaking procurements that are below threshold.

5.4.2 The Business Development Officer Contracts and Procurement will work with the service area representative to ensure completion of standard format templated RFQ documents. The RFQ must state that the Council is not bound to accept any quotations received.

5.4.3 RFQs must contain:

- a) A specification which describes clearly the Council's Requirement in sufficient detail to enable the submission of competitive offers and to enable the Council to hold the supplier to account.
- b) Relevant terms and conditions that are proportionate to the requirement
- c) Simplified award criteria that outline how the RFQ will be evaluated.
- d) Instructions on the performance and management of the contract.

5.4.4 For all RFQs the Council's electronic tendering platform must be used to invite suppliers and publish the RFQ documents. All Suppliers invited to quote must be issued with the same information at the same time and subject to the same conditions.

5.4.5 Records of the RFQ process including evaluation of the RFQ must be retained by the Business Development Officer Contracts and Procurement.

Above Threshold Procurements

6 Above threshold procurements

6.1 Pre-market Engagement

- 6.1.1 Officers should consult with the relevant Procurement Resource before engaging with the market. Before any discussions take place with any potential supplier(s) then a Preliminary Market Engagement Notice must be published on Find a Tender Service.
- 6.1.2 Throughout any market engagement all steps should be taken to ensure that suppliers are treated equally and fairly and that no advantage and disadvantage is afforded to any supplier.
- 6.1.3 Full records of pre-market engagement must be kept using the template provided by the Procurement Resource, ensuring that the process is fair and transparent. To avoid distorting competition Officers shall communicate to all Bidders any relevant information exchanged, in the context of, or resulting from any pre-market engagement when publishing the tender documentation.
- 6.1.4 Where pre-market engagement has taken place, but a Preliminary Market Engagement Notice was not published prior, the rationale for this must be recorded in your Contract Details Notice.

6.2 Selecting a procurement procedure

- 6.2.1 Under the PA 2023 there are 2 procurement procedures that can be used for above threshold procurements outside of an existing corporate contract, framework agreement or dynamic market:
 - i. Open procedure – Single stage where no shortlisting of suppliers take place
 - ii. Competitive Flexible Procedure – Multi-stage process where shortlisting of suppliers can take place.
- 6.2.2 To obtain the best commercial outcome and to ensure the process is proportionate the Competitive Flexible Procedure should only be conducted by an officer from PL.

6.3 Invitation to Tender (ITT)

- 6.3.1 Procurement Lincolnshire's template documents should be used for all above threshold procurements which are accessible through the Procurement Resource.

6.4 Communication with markets during a tender process

- 6.4.1 Officers will ensure that all communication with potential suppliers is fair and transparent and does not afford any suppliers an advantage or disadvantage.

- 6.4.2 During a live tender communication with any supplier must be in writing via the Council's e-tendering portal unless alternative communication is permitted under the competitive flexible procedure. Any communication outside the Council's e-tendering portal must be done in conjunction with the relevant Procurement Resource assigned to the procurement by PL and a detailed log kept of such communication.
- 6.4.3 Officers will bear in mind obligations around conflicts of interest and if an actual or perceived conflict of interest develops then the officer will consult with the assigned Procurement Resource who will consider what steps can be taken to avoid or remove conflicts of interest including the use of ethical walls agreements.

6.5 Conditions of Participation

- 6.5.1 Information about a Bidder's business standing, model and any exclusion grounds will be obtained by the Procurement Resource from the Central Digital Platform using the Supplier Information functionality. The platform is managed by the Crown Commercial Service and is designed so that Suppliers can submit and keep updated their business information, and it will then be available for all public bodies nationally to access.
- 6.5.2 The assigned Procurement Resource must ensure that this system is used and not use any local forms or processes. The use of the Supplier Information System is mandatory for all above threshold procurements.
- 6.5.3 The Officer assigned will ensure that Conditions of Participation are relevant to the subject matter of the contract and be proportionate.

6.6 Standards and Award Criteria

- 6.6.1 The Award Criteria is used to determine which of the Bidders will be awarded the contract and they are assessed as part of the ITT.
- 6.6.2 Public Contracts must be awarded based on the Most Advantageous Tender (MAT).
- 6.6.3 All Award Criteria and sub-criteria must be weighted, and these weightings must be set out in the Procurement Documentation.
- 6.6.4 Award criteria must provide for international equivalents for any British standards.
- 6.6.5 When determining the process that will be used to supplement an ITT there should be caution on the use of bidder presentations. This should only be assessed where presenting is a material part of the contract delivery or where a product demonstration is required. If an Officer considers the use of a presentation is necessary advice should be sought from the assigned PL Officer who shall coordinate proceedings during any such presentation.

6.7 Publishing the ITT

- 6.7.1 The ITT documentation should all be made available to all suppliers at the same time as publishing the Tender Notice on the councils e-tendering system. If this is not likely to be possible then advice must be obtained from the assigned Procurement Resource on how to manage the risk associated with this.
- 6.7.2 Suppliers must be given an adequate period to prepare and submit a Tender consistent with the urgency and or complexity of the contract requirements. Minimum timescales outlined in the PA 2023 must be complied with.
- 6.7.3 Late tenders will not be accepted unless approved by the assigned Procurement Resource and only if it is not in breach of the Procurement Act 2023.
- 6.7.4 Any Tender amendments, changes to instructions or clarifications should be issued in writing to all bidders unless the clarification is confidential to a specific bidder. Officers must review the Tender Notice to see if that also requires amendment. A Tender Notice amendment must be published if there are changes to the timescales for the return of the tender.
- 6.7.5 ITTs must not be amended following the submission of final bids.

6.8 Evaluation

- 6.8.1 Tenders must be evaluated, recorded and awarded in accordance with the published Award Criteria. The basis on which the tender will be evaluated must be determined before tenders are invited and must be included as part of the tender information.
- 6.8.2 The overall basis for any award of contract must be the 'most advantageous tender' (MAT).
- 6.8.3 Evaluation panels should be established with members of the panel being those who have a good level of knowledge of the requirement and the award criteria.
- 6.8.4 Prior to bids being received by the evaluation panel they must be asked to confirm, or reconfirm if they have already done so, that there are no conflicts of interest.
- 6.8.5 A meeting must be held as part of the evaluation process either to score or to agree a consensus score and this meeting should be ideally chaired by the assigned Procurement Officer who is not permitted to be an evaluator. The role of the Procurement Officer is to ensure that the scoring or consensus takes place transparently in accordance with the tender documentation.
- 6.8.6 Evaluating Officers are required to reach consensus and produce an agreed narrative detailing the reasons for the final agreed score(s) and the score(s).
- 6.8.7 As per this document if presentation or product demonstrations are used then Officers must ensure contemporaneous notes are made detailing all the questions, responses and points raised or full auditory records are kept.

6.8.8 Bids must be kept confidential.

6.9 Clarification of bids by Evaluators

6.9.1 If the Evaluation Panel determine that there are areas of ambiguity or lack of clarity, then consideration should be given to clarifying these issues with the Bidder(s). Clarifications must be sought in writing, using the Council's e-tendering platform unless an alternative process for clarification has been detailed in the ITT as part of the Competitive Flexible Procedure.

6.9.2 Clarifications requested of Bidders during the evaluation process shall not be an opportunity for Bidders to enhance their already submitted bids. Rather this should be an opportunity to clarify a specific element included in their already submitted bid.

6.9.3 Officers should seek the support of the assigned Procurement Resource where necessary and always in the event of a Competitive Flexible Procedure being used.

6.9.4 The clarification process must ensure that all Bidders are treated equally and fairly.

6.10 Assessment Summaries and Standstill

6.10.1 The assigned Procurement Resource will ensure that Assessment Summaries are completed using the standard Council template.

6.10.2 The assigned Procurement Officer will issue a Contract Award Notice to commence an 8 working day mandatory or voluntary Standstill Period prior to awarding a Contract.

6.10.3 Unless the award of the contract falls within the delegated authority of the Section 151 Officer, approval should be sought in line with the Council's Constitution.

6.11 Due diligence

6.11.1 Prior to awarding a Contract the assigned Procurement Resource will verify any standards that a Bidder has self-certified through a procurement process. This includes but is not limited to any professional qualifications, required internal standards and insurance levels.

6.11.2 Advice must be obtained from the relevant Procurement Resource to determine if the Bidder must be excluded from the process. The Procurement Resource must check the debarment list prior to any selection stage and/or the award of a Contract.

7 Light Touch Regime (LTR) and Provider Selection Regime

7.1 Light Touch Regime

- 7.1.1 The Light Touch Regime is for certain services contract in social, health and education services and are subject to more flexible procurement rules. For a contract to be a light tough contract the Common Procurement Vocabulary (CPV) code must be listed in Schedule 1 Procurement Act 2023.
- 7.1.2 Officers must seek advice from the relevant Procurement Resource prior to undertaking a LTR tender.
- 7.1.3 A different threshold exists for LTR contracts.
- 7.1.4 LTR contracts do still have to follow some of the provisions of the PA 2023 but have greater flexibility and freedoms.
- 7.1.5 LTR contracts must be advertised using a tender notice unless a direct award justification applies.
- 7.1.6 The Procurement Resource must determine if Bidders are excluded or excludable and consider Conflicts of Interest before awarding a contract.
- 7.1.7 The Procurement Resource will ensure transparency obligations through the publication requirements, by completing a contract award notice and a contracts details notice when a contract is over £5,000,000.
- 7.1.8 The Procurement Resource shall consider whether the requirement can be broken into lots and the services supplied under more than one contract.
- 7.1.9 The Procurement Resource will use either the open, competitive flexible procedure or direct award where justified. There are no mandated timescales for LTR contracts, but officers will ensure that the time scales are reasonable, taking into account the nature of the requirement and the complexity of the contract.
- 7.1.10 Officers should apply a voluntary standstill period to LTR contracts.
- 7.1.11 Contract managers are required to set and publish 3 KPIs for contracts with a Total Contract Value of above £5,000,000.
- 7.1.12 Contract Managers are permitted to amend LTR contracts if amendments are in accordance with the objectives outlined in this document. LTR contracts do not require the publication of Contract Change notices.

8 Other Considerations

These considerations apply to above and below threshold procurements.

8.1 Information Assurance and Data protection

- 8.1.1 The relevant Procurement Resource must consider the information assurance requirements of the Contract if they anticipate any Personal Data is to be processed as part of the contract.
- 8.1.2 Where personal data may be processed as part of the contract, officers must seek further advice from the Data Protection Officer.

8.2 Sustainable Commissioning

- 8.2.1 For all above Threshold contracts then consideration must be given as to how the Contract might improve the economic, social and environmental wellbeing of Lincolnshire, as required by the Public Services (Social Value) Act 2012. This duty also relates to Light Touch Regime (LTR) as described in section 7.1, where the Estimated Total Contract Value exceeds the Services PCR 2015 Threshold.
- 8.2.2 The Council must consider in the form of a Social Value appraisal, whilst recognising the principle of Proportionality:
 - a) How, what is proposed to be procured, might improve the economic, social and environmental well-being of the relevant area.
 - b) How, in conducting the process of procurement, it might act with a view to securing that improvement; and
 - c) Whether to carry out any consultation in relation to the above matters.

8.3 TUPE

- 8.3.1 Where TUPE may apply the relevant Procurement Resource should seek advice from their Monitoring Officer.

Contract Formation

9 Contract Formation

9.1 Contract Formation

- 9.1.1 The Section 151 Officer has the responsibility to ensure that a Scheme of Delegation is in place, and contracts should be signed in accordance with this scheme.
- 9.1.2 The Procurement Resource is responsible for securing signature of the contract by both parties prior to commencement of the contract.
- 9.1.3 Where the value of the contract exceeds £75,000, legal advice should be obtained as to whether the contract is executed under hand or under seal.

9.2 Contracts signed under hand

- 9.2.1 The Procurement Resource must ensure that when a contract is signed under hand (by either wet or electronic signature) the signatory has authority to do so.
- 9.2.2 Contract signed under hand are generally contracts with a total contract value under the FTS threshold.
- 9.2.3 The limitation period for a claim is 6 years from the date of the breach.

9.3 Contracts signed under seal

- 9.3.1 Where contracts are completed by each side adding their formal Seal, the fixing of the Council's Seal must be witnessed by or on behalf of the Chairman of the Council.
- 9.3.2 Every Council sealing will be consecutively numbered, recorded and signed by the person witnessing the Seal. The Seal must not be affixed without the authority of the Chief Executive Officer, a duly authorised Committee, or the Chairman of the Council.
- 9.3.3 A contract should be sealed where:
 - a) The Council may wish to ensure a limitation period of 12 years from the date of the breach;
 - b) Where the Council has paid no consideration for goods or services, or the carrying out of works; or
 - c) Legal advice has been provided to this effect.

9.4 Contract Publication

- 9.4.1 Where a contract is above £5,000,000 or if a works contract above the works threshold, then a redacted version of the Contract must be published in a notice.
- 9.4.2 Contract publication and redaction must be conducted by the relevant Procurement

Resource.

9.5 Document Retention

9.5.1 All relevant documentation must be kept in accordance with the Council's document retention policy.

9.6 Bonds And Parent Company Guarantees

9.6.1 The Officer must consult the Director of Corporate Services to identify whether a Parent Company Guarantee or Bond is needed;

a) When a Contracted Supplier is a subsidiary of a parent company as to the necessity of a Parent Company Guarantee when any of the following conditions are satisfied:

- i. The Total Contract Value exceeds £500,000, or
- ii. Award is based on evaluation of the parent company, or
- iii. There is some concern about the financial stability of the Contracted Supplier; and

b) To identify whether a Bond is needed:

- i. Where it is proposed to make substantial staged or other payments in excess of £500,000 and there is some concern about the financial stability of the Contracted Supplier, and there is no Parent Company Guarantee available.

9.7 Prevention Of Corruption

9.7.1 All Officers must comply with the Code of Conduct and must not invite or accept any gift or reward in respect of the award or performance of any contract:

- a) It will be for the Officer to prove that anything received was not received corruptly;
- b) High standards of conduct are obligatory, and a failure to reach the required standards may lead to disciplinary action. Staff involved in procurement should be aware that the Council's counter fraud and whistleblowing policies apply equally to these procedures, as they do to other Council activities. Criminal sanctions for action of corruption are possible under the Bribery Act 2010.

9.7.2 The relevant Procurement Resource must ensure that all bidders sign an anti-collusion statement which will be in the template procurement documentation and require bidders to complete a declaration of good standing confirming that they have not met any grounds for mandatory exclusion.

9.7.3 All Officers involved with a procurement will comply with the Procurement Conflict of Interest Process which is managed by the relevant Procurement Resource.

9.8 Contract and Risk Management

- 9.8.1 Duly nominated and authorised contract managers must fully adhere to the Council's contract and risk management guidelines, as detailed in the Council's Contract and Risk Management Guidance Notes.

Appendix 1 – Glossary

Term	Definition
Award Criteria	<p>The criteria used by the Council to evaluate the Bidder’s tender against the needs identified within the specification to determine the successful tender. Such criteria may comprise for example –</p> <ul style="list-style-type: none"> a) Price, or total cost; b) Quality including technical merit, aesthetic and functional characteristics, accessibility, design for all users, social, environmental and innovative characteristics and trading and its conditions; c) Organisation, qualification and experience of staff assigned to performing the contract, where the quality of the staff assigned can have a significant impact on the level of performance of the contract (and not already evaluated at SQ stage); or d) After-sales service and technical assistance, delivery conditions such as delivery date, delivery process and delivery period or period of completion.
Bidder(s) / Tenderer(s)	Potential Suppliers who are actively involved in a procurement process.
Bond	An insurance policy: If the Supplier does not do what it has promised under a contract with the Council, the Council can claim from the insurer the sum of money specified in the Bond (often 10% of the Total Contract Value). A Bond is intended to protect the Council against a level of cost arising from the Economic Operator’s failure.
Call off without competition	<p>A mechanism within an existing framework that allows for a contract to be awarded without competition because the framework is either for a single supplier or because there is a mechanism within the framework that allows for it. As long as the terms of the framework are complied with this is permitted.</p> <p>Not to be mistaken for Direct Award or Exception to the Normal Tendering route.</p>
Chief Officer S151	The Officers defined as such in the Constitution.
Code of Conduct	The code regulating conduct of Officers and Members is defined in the Constitution.
Committee	A Committee, which has power to make, decisions for the Council, for example a joint Committee with

Term	Definition
	another local authority but not a scrutiny committee.
Constitution	<p>The constitutional document approved by the Council which:</p> <ul style="list-style-type: none"> • Allocates powers and responsibilities within the Council and between it and others; • Delegates authority to act to the Executive, Committees, Executive Councillors and Officers; and Regulates the behaviour of individuals and groups through rules of procedure, codes and protocols.
Consultant(s)	<p>Someone contracted for a specific length of time to work to a defined project brief with clear outcomes to be delivered usually relating to a business change or transformation. The individual(s) will operate outside of the Council's organisational structure and payment is based on the delivery of defined outputs. The individual(s) should not be working in a Business-as-Usual environment (such as advising on legal risk and technical matters) these contracts should usually be classified as Professional Services.</p>
Contract Register	<p>An electronic register that must be populated, with key information about contracts, for all contracts awarded as required by these procedures.</p>
Contracted Supplier / Sub-contracted Supplier	<p>A Supplier who is currently contracted to provide services.</p>
Contracting Authority	<p>The organisation letting the contract in question. Contracting Decision - Any of the following decisions;</p> <ul style="list-style-type: none"> • Composition of Approved Lists • Withdrawal of Invitation to Tender • Whom to invite to submit a quotation or tender shortlisting • Award of contract • Any decision to terminate a contract
Corporate Contract	<p>A contract let or approved by the Procurement Team to support the Council's aim of achieving Value for Money.</p>
Council	<p>For the purposes of these Contract and Procurement Procedure Rules, "Council" refers to West Lindsey District Council.</p>
(Common) Seal	<p>The seal that may be, and in the case of the Council is, attached to a document by a corporate body when executing a Deed.</p>

Term	Definition
Conditions of Participation	<p>A component of the evaluation process set out to assess the Bidders capability to provide the requirements identified in the ITT. This is not an evaluation of how they will provide the requirements requested, more an evaluation of their organisation's intrinsic ability to provide those services.</p> <p>Conditions of Participation may only relate to:</p> <ul style="list-style-type: none"> • Suitability to pursue a professional activity • Economic and Financial standing • Technical and Professional ability
Contract Manager	Officer who is responsible for the management and administration of a contract. This includes where it is part of an Officers role even if not mentioned in their job title.
Convertible Contract	A contract where, at the time that it is awarded, the estimated total contract value is below threshold but during the lifetime of the contract it is modified so the total contract value is above threshold.
Concession Contract	A contract where at least part of the scope allows the supplier to exploit works or services and the Supplier is exposed to the real operating risk involved with operating those works or services. An example would be the opportunity to run a café.
Conflict of Interest	a personal, professional or financial interest or perceived interest that may compromise, or have the appearance of, or potential for, influencing or compromising professional judgement and the integrity if the procurement, directly or indirectly.
Ethical Wall Agreement	Mechanism agreed between 2 or more parties to avoid conflicts of interest.
Direct Award	An award that is made to a single supplier with limited competition. These are permitted in very limited circumstances under PA 2023 and should not be made without an Exception to the Normal Tendering Route approval and consulting your Commercial Resource.
Deed	A signed and sealed instrument containing some legal transfer, bargain, or contract.
Dynamic Market	A fully electronic compliant 'Approved List', where Suppliers can join at any point while the DM is open,

Term	Definition
	and they meet the Conditions of Participation.
Exception to the Normal Tendering Route	<p>A method of procurement that is contrary to these rules but the necessary permission has been obtained in accordance with this document.</p> <p>Not to be mistaken with Direct Award</p>
Electronic Tendering	A secure means to store and transmit all Procurement Documentation via a secure electronic vault (Pro-Contract).
Estimated Total Contract Value	The estimated value of a procurement as defined in this document.
Evaluating Officers	Members of the Evaluation Panel
Evaluation Panel	A group of relevant Officers of the Council, or appropriate stakeholders, who have the technical knowledge and experience to judiciously evaluate bids received in response to a procurement exercise.
External Grant Funding	Funding that is provided to the Council from an external body to deliver a specific requirement. This is <u>not</u> where the Council provides grant funding to third parties.
Financial Regulations	The financial regulations outlining officer responsibilities for financial matters, issued by the Executive Director of Resources forming part of the Constitution.
Framework Agreement(s)	An agreement between one or more Contracting Authorities and one or more Economic Operators, the purpose of which is to establish the terms governing contracts to be awarded during a given period, in particular with regard to price and, where appropriate, the quantity envisaged.
Framework Supplier(s)	An Economic Operator who has successfully secured a place on a public framework contract.
Have Regard to	To consider the objectives and see what weighting if any they should have.
Invitation to Tender (ITT)	A key document within the Procurement Documentation which must contain or reference, the instructions for Bidders, specification, evaluation model and other relevant materials to allow the procurement activity to be concluded successfully.
Key Decision	An executive decision taken by the Council which is likely to result in

Term	Definition
	<p>e) the relevant local authority incurring expenditure which is, or the making of savings which are, significant having regard to the local authority's budget for the service or function to which the decision relates; or</p> <p>f) to be significant in terms of its effects on communities living or working in an area comprising two or more wards or electoral divisions in the area of the relevant local authority.</p>
Legal Support	The Councils nominated Legal resource.
Local	Where the supplier is based or established in Lincolnshire and has substantive business operations in Lincolnshire. In this context, this means having a registered office, factory or other permanent base and staff in that location through which meaningful business operations have been conducted for at least 12 months.
'MAT'	Most Advantageous Tender, whereby a combination of price, quality, social value, environmental impact and other relevant factors as appropriate specific to the contract rather than focusing solely on cost
Officer	The officer of the Council with responsibility for undertaking a procurement or commissioning activity.
Parent Company Guarantee	A contract which binds the parent of a subsidiary company as follows: If the subsidiary company fails to do what it has promised under a contract with the Council, they can require the parent company to do so instead.
Personal Data	As defined in UK General Data Protection Regulations 2018
Procurement Documentation	The full suite of procurement documents required to undertake a compliant procurement process. Includes but not limited to: SQ, Specification, ITT, Terms and Conditions and Form of Tender
Procurement Objectives	Objectives that are set out in the Procurement Act 2023:
Procurement Resource	Those in the Procurement Teams charged with providing direction and advice to secure compliance and Value for Money for procurement activities.
Request for Quotation (RFQ)	A simplified version of a tender documentation with a more streamlined and efficient process. As a minimum it should include a statement of requirements, terms

Term	Definition
	and conditions and details of how the quotes will be assessed and awarded.
Small and Medium sized Enterprise (SME)	A business that has fewer than 250 staff and has a turnover of an amount less than or equal to £44 million, or a balance sheet total of an amount less than or equal to £38 million.
Specification	a document which sets out the detailed requirements and scope of goods, services or works to be provided by the supplier. The specification should be written in a contractually enforceable manner.
Substantial Modification	Any change to the tender, or contract, that would or could, foreseeably change the interest of Economic Operators in the procurement or contract. In practice this means that any change that might result in additional Economic Operators interested in the procurement activity or contract.
Supplier	Any person who offers on the market supplies, services or works and who sought, who seeks, or who would have wished to be the person to whom a public contract is awarded. In this document Economic Operators are not yet active in the procurement process. If they are active in the process they will be named Bidders in this document.
Standstill Period	A period of time between the publishing of a Contract Award Notice and the award of a contract that must be observed.
Terms and Conditions	Special and general arrangements, governing laws, rules, requirements, standards etc. forming integral parts of a contract. To be provided by Legal Services Lincolnshire.
Total Contract Value	The total value of the successful Bidders' response which will be, or has been, formed into a contract with the local authority.
TUPE	Transfer of Undertakings (Protection of Employment) - TUPE refers to the Transfer of Undertakings (Protection of Employment) Regulations, 1981. These regulations were introduced to ensure the protection of employees when, for example, a business is taken over by another organisation. Broadly, TUPE regulations ensure that the rights of employees are transferred along with the business.
Value for Money	Where quality and cost combine to produce a service

Term	Definition
	which meets technical and customer requirements, at an acceptable level of expenditure in the prevailing budgetary constraints, for an acceptable level of quality.



**Governance and Audit
Committee**

Tuesday 21 January 2025

Subject: Draft Treasury Management Strategy 2025/26

Report by:

Director of Corporate Services (Section 151 Officer)

Contact Officer:

Peter Davy
Financial Services Manager

peter.davy@west-lindsey.gov.uk

Purpose / Summary:

To seek approval for the Treasury Management Strategy, Prudential Indicators, Minimum Revenue Provision Policy and Capital Investment Strategy to facilitate effective financial management and planning

RECOMMENDATION(S):

- 1. That the Committee review, comment on and scrutinise the Treasury Management Strategy, Prudential Indicators and Minimum Revenue Provision (MRP) Policy 2025/26 and recommend to Council for approval.**
- 2. To review, comment on and scrutinise the Capital Investment Strategy in conjunction with the Treasury Management Strategy.**
- 3. Approval of any changes to the Capital Strategy and Minimum Revenue Provision (MRP) Policy and Prudential Indicators be delegated to the Section 151 Officer in consultation with the Chair of the Governance and Audit Committee, prior to the final strategy being presented to Council in March.**

IMPLICATIONS

Legal:

The Local Government and Finance Act 2003, the Prudential Code and the Treasury Management Code of Practice and Sectorial Guidance include a key principal that an organisations appetite for risk is included in their annual Treasury Management Strategy and this should include any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and liquidity when investing.

Financial: FIN/126/25/PD

There are no direct financial implications arising from this report.

Staffing:

None from this report.

Equality and Diversity including Human Rights:

None from this report.

Data Protection Implications:

None from this report.

Climate Related Risks and Opportunities:

The strategy includes for investment in Environmental, Social and Governance (ESG) financial instruments where such factors are taken into account when choosing investment products.

Section 17 Crime and Disorder Considerations:

None from this report.

Health Implications:

None from this report.

Title and Location of any Background Papers used in the preparation of this report:

Prudential Code for Capital Finance in Local Authorities 2021

Treasury Management Code of Practice and Cross-Sectorial Guidance Notes 2021

Treasury Management in Public Services: Guidance Notes 2021

All papers are located in the Financial Services section, Guildhall

Risk Assessment:

Interest Rate Risk: A rise in interest rates may lead to capital investment loss due to the inverse price and yield relationship and vice versa.

Inflation Risk: Real returns can be eroded if inflation is expected to or rises during the term of the investment, therefore capital value may be reduced

Re-Investment Risk: the effect of changing interest rates on re-investment before maturity.

Credit Risk: The value of an investment can be affected by the credit quality/rating of the issuer.

Default Risk: Possibility that total principal may not be returned before maturity, or partially returned.

Net Cost of Services Risk: Under the IFRS9 amendments in 2018/19 there is a risk that adverse fair value valuations for some investments (such as the Property Fund) would have a direct negative impact on the Comprehensive Income and Expenditure Statement for Net Cost of Services. A statutory over-ride is currently in place which is due to end on 31st March 2025. The government is currently looking at options after this date.

Risks associated with investing for longer periods, and in instruments/assets where the values can go down as well as up, will require mitigation as there will be increased risk to the security and liquidity of investments.

Mitigation of these risks will be undertaken by defining the restrictions of time and maximum value of investment made and with appropriate financial appraisals being undertaken for each investment. Close monitoring of the investment performance will also be undertaken. Risk to the Net cost of services due to IFRS9 will be mitigated through the maintenance of a reserve for Investments Volatility Reserve, this will prevent any adverse change in valuation have a direct impact on the Comprehensive Income and Expenditure Statement. Ongoing review and maintenance of this reserve will be required each year.

Call in and Urgency:

Is the decision one which Rule 14.7 of the Scrutiny Procedure Rules apply?

i.e., is the report exempt from being called in due to urgency (in consultation with C&I chairman)

Yes

No

Key Decision:

Executive Summary

- 1.1 The Council is required to approve a Treasury Management Strategy Statement for 2025/26 before 1 April 2025. In accordance with the constitution the Governance and Audit Committee are responsible for the scrutiny of the Council's Treasury Management Strategy and Policies. The Treasury Management Strategy is attached for this purpose. In addition the Capital Investment Strategy, which has direct links to the Treasury Management Strategy is also provided for scrutiny.
- 1.2 The Council is required by statutory provision and regulation to 'have regard to' the Prudential Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003
- 1.3 By using the Prudential Code Framework, the Council ensures that the following objectives are met: -
- capital expenditure plans and investment plans are affordable and proportionate
 - all external borrowing and other long-term liabilities are within prudent and sustainable levels
 - the risks associated with investments for commercial purposes are proportionate to their financial capacity, and
 - treasury management decisions are taken in accordance with good professional practice.

The Borrowing Strategy

- 1.4 HM Treasury announced reforms on Public Works Loan Board (PWLB) borrowing in November 2020, in that it would no longer support borrowing for the acquisitions of new investment assets purchased primarily for yield (Non-Treasury Activity i.e., Commercial property investment). In addition, the Prudential Code 2021 now precludes the use of any type of borrowing for primarily for a financial return (including internal borrowing) for this purpose. The Borrowing Strategy therefore no longer includes borrowing for this purpose.

However, borrowing is allowable to enable the effective management of the Property Portfolio.

The key objectives of the Council's Borrowing Strategy are.

- To ensure that future external debt is affordable and sustainable within the long term within the revenue budget constraints.
- To support schemes with a socio-economic value i.e., for the regeneration and growth of the district.

- To support significant service investment where the cost of borrowing will be offset by efficiencies and/or cost savings and/or income.
 - All external debt undertaken will be repaid at loan maturity
- 1.6 To date Members have approved capital expenditure of £36.072m to be funded from external borrowing. The actual external borrowing value the Council holds is £24m, this is because just over £12m of cash is internally borrowed (funded from the cash we hold in reserves). The reason Councils do this is to reduce external borrowing costs especially when rates are high. The cost of borrowing almost always outweighs the interest received on investments so it is more efficient to fund capital expenditure from reserves than externally borrow. It is unlikely that a Council would need to access all of the cash held in reserves at short notice and therefore there will be a surplus of cash held on the balance sheet.
- 1.7 If Members decided to utilise significant levels of reserves as funding for projects, capital programme or service delivery, the Council would need to externally borrow up to the £36.072m level. There are no governance issues to prevent this as our Capital Financing Requirement has been approved to allow it but it will attract higher borrowing costs. These additional costs will need to be factored into future revenue budgets. As a guide a £5m PWLB loan over 50 years would cost around £293,000 in interest payments per year.

The Investment Strategy

- 1.5 The main objective of the strategy is the security, liquidity and finally yield of the investment, in the context of the Councils risk appetite and through the mitigation of risks.
- 1.6 The Council has a Climate Change strategy. As the Council will be interested in undertaking actions to reduce climate change, the Council as an ethical investor will consider the environmental, social and governance issues (ESG) when making treasury investment decisions.
- 1.7 The Treasury function is controlled by statute and professional guidance and its main priorities must remain as security, liquidity and yield.
- 1.8 Consideration of ESG will be undertaken when considering new investment opportunities and will be in accordance with our counterparty limits and rating criteria.

The Minimum Revenue Provision Policy (MRP)

- 1.9 The Council will repay an element of prudential borrowing annually. This policy has been revised in relation to where borrowing has previously been undertaken for Commercial Investment.

The MRP Policy will be as detailed below.

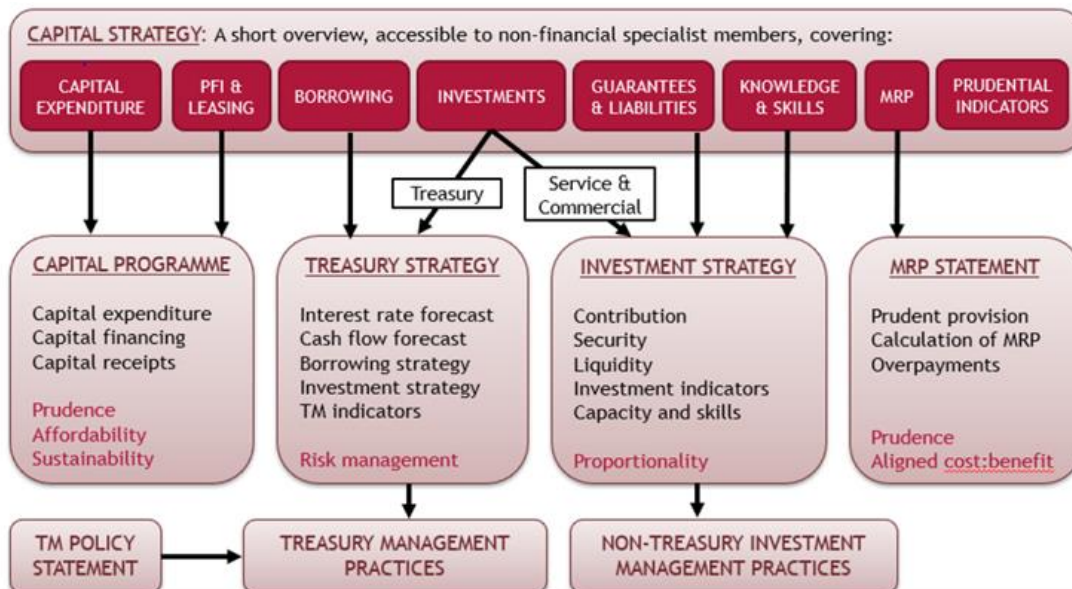
- Asset Life Method – debt repaid over the life of the asset
- Loan Principal repayment will be used to reduce the capital financing requirement instead of MRP. Where no repayment is made MRP will be charged.
- Where the Council has previously borrowed for the acquisition of Investment Properties the Asset Life Method will be used to calculate the MRP charge applicable on an annual basis. The maximum life that is used for this class of asset is fifty years.

Commercial Investments (Property Portfolio)

- 1.10 Whilst it is appreciated that these properties will be subject to wear and tear, all leases are fully insuring and repairing leases, with the liability for maintaining the asset at its current state being the responsibility of the Lessee.
- 1.11 The transactional costs of acquisition of these properties have been capitalised. Investment Properties will be revalued annually as at the Balance Sheet date.
- 1.12 Full MRP will be provided on investment properties in line with the latest government guidance. These amounts are factored into the Medium Term Financial Plan.
- 1.13 MRP Overpayments – The current DLUHC MRP Guidance allows that any charges made over the statutory minimum revenue provision (MRP) i.e., voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year.
- 1.14 Up until the 31 March 2024 the total Voluntary Revenue Provision (VRP) overpayments have been £1,081k however this relates to payments to reduce prudential borrowing against the Commercial Investments Property Portfolio and is therefore not deemed an overpayment.
- 1.15 To mitigate the risk of loss of the capital receipt not meeting outstanding debt, a Valuation Volatility Reserve had been created and a minimum balance of 4% of acquisition price set. It is intended that this reserve will be reduced over the medium term to reflect the implementation of an annual MRP.
- 1.16 To provide transparency the Treasury Management Strategy includes at 4.7 the (Non-Treasury) Investment Strategy in the context of the investing in commercial activity to ensure services can be maintained as government funding reduces and as previously approved by Corporate Policy and Resources Committee. Expert and legal advice will always be sought to ensure that any additional purchases, or replacement purchases are within our powers.
- 1.17 The Treasury Management Strategy including the Borrowing Strategy, Investment Strategy and Minimum Revenue Provision Policy are detailed below.

- 1.18 The Capital Investment Strategy is an appendix at the end of the Treasury Management Strategy. The Capital Investment Strategy forms a key part of the Council’s overall Corporate Planning Framework. It provides a mechanism by which the Council’s capital investment and financing decisions can be aligned with the Council’s over-arching corporate priorities and objectives over a medium term (five year) planning horizon.
- 1.19 The Capital Investment Strategy provides a framework to enable both revenue and capital investment decisions which contribute to the achievement of the Council’s priorities and objectives as set out in the Corporate Plan.
- 1.20 The strategy defines how the capital programme is to be formulated, and it identifies issues and options that influence revenue and capital spending and sets out how the resources will be managed.

The framework below illustrates the Prudential Framework.



- 1.21 Prudential indicators are designed to provide support and record local decision making and not as comparative performance indicators. These are contained within the Treasury Management Strategy. As we await the final finance settlement, indicators will be finalised prior to submission to Council for approval.
- 1.22 The draft strategy is attached at Appendix A and Members are asked to review, comment on and scrutinise the Strategy, Prudential Indicators and Minimum Revenue Provision (MRP) Policy 2025/26 and recommend to the Council for approval. To also review, comment on and scrutinise the Capital Investment Strategy in conjunction with the Treasury Management Strategy. Finally that any changes to the Capital Strategy and Minimum Revenue Provision (MRP) Policy and Prudential

Indicators be delegated to the Section 151 Officer in consultation with the Chair of the Governance and Audit Committee, prior to the final strategy being presented to Council in March.

TREASURY MANAGEMENT STRATEGY

Minimum Revenue Provision Policy and Annual Investment Strategy 2025/26

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1. INTRODUCTION

1.1 Background

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

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

The Council's Corporate Plan identifies the Corporate Objectives of the Council, and which then informs capital investment requirements. The 2025/26 to 2029/30 Capital Programme includes capital investment which will require resourcing, from revenue, earmarked reserves, capital receipts, grant income, and borrowing.

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

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

The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as.

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

The treasury management activity involves substantial sums of money, which it borrows and invests. This exposes the Council to potential large financial risk, which can include the loss of invested funds, or the revenue consequence of changes in interest rates. Therefore, the successful identification, control and monitoring of risk are integral to this function and include credit and counterparty risk, liquidity risk, market or interest rate risk, refinancing risk and legal and regulatory risk.

1.2 Reporting Requirements

1.2.1 Capital Investment Strategy

The CIPFA 2021 Prudential and Treasury Management Codes require all Local Authorities to prepare a capital investment strategy report, which will provide the following:

- A high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- An overview of how the associated risk is managed
- The implications for future financial sustainability

The aim of this capital strategy is to ensure that members of the Governance and Audit Committee understand the overall long-term policy objectives and resulting capital investment strategy requirements, governance procedures and risk appetite.

This capital investment strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The capital investment strategy shows:

- The corporate governance arrangements for these types of activities.
- Any service objectives relating to the investments.
- The expected income, costs and resulting contribution.
- The debt related to the activity and the associated interest costs.
- The payback period (MRP policy).
- For non-loan type investments, the cost against the current market value.
- The risks associated with each activity.

Where a physical asset is being bought, details of market research, advisers used, (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

Where the Council has borrowed to fund any non-treasury investment, there should also be an explanation of why borrowing was required and why the MHCLG Investment Guidance and CIPFA Prudential Code have not been adhered to.

If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the capital investment strategy.

To demonstrate the proportionality between the treasury operations and the non-treasury operation, high-level comparators are shown throughout this report.

1.2.2 Treasury Management Reporting

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

a) Prudential and treasury indicators and treasury strategy (this report)

The first and most important report is forward looking and covers:

- The capital plans (including prudential indicators).
- A Minimum Revenue Provision (MRP) policy (how residual capital expenditure is charged to revenue over time).
- The Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- An Investment Strategy (the parameters on how investments are to be managed).

b) A mid-year treasury management report – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition, the Corporate Policy and Resources Committee will receive quarterly update reports.

c) An annual treasury report – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Governance and Audit Committee.

Quarterly Reports

In addition to the three major reports detailed above, quarterly reports at the end of June and December are also required. As the Council's quarter one end is at the end of May then this represents the end of June report. These reports are included within the quarterly reports which are considered by the Corporate Policy and Resources committee.

1.3 Treasury Management Strategy for 2025/26

The strategy for 2025/26 covers two main areas:

Capital issues

- The Capital expenditure plans and the associated prudential indicators.
- The Minimum Revenue Provision (MRP) policy.

Treasury management issues

- The current treasury position.
- Treasury indicators which limit the treasury risk and activities of the Council.
- Prospects for interest rates.
- The borrowing strategy.
- Policy on borrowing in advance of need.
- Debt rescheduling.
- The investment strategy.
- Creditworthiness policy; and
- The policy on use of external service providers.

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

1.4 Training

The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

Furthermore, pages 47 and 48 of the Code state that they expect “all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making.

The scale and nature of this will depend on the size and complexity of the organisation’s treasury management needs. Organisations should consider how to assess whether treasury management staff and board/ council members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

As a minimum, authorities should carry out the following to monitor and review knowledge and skills:

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and board/council members.
- Require treasury management officers and board/council members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the organisation).
- Have regular communication with officers and board/council members, encouraging them to highlight training needs on an ongoing basis.

In further support of the revised training requirements, CIPFA's Better Governance Forum and Treasury Management Network have produced a 'self-assessment by members responsible for the scrutiny of treasury management', which is available from the CIPFA website to download.

The training needs of treasury management officers are periodically reviewed.

A formal record of the training received by officers central to the Treasury function will be maintained by Financial Services. Similarly, a formal record of the treasury management/capital finance training received by members will also be maintained by Financial Services.

1.5 Treasury Management Consultants

The Council uses Link Group, Link Treasury Services Limited as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

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

The scope of investments within the Council's operations now includes both conventional treasury investments, (the placing of residual cash from the Council's functions), and more commercial type investments, such as investment properties. The commercial type investments require specialist advisers, and the Council currently uses Cushman and Wakefield in relation to this activity.

2. THE CAPITAL PRUDENTIAL INDICATORS 2025/26 – 2027/28

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

2.1 Capital Expenditure and Financing

This prudential indicator is a summary of the Council's capital expenditure plans which are included in the approved Capital Programme, and which are the key drivers to treasury management activity. The output of the programme is reflected in the Council's prudential indicators, which are designed to provide Members with an overview and Members are asked to approve the capital expenditure forecasts:

Capital Expenditure By Cluster £'m	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Our People	2.779	9.284	1.632	0.736	0.736
Our Place	1.951	18.453	1.037	0.105	0.479
Our Council	0.573	0.667	0.545	0.099	0.150
Total	5.303	28.404	3.214	0.941	1.365

Capital expenditure can be financed from a range of external and internal sources. External sources include private sector contributions i.e., S106 developer agreements, as well as government grants. Internal sources include capital receipts, earmarked reserves, and revenue contributions.

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

Financing of capital expenditure £m	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Capital receipts	0.324	0.742	0.011	0	0
External Grants	4.142	16.156	1.662	0.736	0.736
S106	0.797	1.917	0.255	0	0
Earmarked Reserves	0.776	9.589	1.143	0.204	0.629
Net borrowing need for the year	-0.736	0.000	0.143	0.000	0.000
Total Financing	5.303	28.404	3.214	0.941	1.365

Other long-term liabilities - The above financing need excludes other long-term liabilities, such as leasing arrangements which already include borrowing instruments.

The forecast of Revenue and Capital Reserves after taking into account contributions to and from these reserves for both capital and revenue purposes are detailed in the table below.

2.2 The Council's Borrowing Need (The Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so it's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

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

The CFR includes any other long-term liabilities (e.g., finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility by the lease provider and so the Council is not required to separately borrow for these schemes. The Council is asked to approve the CFR projections below:

£m	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Capital Financing Requirement					
Adjustment A	1.065	1.065	1.065	1.065	1.065
Prudential Borrowing	35.958	35.007	34.173	33.188	32.257
Total CFR	37.023	36.072	35.238	34.253	33.322
Of which: Commercial Investment Property	19.537	19.099	18.661	18.224	17.786
Movement in CFR	-2.414	-0.952	-0.834	-0.984	-0.931

Movement in CFR represented by					
Net borrowing need for the year (above)	-0.736	0.000	0.143	0.000	0.000

Less MRP and other financing movements	-1.228	-0.937	-0.962	-0.969	-0.916
Capital Receipts from Loan Principal repaid	-0.450	-0.015	-0.015	-0.015	-0.015
Movement in CFR	-2.414	-0.952	-0.834	-0.984	-0.931

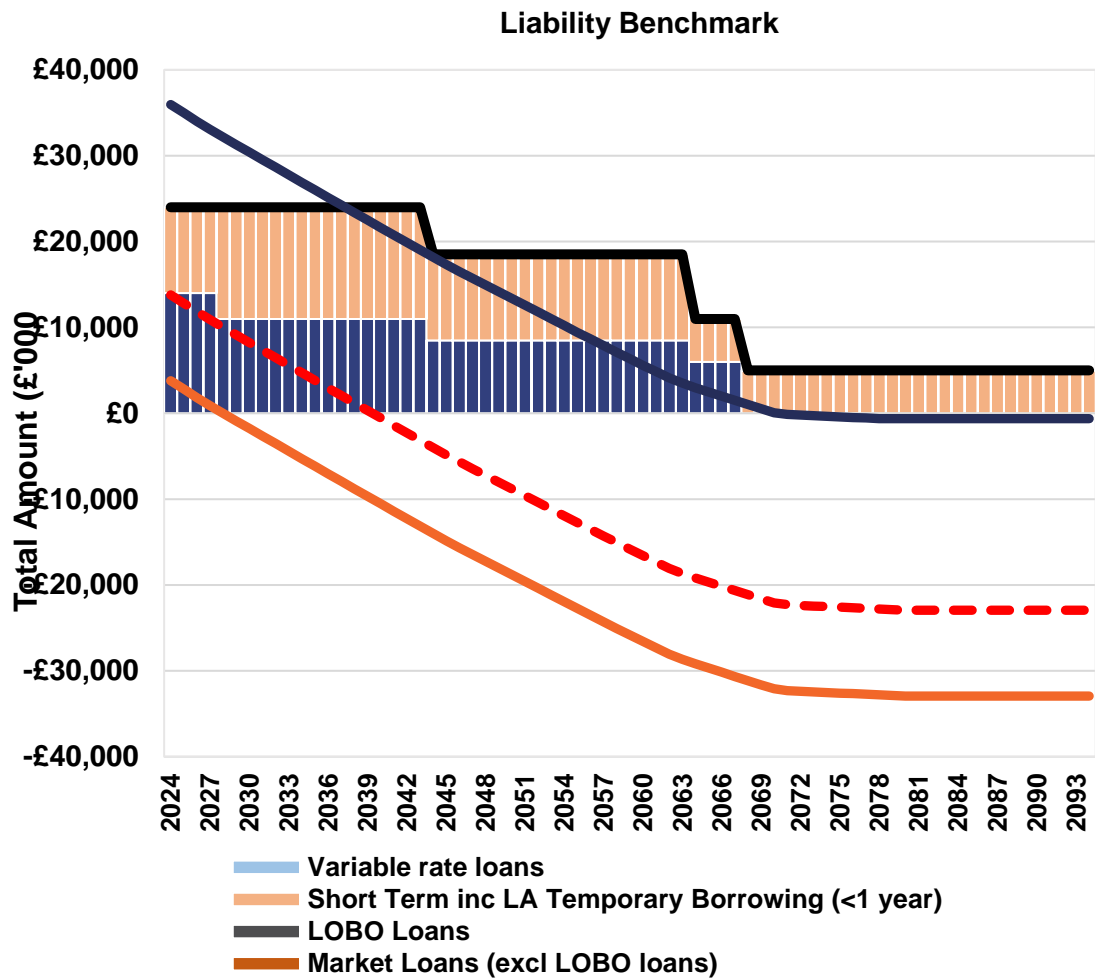
A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the authority's overall financial position. The capital expenditure figures shown in 2.1 and the details above demonstrate the scope of this activity and, by approving these figures, consider the scale proportionate to the Authority's remaining activity.

2.3 Liability Benchmark

The Authority is required to estimate and measure the Liability Benchmark (LB) for the forthcoming financial year and the following two financial years as a minimum. This has been produced to show the full debt maturity profile of the Council. There are four main components of the liability benchmark as follows:

-

1. Existing loan debt outstanding: the Authority's existing loans that are still outstanding in future years.
2. Loans CFR: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
3. Net loans requirement: this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
4. Liability benchmark (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.



2.4 Core Funds and Expected Investment Balances

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

Year End Resources	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
General Fund Balance	-3.403	-2.525	-2.232	-2.111	-2.111
Earmarked Reserves	-20.047	-11.389	-10.25	-10.727	-10.8

Capital receipts	-1.46	-5.618	-5.728	-5.855	-5.884
Capital Grants Unapplied	-3.577	-3.016	-3.372	-3.872	-4.372
Provisions	-0.600	-0.600	-0.600	-0.600	0.000
Total Core Funds	-29.087	-23.148	-22.182	-23.165	-23.167
Under/over Borrowing	13.023	12.072	11.238	10.253	9.322
Working capital*	5.000	5.000	5.000	5.000	5.000
Expected investments (-) /Borrowing	-11.064	-6.076	-5.944	-7.912	-8.845

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

2.5 Minimum Revenue Provision (MRP) Policy Statement

The Authority is recommended to approve the following MRP Statement:

From 1 April 2008 for all unsupported borrowing the MRP policy will be:

- Asset life method (straight line)

Regulation 27(3) allows a local authority to charge MRP in the financial year following the one in which capital expenditure finance by debt was incurred.

Capital expenditure financed by borrowing in 2024/25 will not be subject to an MRP charge until 2025/26, or in the financial year following the one which the asset first becomes available for use.

The Authority will apply the asset life method for any expenditure capitalised under a Capitalisation Direction.

Capital receipts

For capital expenditure on loans to third parties where the principal element of the loan has been repaid in annual instalments, the capital receipts arising from the principal loan repayments will be used to reduce the CFR instead of MRP. Where no principal repayment is made in a given year, MRP will be charged based on the lifespan of the loan.

Share Capital

Where an Authority incurs expenditure that is capitalised on or after April 2008, which is financed by borrowing for the acquisition of share capital, Regulation 25(1)(d) Acquisition of share capital sets out the maximum period for an authority to provide MRP of 20 years.

MRP Overpayments

Under the MRP guidance, charges made in excess of the statutory MRP can be made and are known as voluntary revenue provision (VRP). VRP can be reclaimed in later years if deemed necessary or prudent. In order for these amounts to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year.

Cumulative VRP overpayments made to 31.03.24 are £1.081m

3. BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current Portfolio Position

The overall treasury management portfolio as at 31.3.24 and for the position as at 30.11.25 are shown below for both borrowing and investments.

TREASURY PORTFOLIO				
	Actual	Actual	Current	Current
	31.03.24	31.3.24	30.11.24	30.11.24
Treasury Investments	£'000	%	£'000	%
Banks	500	2.5	500	2.1
Local Authorities	1,000	4.9	5,000	20.7
Money Market Funds	16,710	82.8	16,610	68.9
Total Managed in House	18,210	90.2	22,110	91.7
Property Funds	2,000	9.8	2,000	8.3
Total Managed Externally	2,000	9.8	2,000	8.3
Total Treasury Investments	20,210	100.0	24,110	100.0
Treasury External Borrowing				
Local Authorities	10,000	41.7	10,000	41.7
PWLB	14,000	58.3	14,000	58.3
Total External Borrowing	24,000	100.0	24,000	100.0
Net Treasury Investments/ (Borrowing)	(3,790)		110	

The Council's forward projections for borrowing are summarised below. The table shows the actual external debt (the treasury management operations),

against the underlying capital borrowing need (the Capital Financing Requirement - CFR), and internal borrowing as a percentage of the CFR.

£m	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
External Debt					
Debt on 1 April	-19.000	-24.000	-24.000	-24.000	-24.000
Expected change in Debt	0.000	0.000	0.000	0.000	0.000
Gross external debt on 31 March	-19.000	-24.000	-24.000	-24.000	-24.000
Internal Borrowing (on 31 March)	-18.023	-12.072	-11.238	-10.253	-9.322
The Capital Financing Requirement	-37.023	-36.072	-35.238	-34.253	-33.322
Internal Borrowing %	49%	33%	32%	30%	28%

Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2025/26 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Director of Corporate Services (S151 Officer) reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.2 Treasury Indicators: Limits to Borrowing Activity

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

Operational boundary £m	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
External Debt	24.000	24.000	24.000	24.000
Operational Boundary	36.000	35.000	34.000	33.000

The authorised limit for external debt. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not

desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
2. The Council is asked to approve the following authorised limit:

Authorised limit £m	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Gross Debt	24.000	24.000	24.000	24.000
Authorised Limit*	41.000	40.000	39.000	38.000

*The Authorised limit allows for external borrowing in advance of need for up to a maximum of two years and includes additional headroom for unexpected cashflow movements.

3.3 Prospects for Interest Rates

The Authority has appointed Link Group as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. Link provided the following forecasts on 11 November 2024. These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View	11.11.24												
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
BANK RATE	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
3 month ave eamings	4.70	4.50	4.30	4.00	4.00	4.00	3.80	3.80	3.80	3.50	3.50	3.50	3.50
6 month ave eamings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
12 month ave eamings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
5 yr PWLB	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10 yr PWLB	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10
25 yr PWLB	5.60	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.50
50 yr PWLB	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.30	4.30

Additional notes by Link on this forecast table: -

- Following the 30 October Budget, the outcome of the US Presidential election on 6 November, and the 25bps Bank Rate cut undertaken by the Monetary Policy Committee (MPC) on 7 November, we have significantly revised our central forecasts for the first time since May. In summary, our Bank Rate forecast is now 50bps – 75bps higher than was previously the case, whilst our PWLB forecasts have been materially lifted to not only reflect our increased concerns around the future path of inflation, but also the increased level of Government borrowing over the term of the current Parliament.
- If we reflect on the 30 October Budget, our central case is that those policy announcements will be inflationary, at least in the near-term. The Office for Budgetary Responsibility and the Bank of England concur with that view. The latter have the CPI measure of inflation hitting 2.5% y/y by the end of 2024 and staying sticky until at least 2026. The Bank

forecasts CPI to be 2.7% y/y (Q4 2025) and 2.2% (Q4 2026) before dropping back in 2027 to 1.8% y/y.

- The anticipated major investment in the public sector, according to the Bank, is expected to lift UK real GDP to 1.7% in 2025 before growth moderates in 2026 and 2027. The debate around whether the Government's policies lead to a material uptick in growth primarily focus on the logistics of fast-tracking planning permissions, identifying sufficient skilled labour to undertake a resurgence in building, and an increase in the employee participation rate within the economy.
- There are inherent risks to all the above. The worst-case scenario would see systemic blockages of planning permissions and the inability to identify and resource the additional workforce required to deliver large-scale IT, housing and infrastructure projects. This would lead to upside risks to inflation, an increased prospect of further Government borrowing & tax rises, and a tepid GDP performance.
- Our central view is that monetary policy is sufficiently tight at present to cater for some further moderate loosening, the extent of which, however, will continue to be data dependent. We forecast the next reduction in Bank Rate to be made in February and for a pattern to evolve whereby rate cuts are made quarterly and in keeping with the release of the Bank's Quarterly Monetary Policy Reports (February, May, August and November).
- Any movement below a 4% Bank Rate will, nonetheless, be very much dependent on inflation data in the second half of 2025. The fact that the November MPC rate cut decision saw a split vote of 8-1 confirms that there are already some concerns around inflation's stickiness, and with recent public sector wage increases beginning to funnel their way into headline average earnings data, the market will be looking very closely at those releases.
- Regarding our PWLB forecast, the short to medium part of the curve is forecast to remain elevated over the course of the next year, and the degree to which rates moderate will be tied to the arguments for further Bank Rate loosening or otherwise. The longer part of the curve will also be impacted by inflation factors, but there is also the additional concern that with other major developed economies such as the US and France looking to run large budget deficits there could be a glut of government debt issuance that investors will only agree to digest if the interest rates paid provide sufficient reward for that scenario.
- So far, we have made little mention of the US President election. Nonetheless, Donald Trump's victory paves the way for the introduction/extension of tariffs that could prove inflationary whilst the same could be said of further tax cuts and an expansion of the current US budget deficit. Invariably the direction of US Treasury yields in reaction to his core policies will, in all probability, impact UK gilt yields. So, there are domestic and international factors that could impact PWLB

rates whilst, as a general comment, geo-political risks abound in Europe, the Middle East and Asia.

- Our revised PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1 November 2012. Please note, the lower Housing Revenue Account (HRA) PWLB rate started on 15 June 2023 for those authorities with an HRA (standard rate minus 60 bps).

Gilt yields and PWLB rates

The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of our forecasts, but the risks to our forecasts are to the upsides. Our target borrowing rates are set **two years forward** (as we expect rates to fall back) and the current PWLB (certainty) borrowing rates are set out below: -

PWLB debt	Current borrowing rate as at 11.11.24 p.m.	Target borrowing rate now (end of Q3 2026)	Target borrowing rate previous (end of Q3 2026)
5 years	5.02%	4.30%	3.90%
10 years	5.23%	4.50%	4.10%
25 years	5.66%	4.90%	4.40%
50 years	5.42%	4.70%	4.20%

Borrowing advice: Our long-term (beyond 10 years) forecast for Bank Rate has been increased to 3.25% (from 3%). As all PWLB certainty rates are currently significantly above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should also be considered. Temporary borrowing rates will, generally, fall in line with Bank Rate cuts.

Our suggested budgeted earnings rates for investments up to about three months' duration in each financial year are set out below.

Average earnings in each year	Now	Previously
2024/25 (residual)	4.60%	4.25%
2025/26	4.10%	3.35%
2026/27	3.70%	3.10%
2027/28	3.50%	3.25%
2028/29	3.50%	3.25%
Years 6 to 10	3.50%	3.25%
Years 10+	3.50%	3.50%

We will continue to monitor economic and market developments as they unfold. Typically, we formally review our forecasts following the quarterly release of the Bank of England's Monetary Policy Report but will consider our position on an ad hoc basis as required.

Our interest rate forecast for Bank Rate is in steps of 25 bps, whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps. Naturally, we continue to monitor events and will update our forecasts as and when appropriate.

3.4 Borrowing Strategy

The Authority is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels, albeit only once prevailing inflation concerns are addressed by restrictive near-term monetary policy. That is, Bank Rate remains relatively elevated in 2025 even if some rate cuts arise.

Against this background and the risks within the economic forecast, caution will be adopted with the 2025/26 treasury operations. The Director of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be postponed.*
- *if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.*

Any decisions will be reported to the appropriate decision-making body at the next available opportunity.

To date Members have approved capital expenditure of £36.072m to be funded from external borrowing. The actual external borrowing value the Council holds is £24m, this is because just over £12m of cash is internally borrowed (funded from the cash we hold in reserves). The reason Councils do this is to reduce external borrowing costs especially when rates are high. The cost of borrowing almost always outweighs the interest received on investments so it is more efficient to fund capital expenditure from reserves than externally borrow. It is unlikely that a Council would need to access all of the cash held in reserves at short notice and therefore there will be a surplus of cash held on the balance sheet.

If Members decided to utilise significant levels of reserves as funding for projects, capital programme or service delivery, the Council would need to externally borrow up to the £36.072m level. There are no governance issues to

prevent this as our Capital Financing Requirement has been approved to allow it but it will attract higher borrowing costs. These additional costs will need to be factored into future revenue budgets. As a guide a £5m PWLB loan over 50 years would cost around £293,000 in interest payments per year.

3.5 Policy on Borrowing in Advance of Need

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

3.6 Debt Rescheduling

Rescheduling of current borrowing in our debt portfolio may be considered whilst premature redemption rates remain elevated but only if there is surplus cash available to facilitate any repayment, or rebalancing of the portfolio to provide more certainty is considered appropriate.

However, if rescheduling was done, it will be reported to the Council, at the earliest meeting following its action.

3.7 New Financial Institutions as a Source of Borrowing

In addition to borrowing from the PWLB, consideration will be given to sourcing funding at cheaper rates from the following:

- Local authorities (primarily shorter dated maturities out to three years which are generally still cheaper than the PWLB Certainty Rate)
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years)
- Municipal Bonds Agency

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

3.8 Approved sources of Long- and Short-Term Borrowing

On Balance Sheet	Fixed	Variable
PWLB	●	●
UK Municipal Bond Agency	●	●
Local Authorities	●	●

Combined Authorities	●	●
Banks	●	●
Pension Funds	●	●
Insurance Companies	●	●
UK National Wealth Fund	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Local Temporary	●	●
Local Bonds	●	
Overdraft (Notified in Advance)		●
Internal (capital receipts & revenue balances)	●	●
Finance Leases	●	●

ANNUAL INVESTMENT STRATEGY

4.1 Investment Policy – Management of Risk

The Ministry of Housing, Communities and Local Government (MHCLG) and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy.

The Council’s investment policy has regard to the following:

- MHCLG’s Guidance on Local Government Investments (“the Guidance”)
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 (“the Code”).
- CIPFA Treasury Management Guidance Notes 2021

The Council’s investment priorities will be security first, liquidity second, then yield (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council’s risk appetite.

In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but to also consider ‘laddering’ investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated.

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

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables

diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as “**credit default swaps**” and overlay that information on top of the credit ratings.
3. **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
4. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in Appendix D under the categories of ‘specified’ and ‘non-specified’ investments.
 - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity if originally, they were originally classified as being non-specified investments solely due to the maturity period exceeding one year.
 - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.
5. **Non-specified and loan investment limits.** The Council has determined that it will set a limit to the maximum exposure of the total treasury management investment portfolio to non-specified treasury management investments of 40%.
6. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.2.
7. **Transaction limits** are set for each type of investment in 4.2.
8. This authority will set a limit for its investments which are invested for **longer than 365 days**, (see paragraph 4.4).
9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.3).
10. This authority has engaged **external consultants**, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate

balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

11. All investments will be denominated in **sterling**.
12. As a result of the change in accounting standards for 2023/24 under IFRS 9, the Authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31.3.23. More recently, a further extension to the over-ride to 31.3.25 has been agreed by Government.

However, this authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 4.5). Regular monitoring of investment performance will be carried out during the year.

4.2 Creditworthiness Policy

The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

The Director of Corporate Services (S151 Officer) will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

Credit rating information is supplied by the Link Group, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer-term bias outside the central rating view) are

provided to officers almost immediately after they occur, and this information is considered before dealing. For instance, a negative rating Watch applying to counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

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

- Banks 1 - good credit quality – the Council will only use banks which:
 - i. are UK banks; and/or
 - ii. are non-UK and domiciled in a country which has a minimum sovereign Long-Term rating of AAand have, as a minimum, the following Fitch, Moody's and Standard & Poor's credit ratings (where rated):
 - i. Short Term – F1
 - ii. Long Term – A
- Banks 2 – Part nationalised UK bank – Royal Bank of Scotland ring-fenced operations. This bank can be included provided they continue to be part nationalised or meet the ratings in Banks 1 above.
- Banks 3 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time invested.
- Bank subsidiary and treasury operation -. The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.
- Building societies - The Council will use all societies which meet the ratings for banks outlined above.
- Money Market Funds (MMFs) CNAV – AAA
- Money Market Funds (MMFs standard) LNAV – AAA
- Money Market Funds (MMFs enhanced) VNAV – AAA
- UK Government (including gilts, Treasury Bills and the DMADF)
- Local authorities, parish councils etc.
- Housing associations
- Supranational institutions
- Local Authority Property Asset Fund (CCLA)
- Local/Community Bonds
- Corporate Bond Funds
- Covered Bonds

Use of additional information other than credit ratings. Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria rely primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, rating Watches/Outlooks) will be applied to compare the relative security of differing investment opportunities.

Time and monetary limits applying to investments. The time and monetary limits for institutions on the Council's counterparty list are as follows (these will cover both specified and non-specified investments). It should be noted that in the case of Lloyds Bank, our current bankers, that as well as allowing £7.5m fixed term investment in that one institution that there is flexibility to hold, in current account balances at Lloyds Bank, up to £2m 'cash' on any one day:

	Fitch	Moody's	Standard & Poors	Money Limit	Time Limit
Banks 1 – up to 1 year	F1	P1	A1	£7.5m per counterparty at Group level	1 year
Banks 1 – over 1 year	AA	Aa2	AA	£2m maximum exposure	1 year to 5 years
Banks 2 – UK part nationalised				£5m per counterparty at Group Level	1 year
Banks 3 – Council's own bank if not covered by 1 or 2				£1m	1 Day
Other Local Authorities				£5m per counterparty	5 years
Housing Associations				£1m maximum exposure	6 mths
Bank of England DMADF				No limit	6 mths

Gilts/Treasury Bills – where no loss of principal if held to maturity				£5m maximum exposure	5 years
Supranational				£5m per counterparty	1 year
Quality Corporate Bonds Funds				£2m	5 years
Local Authority Property Asset Funds				£4m	5 years
Certificates of Deposit				£2m	5 years
Covered Bonds				£1m	5 years
	Fund rating			Money and/or % Limit	Time Limit
Money market funds CNAV	AAA			£7.5m per counterparty	Overnight
Money market funds LVNAV (standard)	AAA			£7.5m per counterparty	Overnight
Money market funds VNAV (Enhanced)	AAA			£5m	5 years

4.3 Other Limits

Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors.

- a) **Non-specified treasury management investment limit.** The Council has determined that it will limit the maximum total exposure of treasury management investments to non-specified treasury management investments as being 40% of the total treasury management investment portfolio.
- b) **Country limit.** The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix E. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.
- c) Other limits. In addition:

- No more than £2m will be placed with any non-UK country at any time.
- Limits in place above will apply to a group of companies.
- Sector limits will be monitored regularly for appropriateness

4.4 Investment Strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e., rates for investments up to 12 months). Greater returns are usually obtainable by investing periods. While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment Returns Expectations.

The current forecast shown in paragraph 3.3, includes a forecast for Bank Rate to fall to a low of 3.5%.

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

Average earnings in each year	Rate
2024/25 (residual)	4.60%
2025/26	4.10%
2026/27	3.70%
2027/28	3.50%
2028/29	3.50%
Years 6 to 10	3.50%
Years 10+	3.50%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

Money market funds (MMFs), yields have now begun to rise across a number of market operators. This mirrors rises in the Bank Rate but because of continuing investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, at a more modest rate.

CCLA Property Fund Issues

The Property Fund has increased its redemption period to six months whereas previously it has been 90-day notice period for redemptions which will have to be taken into account when assessing the Council's cashflow forecasting.

The income from the fund still remains attractive in this period of higher interest rates.

Ethical Investing

The Council continues to develop its strategy in relation to Sustainability, Climate Change and Environment. As the Council will be interested in undertaking actions to reduce climate change, the Council as an ethical investor will consider the environmental, social and governance issues (ESG) when making treasury investment decisions.

Investments will be in accordance with counterparty and creditworthiness (as detailed at 4.2

Treasury Investment Portfolio

The Council is expecting to have an average investment portfolio of £13m throughout 2025/26 and expects to receive investment income totalling £0.499m as shown below:

Treasury Investment Portfolio	Average Portfolio	Interest Rate	Interest
	£m	%	£m
Liquidity Investments	10.000	4.00	0.400
Long Term Investments	3.000	3.31	0.099
Total Investment Income (2025/2026)	13.000	3.66	0.499

Investment treasury indicator and limit - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity

requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

The Council is asked to approve the treasury indicator and limit:

Maximum principal sums invested > 364 & 365 days			
£m	2025/26	2026/27	2027/28
Principal sums invested > 365 days	5.0	5.0	5.0

For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

4.5 Investment Risk Benchmarking

These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or Annual Report.

Security - The Council's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:

- 0.06% historic risk of default when compared to the whole portfolio.

Liquidity – in respect of this area the Council seeks to maintain:

- Liquid short-term deposits of at least £4m available with a week's notice.
- Weighted average life benchmark is expected to be 0.25 years, with a maximum of 1 years.

Yield - local measures of yield benchmarks are.

- Investments – internal returns above the 7-day Sterling Overnight Index Average (SONIA) compounded rate

And in addition, that the security benchmark for each individual year is:

	1 year	2 years	3 years	4 years	5 years
Maximum	0.07%	0.19%	0.36%	0.55%	0.77%

Note: This benchmark is an average risk of default measure and would not constitute an expectation of loss against a particular investment.

4.6 End of Year Investment Report

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

4.7 Non-Treasury Investments (Commercial Property)

The Council has invested £21.666m (£30m budget approved) in creating a Commercial Property Portfolio, to generate a revenue return to support the future sustainability of the Council and therefore protecting the services as government funding was reduced. The net return was estimated to be £600k p.a. based on the approved £20m investment limit. The first acquisition was made in October 2017. The Council's portfolio currently consists of 6 properties, with £20.500m having been spent on these acquisitions (excludes costs) to date and the gross return for 2024/25 is estimated to be 7.8%. After taking account of management and financing costs (including MRP) a return of around 5.6% is being achieved.

It is no longer anticipated that additional assets will be acquired. However, the portfolio will be managed within the current values and replacement properties acquired if existing properties are sold ensuring income levels are maintained.

The Council has a Commercial Contingency Budget of £0.169m to mitigate the risk of rental losses, and a Valuation Volatility Reserve to mitigate the risk of capital loss on disposal.

In addition, the Council has set aside £0.733m as a Valuation Volatility Reserve, this reflects 4% of the purchase price. However, now that MRP will be charged annually, thus reducing outstanding borrowing, the Reserve is being reduced over the Medium-Term Financial Plan.

Strategy

Working with the commercial property consultant, Cushman & Wakefield, officers developed an investment strategy for the Council that aimed to balance risk across the portfolio whilst achieving the target returns required. Officers are working on a revised strategy which will be brought forward to committee when completed.

However, any future additional property investments can no longer be funded from borrowing, and our own resources must be utilised to fund any acquisitions. Currently there is no expectation that any additional properties will be acquired.

The strategy included:-

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1. To acquire an investment portfolio of commercial property assets in lot sizes of £1.0m to £10.0m, targeting an average lot size of circa £3.5m to £4m across the portfolio and total investment of £30.0m.
2. Authority to complete on acquisitions should be delegated to the Chief Executive in consultation with the Chief Finance Officer and Leader of the Council, provided that the purchase is within agreed criteria. All assets will be assessed against these criteria and the Chief Executive will have delegated Authority to complete on the acquisition of assets which score 50 or more out of 70. Any asset which falls below this threshold or registers a zero against any criteria may still be considered but specific justification will need to be provided and the decision to proceed taken to the Corporate Policy and Resources Committee for approval.
3. Reserves will be utilised to fund any further acquisitions. Business case modelling will be developed using an opportunity cost of capital based on debt funded through Prudential Borrowing. The business case will be made on the basis of borrowing the full amount each time to ensure that resources are able to be recycled.
4. All assets will be acquired against a target hold period of 5 to 10 years with consideration given to asset management to enhance/protect value over the period of ownership (and any additional resource required/expected in this respect) and risks relating to disposal after the proposed hold period. A proportion of the income will be allocated for risk provision. Further returns would depend on investment performance relative to target and might be achieved through release of the risk provision and/or capital returns.
5. The financial position will be thoroughly monitored throughout the hold period and adequate response made to any change in market conditions and portfolio performance. Decisions regarding the funding of acquisitions will be made by the Director of Corporate Services (Section 151 Officer) and will be based on:
 - An analysis of disposal value risk after an assumed hold period
 - The expectation that the asset will generate a capital return that tracks inflation or better with a provision for risk should this not be achieved
6. Access to suitably qualified/experienced resource is essential for successful delivery and management of the risks involved. Resources should be identified and ring-fenced to the activity. The property and asset team has been restructured to ensure that sufficient resources available to manage the existing assets and the new additions that would be acquired in line with this strategy.

4.8 Commercial Income as a Percentage of Net Revenue Expenditure

The Council receives income from investment properties which contribute towards achieving a balanced revenue budget. The table below shows the extent to which the expenditure planned to meet service delivery objectives is dependent on achieving income from these properties over the Medium-Term Financial Plan period.

%	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
Net Revenue Expenditure £m	18.605	19.250	19.553	19.746	20.303
Commercial Income £m	1.553	1.592	1.680	1.703	1.702
Ratio	8.3%	8.3%	8.6%	8.6%	8.4%

4.9 Capital Investment Strategy

The Capital Investment Strategy forms a key part of the Council's overall Corporate Planning Framework. It provides a mechanism by which the Council's capital investment and financing decisions can be aligned with the Council's over-arching corporate priorities and objectives over a medium term (five year) planning horizon. The Strategy has direct links to the Treasury Management Strategy, and it is therefore appropriate that the Governance and Audit Committee scrutinise and provide assurance to Council on both policies. The Capital Investment Strategy is attached at Appendix H.

5 APPENDICES to the Treasury Management Strategy

- A Prudential and Treasury Indicators
- B Interest rate forecasts
- C Economic background
- D Treasury management practice 1 – credit and counterparty risk management
- E Approved countries for investments
- F Treasury management scheme of delegation
- G The treasury management role of the section 151 officer

APPENDIX A

THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2025/26 – 2027/28

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

Capital Expenditure

Capital Expenditure By Cluster £m	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Our People	2.779	9.284	1.632	0.736	0.736
Our Place	1.951	18.453	1.037	0.105	0.479
Our Council	0.573	0.667	0.545	0.099	0.150
Total	5.303	28.404	3.214	0.941	1.365

Affordability Prudential Indicators

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

a. Ratio of Financing Costs to Net Revenue Stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs) against the net revenue stream.

%	2025/26	2026/27	2027/28	2028/29	2029/30
	Estimate	Estimate	Estimate	Estimate	Estimate
Net Revenue Expenditure £m	18.605	19.250	19.553	19.746	20.303
Interest Payable £m	0.686	0.825	0.846	0.809	0.773
MRP £m	0.980	0.987	0.934	0.913	0.880
Capital Financing Charges	1.666	1.812	1.780	1.722	1.653
Ratio	9.0%	9.4%	9.1%	8.7%	8.1%

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

Maturity Structure of Borrowing

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

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

£m	2025/26	2026/27	2027/28
Interest rate exposures			
	Upper	Upper	Upper
Limits on fixed interest rates:			
• Debt only	100%	100%	100%
• Investments only	75%	75%	75%
Limits on variable interest rates			
• Debt only	25%	25%	20%
• Investments only	100%	100%	100%
Maturity structure of fixed interest rate borrowing 2024/25			
	Lower	Upper	
Under 12 months	0%	100%	
12 months to 2 years	0%	100%	
2 years to 5 years	0%	100%	
5 years to 10 years	0%	100%	
10 years to 20 years	0%	100%	
20 years to 30 years	0%	100%	
30 years to 40 years	0%	100%	
40 years to 50 years	0%	50%	
Maturity structure of variable interest rate borrowing 2025/26			
	Lower	Upper	
Under 12 months	0%	100%	
12 months to 2 years	0%	100%	
2 years to 5 years	0%	0%	
5 years to 10 years	0%	0%	
10 years to 20 years	0%	0%	
20 years to 30 years	0%	0%	
30 years to 40 years	0%	0%	
40 years to 50 years	0%	0%	

APPENDIX B

PWLB forecasts shown below are based on PWLB certainty rates.

Link Group Interest Rate View 11.11.24													
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
BANK RATE	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.70	4.50	4.30	4.00	4.00	4.00	3.80	3.80	3.80	3.50	3.50	3.50	3.50
6 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
12 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
5 yr PWLB	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10 yr PWLB	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10
25 yr PWLB	5.60	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.50
50 yr PWLB	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.30	4.30

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APPENDIX C

ECONOMIC BACKGROUND (to 12th December 2024)

- The third quarter of 2024 (July to September) saw:
- GDP growth stagnating in July following downwardly revised Q2 figures (0.5% q/q)
- A further easing in wage growth as the headline 3myy rate (including bonuses) fell from 4.6% in June to 4.0% in July;
- CPI inflation hitting its target in June before edging above it to 2.2% in July and August;
- Core CPI inflation increasing from 3.3% in July to 3.6% in August;
- The Bank of England initiating its easing cycle by lowering interest rates from 5.25% to 5.0% in August and holding them steady in its September meeting;
- 10-year gilt yields falling to 4.0% in September.

Over the aforementioned period, the economy's stagnation in June and July pointed more to a mild slowdown in UK GDP growth than a sudden drop back into a recession. However, in the interim period, to 12 December, arguably the biggest impact on the economy's performance has been the negative market sentiment in respect of the fallout from the Chancellor's Budget on 30 October.

If we reflect on the 30 October Budget, our central case is that those policy announcements will prove to be inflationary, at least in the near-term. The Office for Budgetary Responsibility and the Bank of England concur with that view. The latter have the CPI measure of inflation hitting 2.5% y/y by the end of 2024 and staying sticky until at least 2026. The Bank forecasts CPI to be elevated at 2.7% y/y (Q4 2025) before dropping back to sub-2% in 2027. Nonetheless, since the Budget, the October inflation print has shown the CPI measure of inflation bouncing up to 2.3% y/y with the prospect that it will be close to 3% by the end of the year before falling back slowly through 2025. The RPI measure has also increased significantly to 3.4% y/y.

How high inflation goes will primarily be determined by several key factors. First amongst those is that the major investment in the public sector, according to the Bank of England, will lift UK real GDP to 1.7% in 2025 before growth moderates in 2026 and 2027. The debate around whether the Government's policies lead to a material uptick in growth primarily focus on the logistics of fast-tracking planning permissions, identifying sufficient skilled labour to undertake a resurgence in building, and an increase in the employee participation rate within the economy.

There are inherent risks to all the above. The worst-case scenario would see systemic blockages of planning permissions and the inability to identify and resource the additional workforce required to deliver large-scale IT, housing and infrastructure projects. This would lead to upside risks to inflation, an increased prospect of further Government borrowing & tax rises in the June

2025 Spending Review (pushed back from the end of March), and a tepid GDP performance.

Regarding having a sufficiently large pool of flexible and healthy workers, the initial outlook does not look bright. Research from Capital Economics has alluded to an increase of some 500,000 construction workers being needed to provide any chance of the Government hitting its target of 300,000 new homes being built in each of the next five years (234,000 net additional dwellings in England in 2022/23). But the last time such an increase was needed, and construction employment is currently at a nine-year low, it took 12 years to get there (1996 to 2008). Also note, as of October 2024, job vacancies in the construction sector were still higher than at any time in the 20 years preceding the pandemic.

Currently, it also seems likely that net inward migration is set to fall, so there is likely to be a smaller pool of migrant workers available who, in the past, have filled the requirement for construction worker demand. The Government plans to heavily promote training schemes, particularly to the one million 16- to 24-year-olds who are neither in education nor work. But it is arguable as to whether the employee shortfall can be made up from this source in the requisite time, even if more do enter the workforce.

Against, this backdrop, there may be a near-term boost to inflation caused by a wave of public sector cash chasing the same construction providers over the course of the next year or so, whilst wages remain higher than the Bank currently forecasts because of general labour shortages, including in social care where Government accepts there is a 150,000 shortfall at present.

Unemployment stands at a low 4.3% (September), whilst wages are rising at 4.3% y/y (including bonuses) and 4.8% (excluding bonuses). The Bank would ideally like to see further wage moderation to underpin any further gradual relaxing of monetary policy. Indeed, over the next six months, the market is currently only pricing in Bank Rate reductions in February and May – which would see Bank Rate fall to 4.25% - but further cuts, thereafter, are highly likely to be even more data-dependent.

If we focus on borrowing, a term we are likely to hear throughout 2025 is “bond vigilante”. Essentially, this represents a generic term for when the market is ill at ease with the level of government borrowing and demands a higher return for holding debt issuance. In the UK, we do not need to go back too far to recall the negative market reaction to the Truss/Kwarteng budget of 2022. But long-term borrowing rates have already gradually moved back to those levels since their recent low point in the middle of September 2024. Of course, the UK is not alone in this respect. Concerns prevail as to what the size of the budget deficit will be in the US, following the election of Donald Trump as President, and in France there are on-going struggles to form a government to address a large budget deficit problem too. Throw into the mix the uncertain outcome to German elections, and there is plenty of bond investor concern to be seen.

Staying with the US, Donald Trump’s victory paves the way for the introduction/extension of tariffs that could prove inflationary whilst the same could be said of further tax cuts. Invariably the direction of US Treasury yields

in reaction to his core policies will, in all probability, impact UK gilt yields. So, there are domestic and international factors that could impact PWLB rates whilst, as a general comment, geo-political risks continue to abound in Europe, the Middle East and Asia.

In the past month, the US Core CPI measure of inflation has indicated that inflation is still a concern (3.3% y/y, 0.3% m/m), as has the November Producer Prices Data (up 3.0 y/y v a market estimate of 2.6% y/y, 0.4% m/m v an estimate of 0.2% m/m) albeit probably insufficient to deter the FOMC from cutting US rates a further 0.25% at its December meeting. However, with Trump's inauguration as President being held on 20 January, further rate reductions and their timing will very much be determined by his policy announcements and their implications for both inflation and Treasury issuance.

Looking at gilt movements in the first half of 2024/25, and you will note the 10-year gilt yield declined from 4.32% in May to 4.02% in August as the Bank's August rate cut signalled the start of its loosening cycle. More recently, however, 10 year gilt yields have spiked back up to 4.35%.

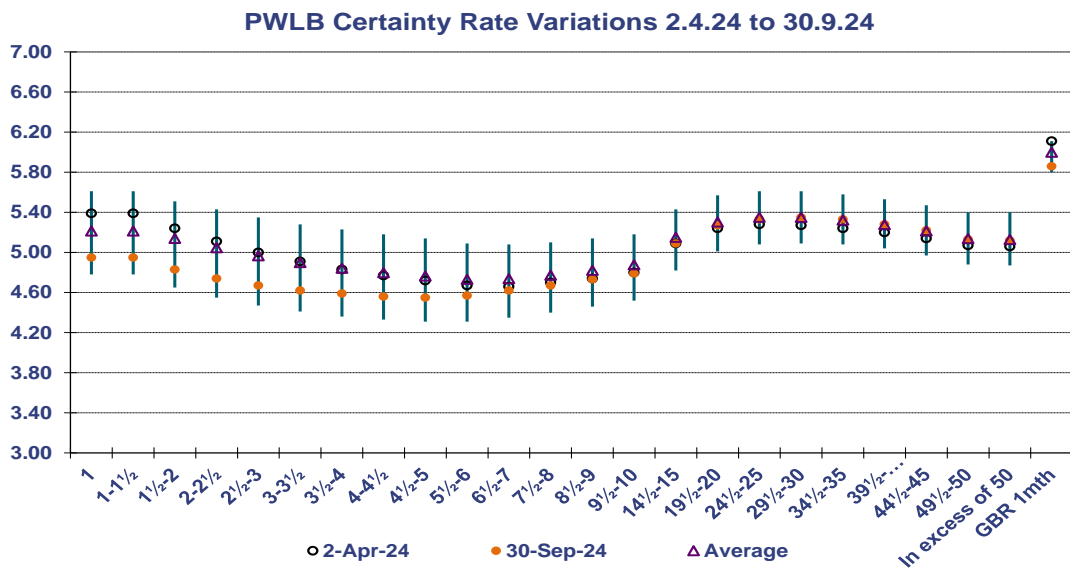
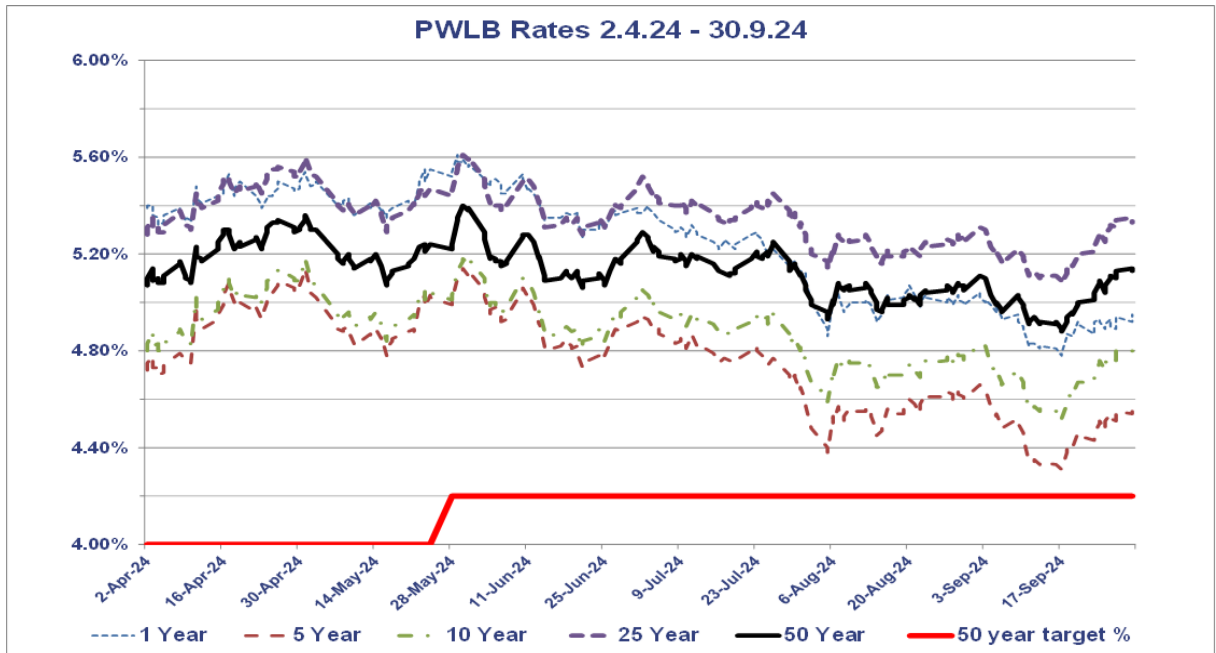
The FTSE 100 reached a peak of 8,380 in the third quarter of 2024 (currently 8.304), but its performance is firmly in the shade of the US S&P500, which has breached the 6,000 threshold on several occasions recently, delivering returns upwards of 25% y/y. The catalyst for any further rally (or not) is likely to be the breadth of AI's impact on business growth and performance.

MPC meetings: 9 May, 20 June, 1 August, 19 September, 7 November 2024

- On 9 May, the Bank of England's Monetary Policy Committee (MPC) voted 7-2 to keep Bank Rate at 5.25%. This outcome was repeated on 20th June.
- However, by the time of the August meeting, there was a 5-4 vote in place for rates to be cut by 25bps to 5%. However, subsequent speeches from MPC members have supported Governor Bailey's tone with its emphasis on "gradual" reductions over time.
- Markets thought there may be an outside chance of a further Bank Rate reduction in September, following the 50bps cut by the FOMC, but this came to nothing.
- On 7 November, Bank Rate was cut by 0.25% to 4.75%. The vote was 8-1 in favour of the cut but the language used by the MPC emphasised "gradual" reductions would be the way ahead with an emphasis on the inflation and employment data releases, as well as geo-political events.

In the chart below, despite a considerable gilt market rally in mid-September, rates started and finished the six-month period under review in broadly the same position.

PWLB RATES 02.04.24 - 30.09.24



HIGH/LOW/AVERAGE PWLB RATES FOR 02.04.24 – 30.09.24

	1 Year	5 Year	10 Year	25 Year	50 Year
02/04/2024	5.39%	4.72%	4.80%	5.28%	5.07%
30/09/2024	4.95%	4.55%	4.79%	5.33%	5.13%
Low	4.78%	4.31%	4.52%	5.08%	4.88%
Low date	17/09/2024	17/09/2024	17/09/2024	17/09/2024	17/09/2024
High	5.61%	5.14%	5.18%	5.61%	5.40%
High date	29/05/2024	01/05/2024	01/05/2024	01/05/2024	01/05/2024
Average	5.21%	4.76%	4.88%	5.35%	5.14%
Spread	0.83%	0.83%	0.66%	0.53%	0.52%

APPENDIX D

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

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

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective, the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the code on 01/03/2010 and will apply its principles to all investment activity. In accordance with the Code, the Director of Corporate Services (S151 Officer) has produced its treasury management practices (TMPs). This part, TMP 1 (1) covering investment counterparty policy requires approval each year.

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

- The strategy guidelines for choosing and placing investments, particularly non-specified investments which includes the Council being an ethical investor who will give consideration to the environmental, social and governance issues (ESG) when making treasury investment decisions
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the Council will use. These are high security (i.e., high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Council is:

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

SPECIFIED INVESTMENTS: These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. They also include investments which were originally classed as being non-specified investments, but which would have been classified as specified investments apart from originally being for a period longer than 12 months, once

the remaining period to maturity falls to under twelve months. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:-

- 1) The UK Government (such as Debt Management Account deposit facility, UK Treasury Bills or a Gilt with less than one year to maturity).
- 2) Supranational bonds of less than one year's duration
- 3) A local authority, housing association, parish council or community council
- 4) Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. For category 4 this covers pooled investment vehicles, such as money market funds, rated AAA by Standard & Poors, Moody's and/or Fitch rating agencies

Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and number of monies which will be invested in these bodies. These criteria are set out in the main report.

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the specified investment criteria. The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investment would include any sterling investments with:

	Non-Specified Investment Category	Limit £
A	Gilt Edged Securities with a maturity of greater than one year. These are Government Bonds and so provide the highest security of investment and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	£5m
B	The Council's own banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as possible	£1m
C	Any Bank or Building Society that has a minimum long term credit rating of AA, for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	£2m
D	Enhanced Money Market Funds AA rated	£2m
E	Corporate Bond Funds	£2m
F	Local/Community Bonds	£2m
G	Local Authority Property Asset Fund	£4m

H	Certificates of Deposit	£2m
I	Covered Bonds	£1m
J	Property Funds – The use of these instruments can be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. This Authority will seek guidance on the status of any fund it may consider using	£4m

This Authority will seek further advice on the appropriateness and associated risks with investments in these categories.

The monitoring of investment counterparties – The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Link Treasury Services as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Director of Corporate Services (S151 Officer), and if required new counterparties which meet the criteria will be added to the list.

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

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

APPENDIX E

APPROVED COUNTRIES FOR INVESTMENTS (As at 25.11.2024)

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

Based on lowest available rating

AAA

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

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- Qatar

AA-

- Belgium
- France
- **U.K.**

APPENDIX F

TREASURY MANAGEMENT SCHEME OF DELEGATION

(i) Full Council

- Receiving and reviewing reports on treasury management policies, practices and activities.
- Approval of annual Treasury Management Strategy and Mid-Year Review Treasury Management Indicators.

(ii) Corporate Policy and Resources Committee

- Approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices.
- Approval of the division of responsibilities.
- Receiving and reviewing regular monitoring reports and acting on recommendations.
- Approving the selection of external service providers and agreeing terms of appointment.
- Mid-Year Review of Treasury Management Indicators

(iii) Governance and Audit Committee

- Review and scrutiny of the Treasury Management Strategy, policy and procedures and making recommendations to the full Council.

APPENDIX G

THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (responsible) officer

- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- Submitting regular treasury management policy reports.
- Submitting budgets and budgets variations;
- Receiving and reviewing management information reports.
- Reviewing the performance of the treasury management function.
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- Ensuring the adequacy of internal audit and liaising with external audit.
- recommending the appointment of external service providers.
- Preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe
- Ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- Ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- Ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- Ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- Ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities
- Provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- Ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- Ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- Creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following: -
 - Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios.
 - Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments.

- Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making.
- Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken.
- Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

APPENDIX H

CAPITAL INVESTMENT STRATEGY 2025/26 – 2029/30

1. Introduction

The Council is required to approve a Capital Investment Strategy in accordance with the Prudential Code for Capital Finance in Local Authorities.

The Capital Investment Strategy provides a high-level overview of how capital investment, capital financing and treasury management activity supports the provisions of services. It considers associated risks and how they are managed and ensures that future financial implications are identified to inform future year's budgets and financial sustainability.

The Strategy forms part of the Council's overall Corporate Planning Framework. It provides a mechanism by which the Council's capital investment and financing decisions can be aligned with the Council's corporate priorities and objectives over a medium term (five year) planning horizon and ensures that the revenue implications of investments are both affordable and sustainable.

The strategy provides a framework for determining the relative importance of individual capital projects. It defines how the capital programme is to be formulated, and it identifies issues and options that influence revenue and capital spending and sets out how the resources will be managed.

Key elements of the strategy.

- Ensures investments meet our Corporate Plan objectives
- Incorporates the requirements of the Asset Management Plan
- Enables the development of a Capital Investment Programme over the medium term (5 years)
- A framework which will identify priorities for the use of resources for investment.
- Decisions are based on sound business cases.
- Risks are identified and mitigated where possible
- Directly links to the Treasury Management Strategy ensuring an affordable and sustainable Capital Investment Programme in adherence to legislation and the Prudential Code.
- Informs the Medium-Term Financial Plan by identifying the revenue impacts of investment decisions.
- Incorporates an annual review to ensure the programme still meets our priorities.
- Considers innovative solutions to funding.

1. Principles Supporting the Capital Investment Strategy

a) Strategy Principles

- The investment programme will support the Council's strategic priorities, therefore, the capital investment programme will link to all key strategic planning documents: specifically the Corporate Plan, Executive Business Plan, Medium Term Financial Plan and the Asset Management Plan.
- Schemes within the programme will be prioritised on an authority wide basis and the process of assessing investments, against specific criteria, will optimise the benefit and relative importance of potential schemes.
- Responsible Investing (RI) - investing in opportunities that seek to generate both financial value and sustainable growth,
- Socially responsible investing (SRI), also known as sustainable, socially conscious, "green" or ethical investing (ESG), as well as any investment strategy which seeks to consider both financial return and social good.

b) Capital Investment Policy

The Capital Investment Strategy will be underpinned by a Land and Property Investment Policy. The policy does not describe detailed operational investment activity but does describe the framework, and principal [underlying] considerations, which the Council will follow when reviewing and subsequently agreeing investment opportunities. It is designed to support the goals and objectives as outlined in the Corporate Plan, the general objectives of a UK public sector service provider and the very specific aims; goals and aspirations of the Council members; executive officers and their teams.

c) Finance Principles

- The overarching principal is the commitment to achieve affordable capital investments over the longer term.
- To pursue all available external funding options and opportunities for leverage of external resources.
- Ensure evaluation for value for money investments by whole life costing (where applicable) and by having robust Business Cases with full financial modelling, and appropriate due diligence in estimates in order to inform the full financial implications
- To develop partnerships, including the pursuit of shared services, joint ventures and community arrangements, where appropriate, to achieve the Council's investment aspirations and value for money.
- Monitoring and evaluation of approved budgets will form part of the quarterly budget monitoring reports.
- Monitoring and evaluation of approved Programmes and projects will form part of Performance Management.
- Encourage community engagement by informing on priorities and consultation on proposals.

- To invest in non-treasury activities to support ongoing sustainability in the delivery of services.
 - Regularly review Business Cases as schemes are developed and update financial models to inform future budget impacts.
- d) Asset Management Principles

The Asset Management Policy ensures that.

- We will take all reasonable and practical steps to ensure the health, safety and wellbeing of staff, visitors and contractors who use or visit our buildings, land or property and who use or are in contact with supporting asset infrastructure.
- We will ensure that all our buildings and land and property assets are fully compliant with current legal requirements, are fit for purpose and managed and maintained in accordance with best practice.
- We will ensure that infrastructure supporting our physical assets is safe and fully compliant with relevant legislative and regulatory requirements.
- All activity on our assets will be carried out in compliance with relevant legislative and statutory requirements.
- We will assess asset related risks and manage such risk in accordance with our corporate risk management policy or in accordance with procedures relevant to the specific asset, its use and function.
- We will retain and/or acquire physical assets which are appropriate to our business and function and dispose of those assets which are not fit for purpose, or which cannot support our business or investment criteria.
- We shall continue to actively develop our asset management systems; processes and procedures in a way which is appropriate; efficient; transparent and sustainable and which supports the best management outcomes for our physical assets.
- We shall continue to train and develop staff across the asset management discipline and apply technology and innovation where practical.
- We shall seek continual improvement of our management capability and activities to ensure value for money for all stakeholders.

3. Capital Investment Priorities

The Council's proposed Capital Investment Programme 2024/25 will support the Corporate Plan's key themes.

- Our People – Health and Wellbeing, Leisure, Skills, Vulnerable Groups and Communities

- Our Place – Economic Growth, External Investment, Social Regeneration, Infrastructure, Enhanced Environment
- Our Council – Finances, Structures, Partnerships, Policies, Governance

The Council's financial planning process ensures that the decisions about the allocation of capital and revenue resources are taken to achieve a corporate and consistent approach. The key corporate documents and relevant linkages with this strategy include.

- The Corporate Plan – priorities for the medium term
- The Medium-Term Financial Plan - incorporates the Financial Strategy, revenue budget financial impacts of capital investment decisions.
- The Reserves Strategy- prioritises the use of reserves for capital and revenue purposes.
- The Treasury Management Strategy (including Investment Strategy) informs the affordability and sustainability of prudent investment decisions.
- The Commercial Portfolio Strategy – informs how acquisitions of investment properties will be made on a risk-based approach
- The Value for Money Strategy – Ensuring VFM is achieved from investment decisions.
- The Housing Strategy – Supporting housing growth and regeneration within the district.
- The Land and Property Investment Strategy
- The Asset Management Policy – Investment needs of our own land and property holdings
- Service Plans – Investment need for delivery of quality services

4. The Capital Investment Strategy Process

The strategic approach to revenue and capital investment decisions needs to be formalised to ensure that our resources are directed to the most appropriate schemes which both deliver our corporate priorities, and which are based on sound business cases. Assessment and prioritisation of capital investments schemes are based on uniform criteria.

Therefore, the Capital Investment Strategy Process has been developed which will ensure that prioritisation of investments is directed to deliver Corporate Objectives and delivery of the Executive Business Plan and Service Business Plans in addition to generating returns to support delivery of core services.

The process for includes:

- Review existing Capital Programme, timing, budget requirements etc.
- Annual review of existing Projects
- Asset Management Plan – detailed costs of required investment in property portfolio and property assets to be disposed.
- Review of asset replacement programmes
- Consideration of financing availability i.e., Earmarked Reserves, Grant funding, Capital Receipts and Prudential Borrowing

- Business Planning – identifying new schemes and projects for evaluation both capital and revenue.
- Evaluation of all proposed schemes against scoring matrix.
- Consider core service funding requirements and opportunities to invest in non-Treasury assets to generate returns

The final approved Capital Investment Programme and its financial implications are included within the Medium-Term Financial Plan, submitted to the Council annually in March for approval.

Fully costed and appraised business cases for each scheme will be presented to a relevant Board for consideration prior to any decision being made.

The Capital Programme consists of 4 levels of activity.

- Pre-Stage 1 – Business Case in preparation
- Stage 1 – Budget approved – requires full business case
- Stage 2 – Business case approved in principal or awaiting funding
- Stage 3 and Business as Usual (BAU) – Approved to spend and funding secured

The investment and the ongoing revenue implications of each scheme are ascertained from the financial implications and appraisals within the business case.

The Capital Investment Value is assessed against the capital definition, and deminimis limits (£10k).

Revenue Implications – include the impact on revenue budgets for running costs/additional staffing etc. and the impact of the cost of borrowing or loss of investment interest if capital receipts and revenue reserves are to be utilised.

5. Governance of the Capital Investment Programme

In accordance with the Constitution and governance arrangements, the Council reviews its capital requirements and determines its Capital Programme within the framework of the MTFP and as part of the annual budget process. Resource constraints mean the Council continually needs to prioritise expenditure in light of its aims and priorities and considers alternative solutions.

To ensure that available resources are allocated optimally, capital programme planning is determined in parallel with service and revenue budget planning processes within the framework of the MTFP.

New programmes of expenditure will be appraised following a clearly defined Business Case gateway process.

The Council will approve in principal the Capital Investment Programme, and will approve the release of funding for replacement and renewal programmes. This is undertaken annually in March as part of budget setting and the approval of the Medium-Term Financial Plan.

The Governance and Audit Committee will provide assurance on this Capital Investment Strategy.

Corporate Policy and Resources Committee will be responsible for approving release of funding for the Capital Investment Programme and will therefore receive reports for each scheme detailing the business case, cost, proposed funding and revenue implications.

Corporate Policy and Resources Committee will receive quarterly monitoring and update reports which may include details of.

- New capital investment schemes
- Slippage in programme delivery
- Programmes removed or reduced
- Virements (budget movements) between schemes
- Revisions in spend profile
- Overspending
- Capital acquisitions and disposals
- Loan advances and outstanding loan balances

Progress on specific programmes will also be monitored in relation to projects through the Performance Monitoring reporting framework.

The Programme Board will receive monthly highlight reports

The Management Team will receive quarterly monitoring reports and any exception reporting.

Budget Managers will receive monthly monitoring reports.

6. Capital Financing

The funding of Capital schemes can come from a number of resources, the use of external resources will take precedent.

- Prudential borrowing
- Revenue contributions and Earmarked Reserves
- Capital Receipts
- External grants and contributions (including S106 and Community Infrastructure Levies (CiL))
- Leasing
- Other sources – i.e., partnerships or private sector involvement

This strategy, the outcomes of which will inform the MTFP, is intended to consider all potential funding options available to the Council and to maximise the financial resources available for investment in corporate priorities and service provision and improvement.

To deliver our strategic objectives, especially in relation to economic and housing growth, regeneration, in addition to investment in commercial property,

which is designed to provide a revenue return, significant levels of investment will be required, which will result in a borrowing need.

7 Prudential Borrowing

The Council has discretion to undertake Prudential borrowing to fund capital projects with the full cost of that borrowing (interest and minimum revenue provision) being funded from Council revenue resources and/or capital receipts. This discretion is subject to complying with the Code's regulatory framework which essentially requires any such borrowing to be prudent, affordable and sustainable. Prudential borrowing provides an option for funding additional capital development however it has to be funded each year from within the revenue budget and by generating additional ongoing income streams from the investment.

Given the pressure on the Council's revenue budget in future years, prudent use will be made of this discretion in cases and only where there is a clear financial benefit, such as "invest to save", "invest to earn". Consideration will only be given to commercial investments where returns are expected to be higher than the revenue costs of the debt, provision of loans where principal repayments will be utilised as proxy for MRP, borrowing or major regeneration schemes which do not increase revenue expenditure levels in the longer term but provide a beneficial economic and or social impact.

The Council will remain cautious and prudent in the extent of prudential borrowing undertaken to fund new capital investment.

Where prudential borrowing is utilised to fund Capital Investment, financial implication considerations will be provided including the risks and opportunities of the investment over both the payback period and over the repayment period of any debt taken out.

8 Revenue Contributions and Earmarked Reserves

Our continued prudent approach is to set aside revenue resources to fund capital replacement programmes and asset management funding.

New Homes Bonus Grant will continue to be set aside for the purpose of investment in growth and regeneration (economic and housing) and this strategy has been included in the MTFP.

We will consider future Earmarking of Reserves for service investment needs, invest to save and invest to earn projects and enhancements to our own property assets, in addition to consideration of revenue contingencies, volatility and budget smoothing.

Our own resources will therefore be utilised to fund those schemes which provide a Socio-Economic return on investment, invest to save schemes which achieve efficiencies, and investment in our operational service asset needs.

9 Capital Receipts

Capital receipts generated from the following sources and where appropriate utilised as detailed.

- Loans principal repayments – used to repay prudential borrowing
- Receipts from Asset Disposal (operational property assets or surplus land)
- Commercial Portfolio Properties – repayment of borrowing
- Share of RTB Housing Transfer Agreement – future investment
- Insurance settlements – replacement of asset

10 External Grants and contributions (incl S106 and Community Infrastructure Levy (CiL))

The Council will actively pursue grants and contributions and other innovative solutions to funding of capital investment schemes. This funding will be utilised in the first instance.

11 Leasing

The use of leasing will be undertaken where alternative funding is not available for vehicles or minor equipment and the revenue budget does not allow for a full capital repayment. Where there is a robust business case then the option of leasing may be considered.

12 Other Sources of Funding

There are a range of other potential funding sources which may be generated locally either by the Council itself or in partnership with others i.e., a growing number of private organisations are showing interest where clear joint benefits exist. Each case will be subject to specific financial appraisals and appropriate governance arrangements.

13. Investment in Commercial Properties (Non-Treasury Investments)

Any acquisition of Commercial Properties will be in accordance with the Commercial Portfolio Strategy and are being acquired to support delivery of services in a financially sustainable organisation. Up to £30m has been approved for investment in Commercial Property in support and protection of Council Services.

Appropriate experts are engaged as required.

All assets will be assessed against a set criteria and the Chief Executive and the Leader of the Council have delegated Authority to complete on the acquisition of assets which score 50 or more out of 70. Any asset which falls below this threshold or registers a zero against any criteria may still be considered but specific justification will need to be provided and the decision to proceed taken to the Corporate Policy and Resources Committee for approval.

An annual review will be undertaken of the Commercial Property Portfolio to ascertain whether its fair value is sufficient to provide security against loss against the capital investment, and therefore adequate to meet the cost of outstanding borrowing.

Under the Minimum Revenue Provision (MRP) Policy, there will be an annual MRP charge for borrowing undertaken to finance Commercial Properties in line with the latest guidance from MHCLG.

A Valuation Volatility Earmarked Reserve has been created with a target balance of 5% of purchase price of the portfolio, which will reduce over the medium term, reflecting the introduction of an annual MRP charge to reduce outstanding prudential borrowing. This will help mitigate any financial loss of investment upon the sale of an asset should there be any shortfall against outstanding debt. A proportion of the annual revenue income generated from the investment will be allocated for risk provision.

A Commercial Contingency revenue base budget is also included within the MTFP to mitigate the risk of not achieving the desired level of yield from the Portfolio in year.

These investment assets are not deemed to be liquid over the short term but are likely to be held for the medium term of 5-10 years.

A number of prudential indicators in relation to these investments are contained within the Treasury Management Strategy and will be monitored throughout the year.

14. Risk

All capital projects have a risk register, with all risks affecting the project considered.

A specific risk of capital investment is the impact on the Council's VAT partial exemption (recovery of exempt VAT up to 5% of overall VAT). If exempt VAT exceeds 5% the whole amount is then irrecoverable. Each scheme is therefore assessed for its impact

15. Conclusion

The Capital Investment Strategy is a working document, which enables the Council to make informed rational capital investment decisions to achieve its corporate priorities and objectives. It provides a framework for determining the relative importance of individual projects.

The strategy will be reviewed annually to ensure that it remains relevant and effective.

Agenda Item 6h



**Governance and Audit
Committee**

Tuesday 21 January 2025

Subject: Internal Audit progress report

Report by:

RSM UK Risk Assurance Services LLP

Contact Officer:

Emma Foy
Director of Corporate Services and Section 151

emma.foy@west-lindsey.gov.uk

Purpose / Summary:

The report gives Members and update of progress by our Internal Audit partner.

RECOMMENDATION(S):

That Members consider the content of the report and identify any actions required

IMPLICATIONS

Legal: N/A

Financial : N/A

Staffing :N/A

Equality and Diversity including Human Rights : *None arising from this report*

Data Protection Implications : *None arising from this report*

Climate Related Risks and Opportunities: *None arising from this report*

Section 17 Crime and Disorder Considerations: *None arising from this report*

Health Implications: *None arising from this report*

Title and Location of any Background Papers used in the preparation of this report :

None arising from this report

Risk Assessment :

None arising from this report

Call in and Urgency:

Is the decision one which Rule 14.7 of the Scrutiny Procedure Rules apply?

i.e. is the report exempt from being called in due to urgency (in consultation with C&I chairman)

Yes

No

Key Decision:

A matter which affects two or more wards, or has significant financial implications

Yes

No



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WEST LINDSEY DISTRICT COUNCIL

Internal Audit Progress Report

21 January 2025

This report is solely for the use of the persons to whom it is addressed.
To the fullest extent permitted by law, RSM UK Risk Assurance Services LLP will accept no responsibility or liability in respect of this report to any other party.

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KEY MESSAGES

The internal audit plan for 2024/25 was approved by the Governance and Audit Committee at the 16 April 2024 meeting. This report provides an update on progress against the plan and summarises the results of our work to date.



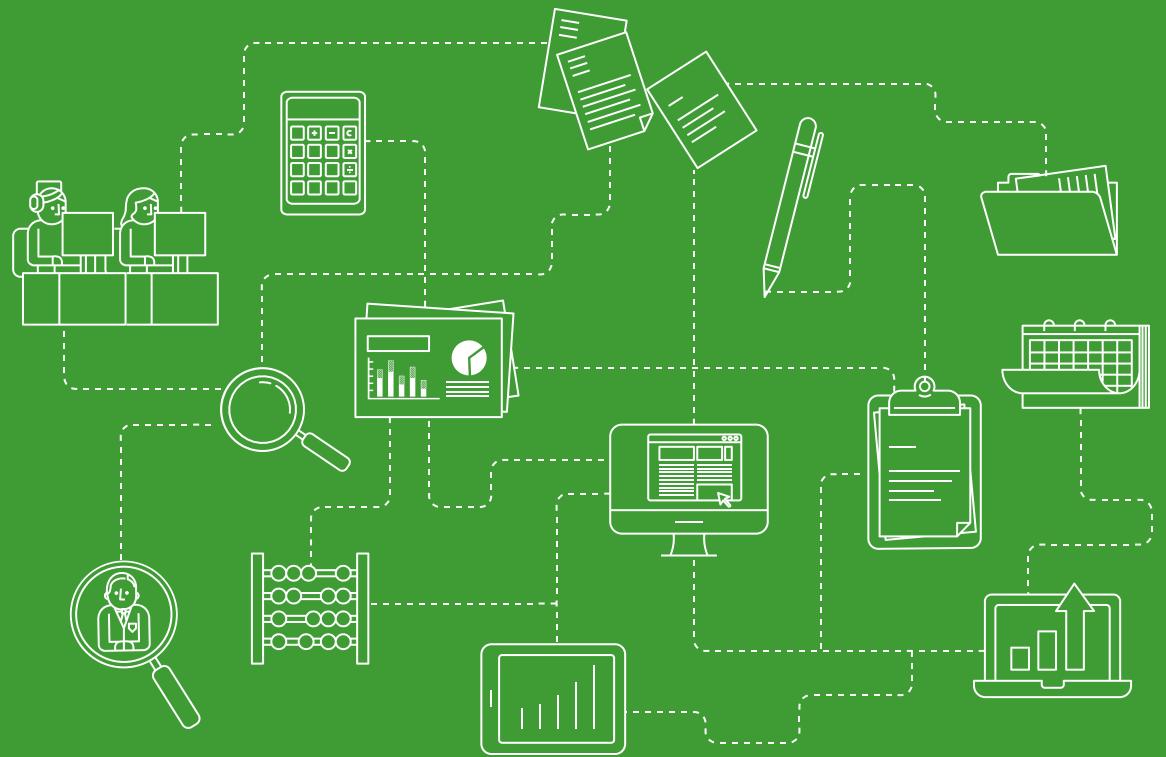
We have issued two reports as final as part of the internal audit plan since the Governance and Audit Committee meeting in November 2024. These are Purchasing and Creditors (5.24/25) and Complaints Handling (6.24/25). We also have one report currently issued in draft: Project and Programme Management (7.24/25) which will be finalised and presented to the next committee meeting.

- Details of the progress made against the internal audit plan are included at Appendix A. [\[To note\]](#)
- Fieldwork dates have been agreed with management for all of the internal audits scheduled for 2024/25 to ensure that all fieldwork will be completed by the end of the year, and our Head of Internal Audit Opinion can be provided at the first meeting of the 2025/26 financial year. [\[To note\]](#)
- There have been no amendments to the internal audit plan since the last meeting. [\[To note\]](#)

Appendices

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APPENDIX A: PROGRESS AGAINST THE INTERNAL AUDIT PLAN 2024/25

Assignment and Executive Lead	Status / Opinion issued	Actions agreed				Target Governance and Audit Committee meeting	Actual Governance and Audit Committee meeting
		Advisory	Low	Medium	High		
IT Operations	Final Report Issued / Reasonable Assurance	0	2	3	0	September 2024	September 2024
Follow Up 1	Final Report Issued / Reasonable Progress	0	8	0	0	September 2024	September 2024
Staff Appraisal Process	Final Report Issued / Reasonable Assurance	0	3	2	0	November 2024	November 2024
Risk Management	Final Report Issued / Reasonable Assurance	2	6	3	0	November 2024	November 2024
Purchasing and Creditors	Final Report Issued / Substantial Assurance	0	4	0	0	November 2024 ¹	January 2025
Complaints Handling	Final Report Issued / Reasonable Assurance	0	4	2	0	January 2025	January 2025
Project and Programme Management	Draft Report Issued / Substantial Assurance – Awaiting Management Responses	0	2	1	0	January 2025 ²	
Procurement	Audit Commencing 20 January 2025 – Scope Agreed					January 2025 ³	-
Combined Assurance	Audit Commencing January 2025 – Scope Agreed					January 2025 ⁴	-
Customer Experience Strategy	Audit Commencing 27 January 2025 – Scope Issued					March 2025	-
Emergency Planning / BCP	Audit Commencing 24 February 2025					April 2025	-
Follow Up 2	Audit Commencing 17 March 2025					April 2025	-

¹ Due to the timing of producing the previous committee papers (23rd October) the audit report was yet to be produced and therefore is to be presented to the January committee.

² Due to the timing of producing this committee paper, the audit report has yet to receive finalisation from management and therefore will be presented to the next committee meeting.

³ This audit was delayed from November 2024 to January 2025 to allow for the new Contract and Procurement Procedure Rules to be reviewed by Management Team to then be incorporated into the audit.

⁴ This audit was delayed from November 2024 to January 2025 to allow for an approach to be agreed between RSM and the Management Team.

APPENDIX B: OTHER MATTERS

Quality assurance and continual improvement

To ensure that RSM remains compliant with the PSIAS framework we have a dedicated internal Quality Assurance Team who undertake a programme of reviews to ensure the quality of our audit assignments. This is applicable to all Heads of Internal Audit, where a sample of their clients will be reviewed. Any findings from these reviews are used to inform the training needs of our audit teams.

As part of the Quality Assessment and Improvement Programme, none of your files were selected for Internal Quality Monitoring programme during 2024/25. From the results of the reviews undertaken across our client base, there are no areas which we believe warrant flagging to your attention as impacting on the quality of the service we provide to you.

In addition to this, any feedback we receive from our post assignment surveys, client feedback, appraisal processes and training needs assessments is also taken into consideration to continually improve the service we provide and inform any training requirements.

Post assignment surveys

We are committed to delivering an excellent client experience every time we work with you. Your feedback helps us to improve the quality of the service we deliver to you. Following the completion of each product, we include a link to a brief survey in each report we issue.

We are committed to delivering an excellent client experience every time we work with you. Your feedback helps us to improve the quality of the service we deliver to you.

Currently, following the completion of each product we deliver we attached a brief survey for the client lead to complete.

APPENDIX C: KEY PERFORMANCE INDICATORS

	Delivery			Quality		
	Target	Actual	Notes*	Target	Actual	Notes*
Audits commenced in line with original timescales*	Yes	Yes	Conformance with PSIAS	Yes	Yes	
Draft reports issued within 10 days of debrief meeting	10 working days	6 working days (average)	Liaison with external audit to allow, where appropriate and required, the external auditor to place reliance on the work of internal audit	Yes	Yes	
Management responses received within 10 days of draft report	10 working days	16 working days (average)	Response time for all general enquiries for assistance	2 working days	2 working days	
Final report issued within 3 days of management response	3 working days	2 working days (average)	Response for emergencies and potential fraud	1 working day	N/A	

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Notes

This takes into account changes agreed by management and the Governance and Audit Committee during the year. Through employing an agile or a flexible approach to our service delivery we are able to respond to your assurance needs.

FOR FURTHER INFORMATION CONTACT

Rob Barnett, Head of Internal Audit

Aaron Macdonald, Managing Consultant

Email: Robert.Barnett@rsmuk.com

Email: Aaron.Macdonald@rsmuk.com

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rsmuk.com

The matters raised in this report are only those which came to our attention during the course of our review and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Actions for improvements should be assessed by you for their full impact. This report, or our work, should not be taken as a substitute for management's responsibilities for the application of sound commercial practices. We emphasise that the responsibility for a sound system of internal controls rests with management and our work should not be relied upon to identify all strengths and weaknesses that may exist. Neither should our work be relied upon to identify all circumstances of fraud and irregularity should there be any.

Our report is prepared solely for the confidential use of West Lindsey District Council, and solely for the purposes set out herein. This report should not therefore be regarded as suitable to be used or relied on by any other party wishing to acquire any rights from RSM UK Risk Assurance Services LLP for any purpose or in any context. Any third party which obtains access to this report or a copy and chooses to rely on it (or any part of it) will do so at its own risk. To the fullest extent permitted by law, RSM UK Risk Assurance Services LLP will accept no responsibility or liability in respect of this report to any other party and shall not be liable for any loss, damage or expense of whatsoever nature which is caused by any person's reliance on representations in this report.

This report is released to you on the basis that it shall not be copied, referred to or disclosed, in whole or in part (save as otherwise permitted by agreed written terms), without our prior written consent.





We have no responsibility to update this report for events and circumstances occurring after the date of this report.

RSM UK Risk Assurance Services LLP is a limited liability partnership registered in England and Wales no. OC389499 at 6th floor, 25 Farringdon Street, London EC4A 4AB.

AUDIT OUTCOME OVERVIEW – PURCHASING & CREDITORS

Conclusion: We confirmed that the Council have efficient purchasing processes in place which are being adhered to in practice; however, our review highlighted areas for improvement which has led to the agreement of four low priority management actions with management.

Internal audit opinion:

 Minimal Assurance	 Partial Assurance	 Reasonable Assurance	 Substantial Assurance
--------------------------------------------------------------------------------------------------------	--------------------------------------------------------------------------------------------------------	-----------------------------------------------------------------------------------------------------------	------------------------------------------------------------------------------------------------------------

Taking account of the issues identified, the board can take substantial assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.

Audit themes:

Approval Limits

- Although order approval limits are built into the finance system and are known to staff, these are not formally documented within any policies, procedures or the Constitution. **(Low)**

New Suppliers and Supplier Amendments

- When new supplier bank details are provided to the Council, these are independently verified with the supplier to ensure legitimacy. However, this is often via email as opposed to via phone calls which is good practice to mitigate against the fraud risk. **(Low)**
- Only supplier bank details are verified with the supplier independently and not address changes or telephone. However, as good practice these should also be verified independently as individuals committing fraud will often send in these change requests before submitting a bank details change. Therefore the details the Council would then verify against could also be fraudulent. **(Low)**

Data Analytics

- Through our data analytics, we identified 17 instances where supplier records matched the bank details of an employee. Testing of five confirmed they were legitimate, however, for two they were never paid as a supplier and therefore need to be removed from the system. Furthermore, we also identified 35 duplicate supplier details. Testing a sample of 10 cases identified eight instances where they were duplicates that required one account to be removed to clean up the data. **(Low)**

SUMMARY OF MANAGEMENT ACTIONS

The action priorities are defined as*:

High

Immediate management attention is necessary.

Medium

Timely management attention is necessary.

Low

There is scope for enhancing control or improving efficiency.

Ref	Action	Priority	Responsible Owner	Date
1	The Council will document their approval limits for each role in the Council within the Constitution.	Low	Financial Services Manager (Deputy S151)	30 April 2025
2	When supplier bank details changes are received, the Council will confirm this via phone call.	Low	Principal Corporate Accountant	30 April 2025
3	The Council will update their supplier details changes procedure to ensure that all supplier details changes (including address and phone numbers) are independently verified.	Low	Principal Corporate Accountant	30 April 2025
	Management will review all identified duplicate supplier profiles and remove all unnecessary and duplicated profiles. The suppliers who were setup but never paid will also be removed from the system.	Low	Principal Corporate Accountant	31 January 2025

AUDIT OUTCOME OVERVIEW – COMPLAINTS HANDLING

Conclusion: Our review of the complaints process found that overall, there is a control framework in place for the Councillor complaints handling process, however, areas of the framework could be further developed and enhanced for a more efficient or improved approach. We also identified areas of weakness specifically around the timeframes for handling complaints, as well as the design of identifying and tracking lessons learned to reduce the risk of further complaints.

Therefore, we have agreed two medium priority and four low priority management actions. The medium actions were related to the expected timeframes in complaints handling, and how the Council notify complainants where a delay is present.

Internal audit opinion:



Minimal Assurance



Partial Assurance



Reasonable Assurance



Substantial Assurance

Taking account of the issues identified, the board can take reasonable assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.

However, we have identified issues that need to be addressed in order to ensure that the control framework is effective in managing the identified risk(s).

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Audit themes: Training

- We found that training and guidance is provided to the Monitoring Officer and Deputy Monitoring Officer through external providers, however these are currently not mandatory or monitored. **(Low)**

Complaints handling process

- Our sample testing of 10 complaints identified an area of weakness around compliance with the expected timeframes of the complaints handling process, as per the procedures. We found that complaint handling timeframes have not been adhered to, thus risking complaints not being dealt with appropriately in a timely manner. **(Medium)**
- We also found that there is currently no timeframe identified for issuing outcome letters to the complainant and subject member. In our sample, we identified one case which remained open at the time of the audit (November 2024) from May 2023. Therefore, there is a risk that complainants are not provided with a timely response, which may lead to further complaints. **(Low)**
- We identified that there is currently no timescale extension process for complaints handling. Therefore, where a complaint is not handled in the expected timeframe, per the procedures, complainants are not made aware of the delay unless direct contact is made. Thus, untimely complaints handling may create the risk of a breakdown in trust, potentially leading to further complaints. **(Medium)**

Monitoring and Reporting

- We found that although a complaints handling spreadsheet is used to monitor complaints, and fortnightly communications are sent to the Monitoring and Deputy Monitoring Officers for progress updates, the reported content does not align. Therefore, the work is being doubled and there is a risk of inefficient monitoring of complaints. **(Low)**
- We found that the Council identify and discuss emerging themes annually, during the Governance and Audit Committee and Council meetings, however lessons learned are not acknowledged and actioned further. Therefore, there is a risk of recurring issues with the same complaints being raised. **(Low)**

SUMMARY OF MANAGEMENT ACTIONS

The action priorities are defined as*:

High

Immediate management attention is necessary.

Medium

Timely management attention is necessary.

Low

There is scope for enhancing control or improving efficiency.

Ref	Action	Priority	Responsible Owner	Date
1	The Council will ensure that complaints handling training completed is monitored and a timescale for renewing training is agreed.	Low	Monitoring Officer	31 March 2025
2	Management will investigate and identify whether timeframes in the complaints handling process or processes to complete responses need amending to ensure that complaints are being adhered to in a realistic timeframe.	Medium	Monitoring Officer	31 March 2025
	The Council will review the complaints handling process for District Councillors and Parish Councillors, and consider implementing an expected time frame for sending an outcome letter to the subject member and complainant.	Low	Monitoring Officer	31 March 2025
	The Council will combine the complaints handling spreadsheet and the fortnightly spreadsheet information to ensure both reflect the same information including the date of the case meeting and agreed actions for each case. The Council will consider implementing a frequent process for monitoring the complaints to ensure those that are outdated are closed.	Low	Deputy Monitoring Officer	31 March 2025
5	The Council are to investigate and if necessary, implement a formal timescale extension process where they are unable to meet the 20-day timescale for consultation. Where an extension is necessary, notification is made to the complainant.	Medium	Monitoring Officer	31 March 2025
6	The Council will update the complaints tracking spreadsheet to be inclusive of any lessons learned that have been identified, alongside any actions raised being assigned an action owner and due date. Any actions identified will be monitored through an action tracker to ensure compliance and progression. Lessons learned will also be reported to the Governance and Audit Committee, and the Council, through the Monitoring Officer's Annual Report.	Low	Deputy Monitoring Officer	31 March 2025

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Governance and Audit
Committee

21 January 2025

Subject: Constitution amendments

Report by:

Monitoring Officer

Contact Officer:

Lisa Langdon
Assistant Director for People and Democratic
Services and Monitoring Officer.
Lisa.Langdon@west-lindsey.gov.uk

Purpose / Summary:

The purpose of this report is to provide an update to the Governance and Audit committee on the work that is ongoing in relation to the Constitution review, and seek that certain housekeeping amendments are made in line with the external health check document produced, to ensure the Constitution is up to date with legislative requirements.

The Governance and Audit Committee are asked to RECOMMEND the report to Council for approval

RECOMMENDATION(S):

The Governance and Audit Committee are asked to:

- (1) Receive and note the position in relation to the ongoing work relating to Constitutional amendments.
- (2) Receive and note the position in relation to the external health check work which has been carried out.

(3) Accept the Constitution amendments as outlined in Appendix 1 and shown in Appendices 1 a-e and recommend their approval to the Full Council meeting on 3 March 2025.

IMPLICATIONS

Legal:

The Council is required by law to prepare, and keep up to date, the Constitution (Section 9P Local Government Act 2000 as amended).

It is not uncommon for authorities to update Constitutions in a piecemeal fashion over time due to the length and complexity of Constitutions. Therefore, an external “health check” Constitution review has been carried out by expert governance lawyers. The document produced is legally privileged and does not form part of this report, however committee members have had sight of the full legal advice beforehand and have received a summary of this advice from the Monitoring Officer.

The external legal advisors have undertaken many constitutional reviews for local authority clients.

Financial : FIN/127/25/GA/SL

There is a fee of under £5000 being charged for the external review work, this fee can be accommodated within the existing legal services budget provision held within the People and Democratic Services budget.

There is a requirement to define materiality within the amendments to the constitution. Materiality is used to define whether a piece of information is significant enough to impact decision making either by value or importance.

The Openness of Local Government Bodies Regulations 2014 provides that a decision making officer must produce a written record of any decision where two conditions are fulfilled. The first is that the decision would otherwise have been taken by the Council, or a committee, sub-committee of that body or a joint committee in which it participates, but it has been delegated to an officer of that body

either

- (a) under a specific express authorisation; or
- (b) under a general authorisation to officers to take such decisions.

The second is that the effect of the decision is to

- (a) grant a permission or licence;
- (b) affect the rights of an individual; or
- (c) **award a contract or incur expenditure which, in either case, materially affects that relevant local government body’s financial position.**

To materially affect finances means it will also be something other than planned expenditure. It is for the authority to decide what the threshold is for decisions that “materially affect” its financial position.

It is recommended that the threshold is set to £50,000 for these purposes.

Staffing : There are no staffing implications arising from this report. The work is primarily conducted by the Monitoring Officer, Deputy Monitoring Officer with the Management team being regularly updated.

Equality and Diversity including Human Rights : It is imperative that when dealing with all governance issues, people are treated equally and fairly. The Monitoring Officer, Deputy Monitoring Officer and wider team are aware of Equality legislation and ensure that equality and diversity is considered and applied as appropriate at all times.

Data Protection Implications : There are no direct data protection implications associated with this report. Good governance should ensure that the GDPR 2016 and associated regulations and guidance are complied with, and the Monitoring Officer and Deputy Monitoring Officer are aware of the need to adhere to these requirements. The Assistant Data Protection Officer reports directly to the Monitoring Officer and works closely as required with the Deputy Monitoring Officer.

Climate Related Risks and Opportunities: The organisation is aware of its responsibilities surrounding climate change, and much of the work referred to within this report is conducted over email with limited printing of paper documents, and where possible meetings and discussions are held virtually using the MS teams function, thereby saving in fuel costs and emissions.

Section 17 Crime and Disorder Considerations: Whilst there are no direct implications, the work carried out by the Monitoring Officer and wider teams contributes to cohesion and informal resolutions within communities, and therefore promotes community safety. The Monitoring Officer and Deputy Monitoring Officer are able to provide a police contact to anyone who suspects or alleges criminality.

Health Implications: There are no health implications arising from this Report.

Title and Location of any Background Papers used in the preparation of this report :

<https://democracy.west-lindsey.gov.uk/ieListDocuments.aspx?CIId=132&MIId=3617&Ver=4>

Risk Assessment :

Good governance and up to date practices and procedures for decision making ensure the organisation is legally compliant, whilst protecting against ultra vires

decisions. Further, good governance is essential for ensuring value for money and that the, reputational damage, and financial loss. Council is acting within its own powers and procedures at all times. Ensuring good governance at all levels protects the organisation from external claims and challenges.

“Failure to comply with legislation” and “inability for the Council’s governance to support quality decision making” are strategic risks for the organisation and these risks are considered regularly by the Management Team prior to consideration at the Governance and Audit committee.

The Constitution is Council’s key document for governance and powers, and compliance with the Constitution is essential to keep the organisation safe and legally compliant.

Call in and Urgency:

Is the decision one which Rule 14.7 of the Scrutiny Procedure Rules apply?

i.e. is the report exempt from being called in due to urgency (in consultation with C&I chairman)

Yes

No

Key Decision:

A matter which affects two or more wards, or has significant financial implications

Yes

No

1 **Background**

- 1.1 The Council's Constitution is the key governance document for the organisation, and sets out the Council's functions, how the Council operates, the terms of reference for the Committees, the Articles, the Codes and Protocols, the delegated functions of officers and various procedure rules, including the Contract Procedure Rules. Members should note that this review did not include consideration of the Contract Procedure Rules as this is a separate, discrete piece of work that will require finance and procurement involvement and direction, particularly in light of the changes from the Procurement Act 2023.
- 1.2 The Constitution is a legal document and often referred to in governance circles as a "living" document as the legal requirements are often subject to change, the membership of Councils and therefore political balance changes, Codes and Protocols are updated over time, and officer delegations may change over time. This results in Constitutions being amended piecemeal over time which can result in inaccuracies, duplications or omissions. Therefore, it is good practice to seek a health check review which can provide holistic consideration of the document itself, and ensure it is legally compliant and in line with up to date practices.
- 1.3 The review has been carried out and is a detailed piece of legal advice and guidance for the Council. Members of the Governance and Audit Committee have been offered a briefing prior to this Committee on the content of the document.

2. **Health check review summary**

- 2.1 The health check review can basically be divided up into three management sections which are:

A – Amendments which should be made as soon as possible as these relate to legal requirements. These are detailed at Appendix 1 and the Committee is asked to consider these and recommend them for approval at the full Council meeting on 3 March 2025.

B- Changes to Articles and Committees. This work is more involved as it results in changes to our Committees which affects political balance. This work is done annually at the AGM in any event, therefore it is proposed that the changes detailed in the health check review are also done at the May AGM. A separate report to this Committee will follow prior to the May 2025 AGM.

C – Matters that the health check has suggested are options for discussion, desirables but not necessities. For example, members may wish to consider introducing a provision to limit the length of the Council meeting, it may be that the order of the Constitution could be changed to make it more user friendly, and it may be that certain terms are defined to make matters clearer. It is suggested that these options

are considered after May as they are not a priority to make the Constitution compliant and member direction will be sought.

- 2.2 Members will be aware that as West Lindsey District Council operates under a Committee governance system, there is no legal requirement to have an Overview and Scrutiny Committee. This is an option for discussion raised in the health check review as some Councils have chosen not to appoint a formal Overview and Scrutiny Committee. It is suggested that this would fall under the section "C" part above and is a discussion for a later date. Whilst the Council does operate an Overview and Scrutiny Committee, that Committee should comply with statutory guidance and this aspect will be considered at the May AGM when the Committees are reviewed. For avoidance of doubt this report is in no way suggesting the organisation should not have an Overview and Scrutiny, rather it is informing members that this is an optional committee.
- 2.3 Members should be assured that the external health check review does find the Constitution to be a "largely legally compliant" document, however it can be updated and improved in some areas and that is what this report (and subsequent reports) aims to do.

3. The Amendments

- 3.1 The required amendments that approval is sought for today are detailed at Appendix 1. These amendments are required by law and it is recommended they are accepted for recommendation to Full Council at its meeting in March for approval and adoption. These amendments are those referred to in section A at paragraph 2 of this report.

4 Next steps

- 4.1 It is recommended that the changes outlined at Appendix 1 are accepted and recommended to full Council for approval.
- 4.2 Prior to the May AGM the recommended health check amendments relating to the Constitution Articles and Committees will be brought before this Governance and Audit Committee in the usual way to seek approvals prior to the May AGM
- 4.3 Following the May AGM, the options detailed in C, above in Section 2, will be presented to the Governance and Audit Committee for discussion.

HEALTH CHECK COMMENT	DETAIL	PAGES/ SECTIONS REQUIRING AMENDMENT
<ul style="list-style-type: none"> The public's right to film and record meetings (under the Openness of LG Bodies Regulation 2014) is not adequately captured: 	<p><i>where a member of the public is entitled to attend a meeting of the Council, or of any of its Committees or Sub-Committees, Cabinet or a Committee of Cabinet, that person may also "report on the meeting", by which it means – Filming, photographing or making an audio recording of the meeting; Relaying that video or audio recording to enable others not present at the meeting to see or hear it at the same time as the meeting; and Reporting or providing oral or written commentary on the meeting, so that others not present at the meeting may hear it at the same time as the meeting. However, authorities are given a discretion not to allow a person to make an oral report or commentary if he/she is actually present at the meeting (presumably to avoid disruption of the meeting).</i></p>	<p>This matter will need to be reflected in:-</p> <ul style="list-style-type: none"> Part II, Article 3 Pages 6-7. Red Text to be inserted to Reflect this right - Shown at Appendix 1a. Council Procedure Rules; and -Part V page 13 – Red Text to be inserted new rule making the public rights clearer around attendance and recording/ filming and participation. Appendix 1c Access to Information – Part V Pages 18 -21. Red text at paras 3.2 and 3.3 to be inserted. Show at Appendix 1b
<ul style="list-style-type: none"> Provisions concerning the 'right to report', as introduced by the changes to section 100A of the Local Government Act 1972, should be added. 	<p>As above</p>	<p>This matter will need to be reflected in:-</p> <ul style="list-style-type: none"> Council Procedure Rules, Red Text to be inserted new rule making the public rights clearer around attendance and recording/ filming and participation. Access to Information – Red text at paras 3.2 and 3.3 to be inserted. Show at Appendix 1b

<ul style="list-style-type: none"> • The duty of the Council to record and publish decisions made by an officer, as introduced by the Part 3 of the Openness of Local Government Regulations 2014 to be added. This is not expressed clearly This will require a local definition of materiality of financial position to be formed 	<p>7.—(1) The decision-making officer must produce a written record of any decision which falls within paragraph (2).</p> <p>1 (2) A decision falls within this paragraph if it would otherwise have been taken by the relevant local government body, or a committee, sub-committee of that body or a joint committee in which that body participates, but it has been delegated to an officer of that body either—</p> <p>2 (a) under a specific express authorisation; or</p> <p>3 (b) under a general authorisation to officers to take such decisions and, the effect of the decision is to—</p> <p>4 (i) grant a permission or licence;</p> <p>5 (ii) affect the rights of an individual; or</p> <p>6 (iii) award a contract or incur expenditure which, in either case, materially affects that relevant local government body's financial position.</p> <p>7 (3) The written record must be produced as soon as reasonably practicable after the decision-making officer has made the decision and must contain the following information—</p> <p>8 (a) the date the decision was taken;</p> <p>9 (b) a record of the decision taken along with reasons for the decision;</p> <p>10 (c) details of alternative options, if any,</p>	<p>These matters will need to be reflected in: -</p> <ul style="list-style-type: none"> • Part V – Rules of Procedure - Access to Information Pages 18 - 21. New Procedure Rule 8 to be inserted. Setting out the requirements and where to view such decisions Show at Appendix 1b • Part II - Article 12 – Decision Making – page 29 New Paragraph 12.7 relating to Officer Decision making added to cross reference information. Show in Appendix 1e
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	<p>11 <i>considered and rejected; and</i></p> <p>12 <i>(d)where the decision falls under paragraph (2)(a), the names of any member of the relevant local government body who has declared a conflict of interest in relation to the decision.</i></p> <p><i>(4) The duty imposed by paragraph (1) is satisfied where, in respect of a decision, a written record containing the information referred to in sub-paragraphs (a) and (b) of paragraph (3) is already required to be produced in accordance with any other statutory requirement.</i></p>	
<ul style="list-style-type: none"> The listing of the classes and conditions in respect of exempt information has not been updated as there are now only seven descriptions 	<p>N/A</p>	<p>These matters will need to be reflected in: -</p> <ul style="list-style-type: none"> Part V – Rules of Procedure - Access to Information - Part V Pages 18 -21. <p>Categories 8 – 10 to be removed and references to 10 paragraphs edited to 7. Show at Appendix 1b</p>
<ul style="list-style-type: none"> The Constitution Directive requires the Officer Code of Conduct to be included in the Constitution. 	<p>N/A</p>	<p>This document will need to be reflected in: -</p> <ul style="list-style-type: none"> PART III – Codes and Protocols (although a hyperlink is suggested rather than the full document). <p>Officer Code of Conduct to be listed in the Index and a New page created as shown in Appendix 1d</p>

Article 3

The Public and the Council

Explanatory Note

This Article sets out what citizens can expect from the council and what rights they have. However, with rights come responsibilities and it is also the role of the Constitution to show how the council expects to be treated in return.

3.1 Rights of the Public

The public have the following rights. Their rights to information and to participate are explained in more detail in the Access to Information Procedure Rules in Part V of this Constitution.

3.2 Voting and petitions

Electors on the electoral roll for the district have the right to vote for their local Councillor(s) and sign a petition to request a referendum for an elected mayor form of Constitution. For a petition to be valid to require a referendum, the number of signatories to it must equate to no less than five percent of the local government electorate of the district. Electors will have a right to vote for an elected mayor in the event of a referendum being held.

3.3 Information

The public have the right to:

- (a) attend meetings of the Council and its committees, except where confidential or exempt information is likely to be disclosed, and the meeting is therefore held in private;
- (b) see committee reports and background papers, except where confidential or exempt information is likely to be disclosed, and any records of decisions made by the Council and its committees;
- (c) inspect the Council's accounts and make their views known to the external auditor; and
- (d) information pursuant to a request made in accordance with the provisions of the Freedom of Information Act 2000 and other relevant legislation.

3.4 Participation

The public can participate in the following ways:

- (a) The agenda for every ordinary meeting of the Council includes an item for questions/statements from the public. The question/statement must relate to matters which are within the powers and functions of the Council or which affect the district. Questions/statements will be dealt with on a first come first served basis and should be submitted in writing at least three clear working days before the meeting.
- (b) The Council has adopted a petition scheme under which petitions with 300 or more signatures will be debated at a council meeting.
- (c) The Council also has arrangements in place for the public to participate in meetings of Committees which consider Policy and Regulatory functions.
- (d) The West Lindsey Citizens Panel of about 1,200 residents provides ideas, opinions and feedback to the council on its services.

3.5 *Right to Film, Record and Report at Meetings*

Where a member of the public is entitled to attend a meeting of the Council, or of any of its Committees or Sub-Committees, a person may also "report on the meeting", which includes: -

- *Filming, photographing or making an audio recording of the meeting; and*
- *Relaying that video or audio recording to enable others not present at the meeting to see or hear it at the same time as the meeting.*

Local authorities are given a discretion not to allow a person to make an oral report or commentary of proceedings (at the same time as the meeting is in progress) if he/she is actually present at the meeting and WLDC have exercised this discretion to avoid disruption of the meeting.

Full details of these various forms of public participation (and others that may be agreed by the Council) are available from the Council and on its website.

3.6 Complaints

The Public have the right to complain to:

- (a) the Council itself under its complaints scheme;
- (b) the Local Government Ombudsman, but should normally only do this after using the Council's own complaints scheme;
- (c) the Monitoring Officer about a breach of the Members' Code of Conduct.

3.7 The Responsibilities of the Public

A healthy democracy depends upon active citizenship. The public are encouraged to make conscientious use of their roles as both voters and members of a wider community.

Members of the public must not be violent, abusive or threatening to Councillors or officers and must not harm property owned by the Council, Councillors or officers.

Access to Information Procedure Rules

1. Scope
 - 1.1 These Rules apply to all meetings of the Council, the Overview and Scrutiny Committee, policy and other committees and the Standards Sub-Committee (together called meetings). **They also set out the duty of the Council to record and publish certain decisions made by Officers.**
2. Additional Rights to Information
 - 2.1 These Rules do not affect any more specific rights to information contained elsewhere in this Constitution or in the law.
3. Rights to Attend Meetings, **Speak at Meetings, and Film and Record Meetings**
 - 3.1 Members of the public may attend all meetings subject only to the exceptions in these Rules.
 - 3.2 **Members of the public, may participate in meetings of the Council and Committees. Full details of these various forms of public participation (and others that may be agreed by the Council) are available from the Council and on its website.**
 - 3.3 **Members of the Public attending meetings may also film, photograph or make an *audio recording of the meeting; and relaying that video or audio recording to enable others not present at the meeting to see or hear it at the same time as the meeting.***

Local authorities are given a discretion not to allow a person to make an oral report or commentary of proceedings (at the same time as the meeting is in progress) if he/she is actually present at the meeting and WLDC have exercised this discretion to avoid disruption of the meeting.
4. Notices of Meeting
 - 4.1 The Council will give at least five clear working days' notice of any meeting by posting details of the meeting. Working days means days when the offices are open so weekends and public holidays do not count.
5. Access to Agenda and Reports before the Meeting
 - 5.1 The council will make copies of the agenda and reports open to the

public available for inspection at least five clear working days before the meeting. Clear days means not counting the day the agenda was made available nor the day of the meeting. If an item is added to the agenda later, the revised agenda (where reports are prepared after the summons has been sent out, the designated officer shall make each such report available to the public as soon as the report is completed and sent to Councillors) will be open to inspection from the time the item was added to the agenda.

6. Supply of Copies

6.1 The Council will supply copies of -

- a) any agenda and reports which are open to public inspection;
- b) any further statements or particulars necessary to indicate the nature of the items in the agenda; and
- c) if the Head of Paid Service thinks fit, copies of any other documents supplied to Councillors in connection with an item to any person on payment of a charge for postage and other costs.

7. Access to Minutes etc. after the Meeting

7.1 The council will make available copies of the following for six years after a meeting -

- a) the minutes of the meeting excluding any part of the minutes of proceedings when the meeting was not open to the public or which disclose exempt or confidential information;
- b) a summary of any proceedings not open to the public where the minutes open to inspection would not provide a reasonably fair and coherent record;
- c) the agenda for the meeting; and
- d) reports relating to items where the meeting was open to the public.

8. Background Papers

List of Background Papers

8.1 The Proper Officer will set out in every report a list of those documents (called background papers) relating to the subject matter of the report which in his/her opinion -

- a) disclose any facts or matters on which the report or an important part of the report is based; and
- b) which have been relied upon to a material extent in preparing the

report but does not include published works or those which disclose exempt or confidential information (as defined by Rule 10).

Public Inspection of Background Papers

8.2 The Council will make available for public inspection for four years after the date of the meeting one copy of each of the documents on the list of background papers.

9. Summary of Public's Rights

9.1 A written summary of the public's rights to attend meetings and to inspect and copy documents must be kept available to the public at The Guildhall, Gainsborough.

10. Exclusion of Access by the Public to Meetings Confidential Information – Requirement to Exclude Public

10.1 The public must be excluded from meetings whenever it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that confidential information would be disclosed.

Exempt Information – Discretion to Exclude Public

10.2 The public may be excluded from meetings whenever it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that exempt information would be disclosed.

Where the meeting will determine any person's civil rights or obligations, or adversely affect their possessions, Article 6 of the Human Rights Act 1998 establishes a presumption that the meeting will be held in public unless a private hearing is necessary for one of the reasons specified in Article 6.

Meaning of Confidential Information

10.3 Confidential information means information given to the council by a Government Department on terms which forbid its public disclosure or information which cannot be publicly disclosed by Court Order.

Meaning of Exempt Information

10.4 Exempt information means information falling within the following 7 categories (subject to any condition):

Category	Condition
----------	-----------

1. Information relating to any individual.	Exempt information if and so long, as in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.
2. Information which is likely to reveal the identity of an individual	Exempt information if and so long, as in all the circumstances, of the case the public interest in maintaining the exemption outweighs the public interest in disclosing the information.
3. Information relating to the financial or business affairs of any particular person (including the authority holding that information)	Exempt information if and so long, as in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.
4. Information relating to any consultations or negotiations, or contemplated consultations or negotiations, in connection with any labour relations matter arising between the authority or a Minister of the Crown and employees of, or office holders under, the authority.	Exempt information if and so long, as in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.
5. Information in respect of which a claim to legal professional privilege could be maintained in legal proceedings	Exempt information if and so long, as in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.
6. Information which reveals that the authority proposes - a) to give under any enactment a notice under or by virtue of which requirements are imposed on a person; or b) to make an order or direction under any enactment	Exempt information if and so long, as in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.
7. Information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime.	Exempt information if and so long, as in all circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

Exempt Information Relating to Standards Committee Only

8. Information which is subject to any obligation of confidentiality	Exempt information if and so long, as in all circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information
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<p>9. Information which relates in any way to matters concerning national security</p>	<p>Exempt information if and so long, as in all circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.</p>
<p>10 The deliberations of a Standards Committee or of a sub-committee of a Standards Committee established under the provisions of Part 3 of the Local Government Act 2000 in reaching any finding on a matter referred under the provisions of section 60 (2) or (3) 64 (2) 70 (4) or (5) or 71 (2) of that Act.</p>	<p>Exempt information if and so long, as in all circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.</p>

10.5 Information falling within any of the paragraphs 1 to 7 10 is not exempt by virtue of that paragraph if it relates to proposed development for which the local planning authority can grant itself planning permission under Regulation 3 of the Town and Country Planning General Regulations 1992.

11. Exclusion of Access by the Public to Reports

11.1 If the Monitoring Officer thinks fit, the Council may exclude access by the public to reports which in his or her opinion relate to items during which, in accordance with Rule 10, the meeting is likely not to be open to the public. Such reports will be marked “not for publication” together with the category of information likely to be disclosed.

To be inserted as new Rule 8.

8 Requirement to record and publish decisions made by an Officer

8.1 Certain decisions are delegated to Officers (these are set in the Part IV Responsibility for Functions (pages 24-64) , however when a decision would have otherwise been taken by a Committee, Sub Committee, Joint Committee, but it has been delegated to an officer of that body either—

- (a) under a specific express authorisation; or
- (b) under a general authorisation to officers to take such decisions

and, the effect of the decision is to—

- (i) grant a permission or licence;
- (ii) affect the rights of an individual; or

(iii) award a contract or incur expenditure which, in either case, materially affects that relevant local government body's financial position. Materiality has been set by the District Council's External Auditor at £585k

A written record of that decision must be produced as soon as reasonably practicable after the decision-making officer has made the decision.

8.2 The Decision must contain the following information—

- (a) the date the decision was taken;
- (b) a record of the decision taken along with reasons for the decision;
- (c) details of alternative options, if any, considered and rejected; and
- (d) the names of any member of the relevant local government body who has declared a conflict of interest in relation to the decision.

All such decisions notices can be viewed at <https://www.west-lindsey.gov.uk/council-democracy/decision-making-council-meetings/officer-decisions>

Council Procedure Rules – Page 13

New Rule

17 Public's Right to attend Meetings, Speak at Meetings and Film and Record Meetings.

- 17.1 Members of the public may attend all meetings so long as the information been discussed does not fall with a category defined in the Access to Information Procedure Rules in Part IV of this Constitution
- 17.2 Members of the public, may participate in meetings of the Council and Committees, in accordance with the agreed schemes. Full details of these various forms of public participation (and others that may be agreed by the Council) are available from the Council and on its website.
- 17.3 Members of the Public attending meetings may also film, photograph or make an audio recording of the meeting; and relaying that video or audio recording to enable others not present at the meeting to see or hear it at the same time as the meeting.
- 17.4 Local authorities are given a discretion not to allow a person to make an oral report or commentary of proceedings (at the same time as the meeting is in progress) if he/she is actually present at the meeting and WLDC have exercised this discretion to avoid disruption of the meeting.

Note: - remainder to be renumbered from here

17 Exclusion of Public

- * 17.1 Members of the public and press may only be excluded either in accordance with the Access to Information Procedure Rules in Part IV of this Constitution or Rule 19 (Disturbance by Public).

18 Members' Conduct Speaking at meetings

- *18.1 When a Member speaks at Council, he/she must address the meeting through the Chairman. If more than one Member wishes to speak, the Chairman will ask one to speak and the others must refrain. Other Members must remain silent whilst a Member is speaking unless they wish to make a point of order or a point of personal explanation.

Chairman standing

- * 18.2 When the Chairman stands during a debate, any Member

speaking at the time must stop. The meeting must be silent.

Member not to be heard further

- * 18.3 If a Member persistently disregards the ruling of the Chairman by behaving improperly or offensively or deliberately obstructs business, the Chairman may move that the Member be not heard further. If seconded, the motion will be voted on without discussion.

Member to leave the meeting

- * 18.4 If the Member continues to behave improperly after such a motion is carried, the Chairman may move that either the member leaves the meeting or that the meeting is adjourned for a specific period. If seconded, the motion will be voted on without discussion.
- * 18.4.1 Any Member required to leave the meeting room under Procedure Rule 18.4 should on leaving ensure they are not visible to the remaining committee members, or attempt to contact those taking part in the meeting via electronic means. This also applies to those Members who leave due to pecuniary/prejudicial interest.

General Disturbance

- * 18.5 If there is a general disturbance making orderly business impossible, the Chairman may adjourn the meeting for as long as he/she thinks necessary.

19 Disturbance by Public

Removal of member of the public

- * 19.1 If a member of the public interrupts proceedings, the Chairman will warn the person concerned. If he/she continues to interrupt, the Chairman will order his/her removal from the meeting room.

Appendix 1 (d)

Codes and Protocols.

New Page: -Officer Code of Conduct

Officers of the Council are bound by a Code of Conduct. The Officer Code of Conduct can be viewed at xxxxxx

Complaints regarding an Officer's behaviour should be made to the relevant service Director in the first instance or to the Chief Executive if the complaint relates to the behaviour of a Director.

Article 12

Decision Making

Explanatory Note

Some decisions are for the Council to make or to delegate to committees, sub-committees and/or officers, or to joint committees, joint arrangements or other authorities. Those delegations must be recorded in the Council's Constitution, which must be kept up to date.

12.1 Responsibility for decision making

The Council will issue and keep up to date a record of what part of the Council or individual has responsibility for particular types of decisions or decisions relating to particular areas or functions. This record is set out in Part IV of this Constitution.

12.2 Principles of decision making

All decisions of the Council, its committees and those with delegated powers will be made in accordance with the following principles:

- (a) proportionality - the action proposed must be proportionate to the desired outcome;
- (b) due consultation and the taking of professional advice from officers;
- (c) respect for Human Rights;
- (d) in accordance with the law;
- (e) a presumption in favour of openness;
- (f) contribute to the well-being of the area; and
- (g) clarity of aims and desired outcomes.

12.3 Decision making by Council

Subject to Article 12.6, the Council meeting will follow the Council Procedure Rules set out in Part V of this Constitution when considering any matter.

12.4 Decision making by the Overview and Scrutiny Committee

The Overview and Scrutiny Committee will follow the Overview and Scrutiny Procedure Rules set out in Part V of this Constitution when considering any matter.

12.5 Decision making by other committees and sub-committees established by the Council

Subject to Article 12.6, other council committees and sub-committees will follow those parts of the Council Procedure Rules set out in Part V of this Constitution as apply to them.

12.6 Decision making by council bodies acting as tribunals

The Council, a Councillor or an officer acting as a tribunal or in a quasi-judicial manner or determining/considering (other than for the purposes of giving advice) the civil rights and obligations or the criminal responsibility of any person will follow a proper procedure which accords with the requirements of natural justice and the right to a fair trial contained in Article 6 of the European Convention on Human Rights.

12.7 Decision Delegated to Officers.

Where a decision is delegated to Officers. and it meets certain criteria, there is a duty to record and publish such decisions in accordance with the information contained within the Access to Information Rules Set out in Part V of this constitution.