Public Document

GREATER MANCHESTER AUDIT COMMITTEE

DATE: Friday, 22nd January, 2021

TIME: 10.45 am

VENUE: This meeting will be held virtually via Microsoft Teams and will be live streamed for public viewing. The link to watch the meeting is available on the meeting page of the GNCA website

AGENDA

1. **WELCOME AND INTRODUCTIONS**

2. **DECLARATIONS OF INTEREST** 1 - 4

To receive declarations of interest in any item for discussion at the meeting. A blank form for declaring interests has been circulated with the agenda.

3. **MINUTES** 5 - 8

To approve as a correct record the Minutes of the meeting held on 20 November 2020

4. **GMP / PCC JOINT AUDIT PANELS - 21 OCTOBER 2020 AND 11 JANUARY 20201** 9 - 14

To note the Minutes of the GMP / PCC Joint Audit Panel held on
21 October 2020
11 January 2021 (To follow)

5. **2019/2020 STATEMENT OF ACCOUNTS (TO FOLLOW)**

Draft Statement of Accounts
Draft Letter of Representation

Reports of Steve Wilson, Treasurer, GMCA

BOLTON	**MANCHESTER**	**ROCHDALE**	**STOCKPORT**	**TRAFFORD**
BURY	**OLDHAM**	**SALFORD**	**TAMESIDE**	**WIGAN**

Please note that this meeting will be livestreamed via www.greatermanchester-ca.gov.uk, please speak to a Governance Officer before the meeting should you not wish to consent to being included in this recording.

For copies of papers and further information on this meeting please refer to the website www.greatermanchester-ca.gov.uk. Alternatively, contact the following Governance & Scrutiny Officer: Governance & Scrutiny
✉ steve.annette@greatermanchester-ca.gov.uk

This agenda was issued on 14 January 2021 on behalf of Julie Connor, Secretary to the Greater Manchester Combined Authority, Broadhurst House, 56 Oxford Street, Manchester M1 6EU

AUDIT COMMITTEE – 22 JANUARY 2021

Declaration of Councillors' Interests in Items Appearing on the Agenda

NAME: ________________________________

DATE: _________________________________

Minute Item No. / Agenda Item No.	Nature of Interest	Type of Interest
		Personal / Prejudicial / Disclosable Pecuniary
		Personal / Prejudicial / Disclosable Pecuniary
		Personal / Prejudicial / Disclosable Pecuniary
		Personal / Prejudicial / Disclosable Pecuniary
		Personal / Prejudicial / Disclosable Pecuniary
		Personal / Prejudicial / Disclosable Pecuniary

Please see overleaf for a quick guide to declaring interests at GMCA meetings.

QUICK GUIDE TO DECLARING INTERESTS AT GMCA MEETINGS

This is a summary of the rules around declaring interests at meetings. It does not replace the Member's Code of Conduct, the full description can be found in the GMCA's constitution Part 7A.

Your personal interests must be registered on the GMCA's Annual Register within 28 days of your appointment onto a GMCA committee and any changes to these interests must notified within 28 days. Personal interests that should be on the register include:

- Bodies to which you have been appointed by the GMCA
- Your membership of bodies exercising functions of a public nature, including charities, societies, political parties or trade unions.

You are also legally bound to disclose the following information called DISCLOSABLE PERSONAL INTERESTS which includes:

- You, and your partner's business interests (eg employment, trade, profession, contracts, or any company with which you are associated)
- You and your partner's wider financial interests (eg trust funds, investments, and assets including land and property).
- Any sponsorship you receive.

FAILURE TO DISCLOSE THIS INFORMATION IS A CRIMINAL OFFENCE

STEP ONE: ESTABLISH WHETHER YOU HAVE AN INTEREST IN THE BUSINESS OF THE AGENDA

If the answer to that question is 'No' – then that is the end of the matter. If the answer is 'Yes' or Very Likely' then you must go on to consider if that personal interest can be construed as being a prejudicial interest.

STEP TWO: DETERMINING IF YOUR INTEREST PREJUDICIAL?

A personal interest becomes a prejudicial interest:

- where the well being, or financial position of you, your partner, members of your family, or people with whom you have a close association (people who are more than just an acquaintance) are likely to be affected by the business of the meeting more than it would affect most people in the area.
- the interest is one which a member of the public with knowledge of the relevant facts would reasonably regard as so significant that it is likely to prejudice your judgement of the public interest.

FOR A NON PREJUDICIAL INTEREST	**FOR PREJUDICIAL INTERESTS**
YOU MUST • Notify the governance officer for the meeting as soon as you realise you	**YOU MUST** • Notify the governance officer for the meeting as soon as you realise you

have an interest • Inform the meeting that you have a personal interest and the nature of the interest • Fill in the declarations of interest form **TO NOTE:** • You may remain in the room and speak and vote on the matter • If your interest relates to a body to which the GMCA has appointed you to you only have to inform the meeting of that interest if you speak on the matter.	have a prejudicial interest (before or during the meeting) • Inform the meeting that you have a prejudicial interest and the nature of the interest • Fill in the declarations of interest form • Leave the meeting while that item of business is discussed • Make sure the interest is recorded on your annual register of interests form if it relates to you or your partner's business or financial affairs. If it is not on the Register update it within 28 days of the interest becoming apparent. **YOU MUST NOT**: • participate in any discussion of the business at the meeting, or if you become aware of your disclosable pecuniary interest during the meeting participate further in any discussion of the business, • participate in any vote or further vote taken on the matter at the meeting

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MINUTES OF THE GREATER MANCHESTER COMBINED AUTHORITY AUDIT COMMITTEE, HELD ON FRIDAY 20 NOVEMBER 2020 VIA MICROSOFT TEAMS

PRESENT:

Gwyn Griffiths	Independent Member (Chair)
Councillor Sarah Russell	Manchester City Council
Councillor Colin McLaren	Oldham Council
Councillor Chris Boyes	Trafford Council
Councillor Tom McGee	Stockport Council
Catherine Scivier	Independent Member
Grenville Page	Independent Member

ALSO PRESENT:

Daniel Watson	Mazars External Auditor
Mark Dalton	Mazars External Auditor

OFFICERS:

Steve Wilson	GMCA Treasurer
Sarah Horseman	Head of Audit and Assurance
Rachel Rosewell	GMCA Deputy Treasurer
Damian Jarvis	GMCA Internal Audit
Helen Fountain	Principal Finance Manager, GMCA
Lindsey Keech	Head of Finance, GMCA
Karen Macrae	Finance Lead, GMCA
Jenny Hollamby	GMCA Governance and Scrutiny
Steve Annette	GMCA Governance and Scrutiny

AC/37/20 WELCOME AND INTRODUCTIONS

Steve Annette, Senior Governance and Scrutiny Officer opened the meeting and welcomed everyone to the Audit Committee. The Chair then explained how the virtual meeting would be conducted and the procedure and protocols to be adopted throughout the duration of the meeting.

Apologies for absence were received on behalf of Councillor Mary Whitby (Bury Council) and Susan Webster (Independent Member)

AC/38/20 DECLARATIONS OF INTEREST

There were no items of personal or prejudicial interests declared in relation to any item on the agenda.

AC/39/20 MINUTES OF THE GMCA AUDIT COMMITTEE MEETING HELD ON 8 SEPTEMBER 2020

Consideration was given to the minutes of the GMCA Audit Committee held on
8 September 2020.

RESOLVED/-

1. That the minutes of the meeting of the GMCA Audit Committee held on 8 September 2020, be approved as a correct record.

AC/40/20 MINUTES OF THE GMCA/GMP JOINT AUDIT PANEL HELD ON 10 SEPTEMBER 2020

RESOLVED/-

1. That the minutes of the Joint Audit Panel held on 10 September be noted.

AC/41/20 ANNUAL GOVERNANCE STATEMENT 2019-2020

Steve Wilson, GMCA Treasurer introduced the final version of the GMCA 2019/2020 Annual Governance Statement (AGS). The draft AGS had been previously considered and endorsed, pending minor amendments suggested by the Audit Committee at its meeting on 8 September 2020, these amendments had now been consolidated in the Statement.

RESOLVED/-

1. That the GMCA 2019/20 Annual Governance Statement, which is to be signed by the Mayor and the Chief Executive of the GMCA and published with the GMCA's Statement of Accounts for 2019/20, be approved.

AC/42/20 CORPORATE RISK REGISTER

Damian Jarvis, GMCA Internal Audit introduced a report which provided an update on the regular review over the GMCA governance, risk management and internal control arrangements. The report comprised the evolving Covid specific risk register and the normal review of high level strategic and operational risks, 28 of which were of such significance that they required close monitoring by SLT and Chief Executive's Management Team.

Members were concerned that some elements of fire risk responsiveness, specifically in terms of operational delivery in response to acts of terrorism, presented risk levels that were unacceptable, and officers indicated that there were on-going and longstanding issues here that required resolution with FBU and staff representatives. Concerns were also raised about the absence of a coordinated response to the findings and change agenda actions arising from Grenfell, and certain timescales and targets for individual risk areas also gave cause for concern. It was agreed that the GMFS be requested to attend the next meeting to respond to these concerns.
Discussion also ensued about the Fire Service's responses to the Covid emergency and the extent to which contingency arrangements were in place in the event an entire Watch was to be compromised by the virus.

An update was also requested on progress made in implementing Programme for Change, accepting that the original delivery programme had been adversely impacted by the Covid emergency, as this had direct implications on budget setting for 2021/22.

Issues were also raised concerning risks in relation to (a) GMP iOPS, in terms of cooperative services with GMFS (b) food availability risks post Brexit (c) medicines availability issues post Brexit, and (d) public disorder issues arising post Brexit, each of which had relevance for the risk registers for GMP and GMFS.

RESOLVED/-

1. That the report be noted.

2. That the Chief Fire Officer be requested to ensure that a senior officer and a senior political representative attend the next meeting to respond and provide assurances in relation to the issues raised involving operational responsiveness to terrorist acts, and the change agenda from Grenfell.

AC/43/20 AUDIT OF 2019/20 STATEMENT OF ACCOUNTS – PROGRESS UPDATE

Steve Wilson, GMCA provided an update on the timing of the 2019/20 Statement of Accounts audit and a summary with of work done to date. The Committee noted that it would not be possible to finalise the accounts by the statutory deadline of 30 November, and that a further meeting of the Committee would be needed to consider the audit report.

RESOLVED/-

That the position on progress with the audit be noted, and that a further meeting of the Committee be convened, under the direction of the Chair, during December for the purpose of reviewing and approving the final audited version of the Statement of Accounts.

AC/44/20 INQUORATE

At this point the meeting became inquorate and consideration of the remaining items of business were deferred.

JOINT AUDIT PANEL

Date: 21st October 2020

Time: 10:45 – 12:45

Venue: Online Meeting

Attendees	Peter Morris (Chair) Hilary Pogson (Panel) Ian Cayton (Panel) John Starkey (Panel) Chief Constable Ian Hopkins (GMP) Assistant Chief Officer Lynne Potts (GMP) Janet Moores (GMP - Head of Finance) Sara Ashworth (GMP - Planning and Policy Development Manager) Colin Carey (GMP – Head of Information Services Branch) Stephanie Beirne (GMP - Head of Information Management) Candice Simms (GMP - Minutes) Steve Wilson (GMCA – Treasurer) Sarah Horseman (GMCA - Head of Audit and Assurance) Cath Folan (GMCA - Audit Manager (Police and Crime) Mark Dalton (Mazars - Partner (Public Services) Amelia Payton (Mazars – Engagement Manager)
Apologies	Foluke Fajumi (Panel)

M105/JAP Welcome & Apologies for Absence

Apologies were noted from Foluke Fajumi.

M106/JAP Urgent Business (if any) at the discretion of the Chair

None raised.

M107/JAP Declarations of Interest

None raised.

M108/JAP Approval of September 2020 minutes and actions

The Panel approved the previous minutes as a true and accurate record.

Mazars to update on action A029/JAP during agenda item M110/JAP.

M109/JAP Feedback from CIPFA training and matters arising

On 1st October 2020, three Panel members attended the Chartered Institute of Public Finance and Accountancy (CIPFA) webinar for audit committee members in the police sector. Following the webinar, the Chair drafted a summary for Joint Audit Panel members which comprised of topics such as;

- The Police Uplift Programme.
- Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) State of Policing 2019 Report.
- HMICFRS' The Hard Yards Thematic Inspection Report.
- Review of the role of Police and Crime Commissioners (PCC).
- Update on local audit – target 30/11.
- Financial Sustainability in Policing.
- Spending Review.
- Financial Resilience.
- Implications of Redmond Review for Policing.

The Panel sought an update on how GMP is progressing with recruitment under the Police Uplift Programme. Members were advised the Police Uplift Programme is being led by a superintendent in GMP with its own project board structure around it. GMPs Police Uplift Programme has a strong positive action focus on improving the Force's attraction into diverse communities. The project is running well and the Force is on track to meet all targets. The number of officers leaving GMP has slowed slightly, which is a possible consequence of COVID-19 where there may be fewer jobs for people to go to. GMP is currently in discussions with the Government to inaugurate fair counting rules around the Police Uplift Programme.

The Chair recommended the HMICFRS State of Policing 2019 Report should feature as a Joint Audit Panel training item in 2021.

GMP noted it might be beneficial for Internal Audit to incorporate a Grants' Audit into the workplan for next year to give members reassurance re the use of such grants.

Members agreed it would be valuable for Internal Audit to engage with other audit panels on collaborations to determine how value for money is measured in these areas.

Mazars advised there is a useful National Audit Office (NAO) publication which provides guidance on audit and risk committee questions that should be asked around financial reporting and management during COVID-19. The NAO has recently consulted on auditor guidance in relation to the revised Code of Audit Practice 2020/21; the auditor guidance is to be published within the next few weeks. It was recommended that updates on both items should feature on the agenda next year.

ACTION: Internal Audit to work with the Chair and GMP to incorporate a Grants Audit into the workplan if appropriate.

ACTION: Chair to share the CIPFA webinar slides with other Panel members who were not available to attend.

ACTION: Panel members who attended the CIPFA webinar to collate notes and share with other Panel members.

ACTION: Mazars to share the NAO publication: Guide for audit and risk committees on financial reporting and management during COVID-19.

M110/JAP Summary Financial Statements Update

Mazars noted there was no record of any blue light summary financial statements, but had been able to identify summary financial statements from a local council which have been shared with GMP. GMP found the statements useful; however, summary financial statements could add complexity for external audit, and the timing of publication (six months after the financial year) may not add value for the reader.

Members were informed there is a national drive to simplify the local government code on the production of financial statements.

The Chair advised there was support at the CIPFA training seminar for the development of a simplified summary of accounts that would provide an insight into GMPs financial position and how the money is spent. The Panel recognised that whether or not a summary fell within a requirement for external audit to review was an issue that needed to be clarified.

ACTION: Mazars to research whether summary financial statements would have any implications on the external audit process.

M111/JAP External Audit Completion Follow Up Letter

The External Audit Completion Follow Up Letter has not yet been finalised due to the following outstanding items:

- The pension fund auditor assurance letter. An issue has arisen whilst completing this work, regarding the material valuation uncertainty in relation to the property holdings of the pension fund. Mazars continues to liaise with GMPs Finance Branch with regards to whether a related disclosure should be incorporated into the police accounts, given that GMP is an admitted body to the pension fund.
- The controls report bridging letter from XPS; expected to be received within the next few days.
- Mazars have identified some potential issues on the GMCA audit within the PPE balances which could in turn impact on the police depreciation and amortisation, and therefore potentially the charge to the Force for asset consumption. This is not a material issue; however, Mazars are hoping to be in a position to know whether there is an impact for GMP before signing off the accounts.
- Discussions continue with Mazars, GMP and the GMCA on the five year asset life of the Integrated Operational Policing System (iOPS), whilst being mindful of the potential extension of the iOPS contract.

Mazars assured members the outstanding issues will be resolved by the beginning of November 2020. The External Audit Completion Follow Up Letter will be made available to members outside of this meeting.

M112/JAP Internal Audit Plan Progress Report

Internal Audit gave an overview of the report which informs members of the progress to date of the delivery of the Internal Audit Plan. Since the last update, Internal Audit have held a planning meeting with ACO Potts (Resources). Two changes to the plan were requested and potential scopes for other areas included in the plan were discussed. It is intended that a further planning meeting will be held with the Deputy Chief Constable to discuss the operational side of the plan.

Internal Audit are currently in the process of recruitment to fill a vacant position following the departure of a member of their audit team. This will have some impact on delivery of the plan; however, Internal Audit will work with GMP to minimise that impact and provide an appropriate programme of assurance.

As noted in the report, four reports have been issued since the last meeting of the Joint Audit Panel held on the 31st July 2020.

Internal Audit acknowledged fraud as a heightened risk during this period of time, where more people are working from home. Risks of this nature have been discussed with the Force, and Internal Audit will be conducting audits in the near future which look at governance and risk through the gold command structure, and GMPs procurement exemption process.

M113/JAP Joint Audit Panel Workplan

Internal Audit presented the proposed workplan for the Joint Audit Panel for 2021/22. A caveat was highlighted, whereby the workplan can be amended and added to during the year, as agreed by the Joint Audit Panel.

Members approved the draft workplan.

M114/JAP Joint Audit Panel Development Plan

Members were provided with an overview of the report, which summarises the results of the Self-Assessment of Audit Panel Effectiveness undertaken in January 2020, and proposes a Development Plan for 2021/22.

Members approved the Development Plan as a moving plan, which can be subject to change should any members require further training on areas in line with the terms of reference of the Joint Audit Panel.

There was a mutual agreement and understanding that virtual training and meetings will continue for the foreseeable future to ensure people are kept safe during the pandemic.

ACTION: Internal Audit to update the Development Plan with Mazars' training on the NAO publication: Guide for audit and risk committees on financial reporting and management during COVID-19.

M115/JAP Risk Management

GMP provided an overview of progress to date regarding the review of strategic risk management arrangements in the Force. To date, 17 risk registers have been submitted, with only 10 now outstanding. The risk registers that have been received have now been considered at GMPs Operations Committee. GMPs External relations and Performance Branch has started to work through the risk registers to identify any common themes. There have been no real surprises with the themes that have arisen; some common themes recognised are COVID-19, capacity, demand and the EU Exit.

GMP assured members that all branches are fully supported in producing their risk registers, and there is shared learning through risk workshops when defining risks. The Force also relies on Horizon Scanning to mitigate risk, which allows GMP to look forward to the future and identify key issues, themes and topics; and learn how other organisations manage their risks. All districts and branches are in receipt of the Horizon Scanning Bulletins to ensure knowledge is shared throughout the Force. GMP also conducts benchmarking exercises to research risk processes in similar sized police forces.

M116/JAP HMICFRS Inspection Activity and Recommendations

An overview of the report was presented to members, which provides an update on the progress to date regarding audit and inspection activity (external audit and inspection agencies) within GMP; including national and local inspections, and inspections that are currently underway and planned for 2021.

GMP advised how the relevance of a HMICFRS recommendation can change overtime due to changes within the Force, this will account for why some of the older recommendations have not yet been closed. GMP has been sourcing retrospective and current evidence this year to close any longstanding recommendations, whilst working closely with Force leads and HMICFRS to ensure the recommendation is complied with.

Members were advised how GMPs demand has been increasingly challenging this year, and demand is now at a higher level than it was at the start of 2020. On top of policing everyday crime and commencement of the Manchester Arena Inquiry, Greater Manchester's higher risk COVID-19 areas have led to increased policing activity across all 10 districts. When inspection activity recommenced several months ago, GMP was the first Force to have a virtual inspection, this incurred additional pressures for the workforce.

The Force noted how HMICFRS recommendations are un-costed, and the ongoing requirement for savings make the recommendations difficult to close in a timely manner. This challenge is met by ensuring recommendations are prioritised and the higher risk recommendations are looked at as higher priority. The Panel noted it would be useful to see how the HMICFRS reports are broken down into national and force specific recommendations.

COVID-19 has brought with it many changes for GMP, and the Force has seen significant improvement in many areas whilst adapting to a new way of working. Internal communication across the Force has increased compared to what it was prior to the pandemic. The speed of which GMP has delivered its IT changes to facilitate approximately 3500 people working from home has been exceptional. Throughout the pandemic, the Force has worked well in supporting vulnerable colleagues and has encouraged the public to make use of GMPs online services to make the reporting of crime easier. GMP will be capturing all of the learning and innovation from COVID-19 and building it into a future change programme.

GMP recently attended the Black Police Association Annual Conference, where the Force is recognised as a leading light in diversity and inclusion. The Force acknowledges there is still work to do to improve in this area through listening to the experiences of police staff; improving community engagement, particularly with diverse communities; and improving data quality for use of powers, which can support and challenge any disproportionality. GMP has been conducting research on disproportionality and following approval from the Deputy Mayor this will be published. In comparison with other forces in the UK, GMP has made excellent progress with Black, Asian and Minority Ethnic (BAME) representation. A good example of the progress in GMP is the higher level of BAME colleagues passing the sergeant to inspector process.

ACTION: GMP to provide a breakdown of the HMICFRS recommendations for the Panel.

M117/JAP Internal Audit Action Tracker Report

Internal Audit gave an overview of the report, which comprises of an update on the implementation of previous audit actions.

Internal Audit are encouraged by the Force's response and implementation rate of audit actions, which demonstrates good culture towards implementing audit actions. Members were assured timescales for action completion are realistic and adequate. Extended timescales are always agreed by both parties, and are closely monitored with subsequent updates from the Force.

The new format of the report breaks down the implementation rates by the significance of finding (high, medium and low), which ensures that focus is on the higher risk rated actions. The background to the one outstanding high rated action was explained. The report format now allows members to have clear visibility of the implementation rates each quarter on a rolling 12 months basis and sight of any historic actions that have not yet been implemented.

M118/JAP CARE Disclosure Internal Audit Report

GMP gave a presentation to members which detailed the progress made since the CARE Disclosure Internal Audit Report was published in July 2020. The audit was requested as GMP recognised some concerns. There was a backlog of work and sought an independent view of the process to try and improve the level of service to the court. The audit concluded with five recommendations, four of which have now been implemented. Members were updated on how GMP has addressed the backlog by recruiting additional staff and reallocating resources to maintain position and implementing a new training plan. There is further work to be done to reduce any associated risk. The Force plans to review the protocol/relaunch agreed with the Judge at the Family Court Interface Group (FCIG), whilst also reviewing and prioritising cases with the courts to identify which are still required.

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GMCA GREATER MANCHESTER COMBINED AUTHORITY

Date: 22nd January 2021

Subject: Assessment of Going Concern Statement

Report of: Steve Wilson, GMCA Treasurer

PURPOSE OF REPORT

Further to the report to Audit Committee in November this is an updated report which informs members of an assessment of the Greater Manchester Combined Authority (GMCA) as a going concern with a forward look at the position for the next 12-18 months.

RECOMMENDATIONS:

Audit Committee is requested to:

1. Note the outcome of the assessment made of the GMCA's going concern position and the conclusion that there is no material risk to going concern

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BACKGROUND PAPERS:

- Greater Manchester Combined Authority 14th February 2020 - GMCA Revenue and Capital Budgets 2020/21 Overview (Budget Paper A)
- Greater Manchester Combined Authority – Covid-19 update reports:
    - 29th May 2020 - Financial Update
    - 24th June 2020 - Financial Implications of Covid 19 Across Greater Manchester Authorities
    - 31st July 2020 - GMCA Covid Finances and Reserves
    - 25th Sept 2020 – GMCA Covid Finances Update
- Audit Committee, 8th September 2020 - GMCA Assessment of Going Concern 2019/20
- Audit Committee, 27th November 2020 – GMCA Assessment of Going Concern Statement

TRACKING/PROCESS	[All sections to be completed]	
Does this report relate to a major strategic decision, as set out in the GMCA Constitution		No
EXEMPTION FROM CALL IN		
Are there any aspects in this report which means it should be considered to be exempt from call in by the relevant Scrutiny Committee on the grounds of urgency?	No	
GM Transport Committee	Overview & Scrutiny Committee	

1. INTRODUCTION

1.1 Further to the report to Audit Committee in November this is an updated report which informs members of an assessment of the Greater Manchester Combined Authority (GMCA) as a going concern with a forward look at the position for the next 12-18 months.

1.1 Greater Manchester Combined Authority (GMCA) is required to demonstrate that it is a going concern and remains financially sound. The concept of a 'going concern' assumes that an authority, its functions and services will continue in operational existence for the foreseeable future. This assumption underpins the accounts drawn up under the Local Authority Code of Accounting Practice and is made because local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of central government). If an authority were in financial difficulty, the prospects are that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year.

1.2 As with all principal local authorities, the GMCA is required to compile its Statement of Accounts in accordance with the Code of Practice on Local Authority Accounting for 2019/20 (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). In accordance with the Code the GMCA's Statement of Accounts is prepared assuming that the GMCA will continue to operate in the foreseeable future and that it is able to do so within the current and anticipated resources available. By this, it is meant that the GMCA will realise its assets and settle its obligations in the normal course of business.

2 GOING CONCERN ASSESSMENT

2.1 The main factors which underpin the assessment of GMCA as a going concern are outlined below and include:

- GMCA's financial performance
- GMCA's strategic planning and budget framework
- The regulatory and control environment applicable to the GMCA as a local authority.
- Economic climate including impact of Covid-19

3. GMCA FINANCIAL POSITION

3.1 The revenue outturn for the year ending 31 March 2020 is categorised across defined areas of the Combined Authority. All areas underspent against approved budget in 2019/20, with the exception of Transport which overspent due to a shortfall on Metrolink revenues from the impact of the Covid-19 pandemic in March 2020. It was agreed to transfer the final balance to Earmarked Reserves and General Fund.

3.2 The position is shown in the table below:

Function / Service	Approved Budget 2019/20 £000	Provisional Outturn 2019/20 £000	Outturn Variation 2019/20 £000	Transfer to/(from) Earmarked Reserves £000	Transfer to General Funds £000
Mayoral General	29,111	27,755	(1,356)	1,356	0
Mayoral General - GM Fire & Rescue	113,866	111,202	(2,664)	0	2,664
Economic Development and Regeneration	157,906	156,789	(1,117)	0	1,117
Highways and Transport	247,065	248,159	1,094	(1,094)	0
Waste Disposal	174,634	174,634	-	-	-
Mayoral Police Fund	589,049	579,773	(9,276)	6,951	2,325

3.3 GMCA's capital programme includes Greater Manchester Fire and Rescue Services, Economic Development and Regeneration programmes and the continuation of the programme of activity currently being delivered by Transport for Greater Manchester (TfGM) and Local Authorities. The GMCA approves the Capital Programme at its meeting to approve the budget for the following year in February and updated forecast outturns are provided on a quarterly basis. The actual capital expenditure for 2019/20 was £370.7m compared to forecast for 2019/20 presented to GMCA on 14 February 2020 of £406.3m.

3.4 The Police Fund capital programme is recorded separately in accordance with legislation and was a further £32m of spend in 2019/20 compared to budget of £56.7m. At the time the 2020/21 budget was set, any known slippage was built into the funded programme. Further slippage from that point has resulted in a request to carry forward £7.7m to 2020/21.

Budget 2020/21

3.5 The GMCA revenue and capital budgets were presented to the GMCA board on the 14 February 2020 and are set out below:

Budget	19/20 budget	20/21 budget	Notes
Mayoral General Budget	£29.1 million	£127.1 million	Increase of £86.7m for Transport Statutory Charge. Increase on Precept of £6.1m for continuation of "Our Pass" pilot, A Bed Every Night and other priorities. Increase of £5m due

			to planned use of reserves
GMCA General Budget	£157.9 million	£209.1 million	The increase in budget relates to government grants, in particular Adult Education which transferred to GMCA part way through 2019/20.
GM Fire and Rescue Service (net as per budget report)	£113.9 million	£112.1 million	Overall decrease in budget due to reduced trf to capital funding reserve. Increase in budget for inflation and reduce savings requirements.
GMCA Transport Revenue Budget	£247.1 million	£242.1 million	Additional grant funding in 2019/20
Police and Crime Commissioner	£589.1 million	£628.9 million	Increase of £30.7m in Police Grant and £10.1m from precept and £1m reduction in collection fund surplus
Capital Budget	£402.8 million	£351.9 million	The capital programme over the three-year period (2020-2023) will require a long-term borrowing of £307.7 million.

GMCA Balances and Reserves

3.6 GMCA General Reserves were £45.8m as at 31/03/19 and were at £44.5m as at 31/03/20. Given the current scale of activities falling on the General Budget, the level of General Reserves held is felt to be appropriate. In total the Authority held £500.3m of Usable Reserves as at 31/03/19 which increased to £555.5m as at 31/03/20.

GMCA Cash flow Model

3.7 The constitution states that the GMCA must have in place an approved treasury management strategy, investment strategy and the borrowing limits. This includes a scheme of delegation and responsibilities of member groups and officers in relation to treasury management and the role of the Treasurer in relation to treasury management.

3.8 Currently the GMCA's Treasury Management functions are operated under a service level agreement by Manchester City Council Treasury Management which reports directly to the GMCA Treasurer. The GMCA uses Link Asset Services as its external treasury management advisors. The GMCA recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

3.9 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 GMCA 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.

3.10 The treasury portfolio position for the GMCA is managed at a Group level, including Transport for Greater Manchester (TfGM), which means that the combined cash flows of all the consolidated organisations will be taken into account when investing temporary surplus funds or making arrangements to meet borrowing needs. Each financial year an annual cash flow model is set up that establishes the significant items of income and expense, together with dates of these items. This gives an overview of the potential borrowing or short and long-term investment decisions that may be required. This is then updated on a daily basis and reported to the Treasurer.

4. GMCA STRATEGIC PLANNING AND BUDGET FRAMEWORK

4.1 The GMCA budgets form part of the Authority's overall strategic planning framework. They focus on delivery of the priorities of the Greater Manchester Strategy and its implementation plan in partnership with the Districts, businesses, the voluntary and community sector and other stakeholders.

Budget Process

4.2 GMCA has in place an annual budget setting process that culminates in the approval of the Budget by the GMCA Board at its meeting in March. The reports during the budget process provide an overview of the proposed GMCA budgets for the following year and subsequent years where appropriate. The reports bring together the position on the Mayoral General Budget and Precept Proposals, the GMCA General Budget, GMCA Transport budgets including Transport Levy and Statutory Charge and the GM Waste Services Levy. The reports set out the implications of the proposed budgets and the resultant charges on districts and the Mayoral Precept.

4.3 The GMCA is required to operate a balanced budget which broadly means that income received during the year will meet expenditure. Quarterly budget progress update reports are provided on a quarterly basis to GMCA during the year. The latest 2020/21 position reported to GMCA on 27th November 2020 was an overall underspend of £4.003m relates to the position on GMFRS.

4.4 Work on the GMFRS Programme for Change (which is reviewing the Fire Service ways of working to ensure that they are efficient and sufficiently future proofed) is ongoing with a number of changes made to the Outline Business Case during 2019/20. While these changes resulted in the level of savings that had originally been identified, particularly retaining current crewing levels and maintaining firefighter numbers, this has been offset by an increase in the Mayoral Precept to ensure a balanced and sustainable financial position.

Treasury Management

4.5 In 2018 CIPFA published both an updated Prudential Code and Treasury Management Code, the key change of which came into force for 2019-20 with the introduction of a formally reported capital strategy to provide full council (or equivalent) with a concise, accessible view of the authority's approach to borrowing, investment and treasury management, with a focus on risk management, this underpins the Authority's position in regards to the level of risk it is willing to take in the management of its Funds and is therefore key to GMCA's strategic planning process.

4.6 The GMCA has a Capital Strategy which provides the medium to long term context in which capital investment decisions are made and the governance for those decisions. It also gives a summary of the GMCA approach to investments and the Treasury Management Strategy and the Treasury Management Strategy Statement for 2020/21

4. REGULATORY AND CONTROL

4.1 The Annual Governance Statement sets out the detailed arrangements within GMCA.

Governance Arrangements

4.2 The GMCA's corporate governance structures and scrutiny arrangements ensure that they are sufficient to meet the expanding role of GMCA and the delivery of its core functions and services. GMCA has established a number of boards, panels and committees including three Corporate Overview and Scrutiny Committees which receive regular reports on transport, housing, economy and investment matters. The Authority has the statutory posts of Head of Paid Service, Monitoring Officer and the Treasurer (Chief Financial Officer) who form part of the Senior Management Team in addition to the current political arrangements.

4.3 An overview of this governance framework is provided within the GMCA Annual Governance Statement and Code of Corporate Governance 2019/20. This includes a detailed review of the effectiveness of the council's governance arrangements which concludes that the existing arrangements remain fit for purposes and provides assurance of their effectiveness. The Authority is required to operate within a highly legislated and controlled environment and particular emphasis of this can be exampled and demonstrated with the financial controls in place. Examples of controls include the requirement of Full Authority to approve a balanced annual budget, but within that to consider and have regard via assurance from the Treasurer as to the robustness of the budget, its estimates and the adequacy of reserves held.

4.4 The control environment is supported by the role of External Audit in auditing of the financial statements, the review of value for money and financial resilience and Internal Audit in reviewing controls and processes across the Authority.

5. ECONOMIC CLIMATE

5.1 The Covid-19 Pandemic continues to have a significant economic impact on GM residents, businesses and public services. A detailed review of the impact of the pandemic on Greater Manchester has been led by GMCA with the latest assessment of the estimated financial impact reported to GMCA on a regular basis since May 2020. Within GMCA the response to the pandemic is led by the Strategic Coordinating Group (SCG) chaired by the Chief Executive and Chief Constable and Covid-19 Committee chaired by the Mayor.

5.2 Work has been ongoing since the start of the pandemic with a sub group of Treasurers looking at ways to mitigate financial impact through joint work across GM which includes:

- Maintenance of accurate record of Covid-19 related expenditure incurred and forecast including recovery costs
- Lobbying of central government for funding of all Covid-19 costs
- Ensuring all recovery activities are appropriately costed and financed
- Developing opportunities for financial recovery working across GM and within districts
- Reviewing existing pre-Covid-19 investment priorities to determine whether these are still applicable in the short to medium term world but also identifying new priorities which may have emerged
- Support other recovery activities where appropriate

5.3 Financial update reports to GMCA have provided a detailed analysis of areas affected by the pandemic with an analysis of the most significant direct financial implications for the GMCA, this includes GM Waste Disposal, Retained Business Rates and Transport, particularly TfGM. These reports have provided an analysis of government financial support throughout the pandemic and a review of the local impact on resources to agree measures for managing financial risk across GMCA and GM districts.

5.4 In order to maintain continuity and stability with key providers and contractors GMCA has put in place measures which align to the principles of the Government's emergency policy advice set out in the Procurement Policy Note (PPN) – Supplier Relief due to Covid-19. It applies to goods, services and works contracts being delivered in the UK and was effective until 30th June 2020 and applicable to all contracting authorities. GMCA is reviewing the interim arrangements every quarter with the view to returning to the original contracting arrangements as soon as deemed reasonable.

5.5 There is potential slippage on capital programmes which could lead to risks where time limited grants are a funding source. Whilst GMCA is seeking maximum flexibility from Government, work is ongoing to review the position on this and determine mitigating action where necessary.

5.6 Housing and Business loans funds are being reviewed for risk of default. No new business investment applications are being progressed in the immediate term whilst the impact of Covid-19 is being determined and businesses are being directed to the government interventions. The criteria for housing investments is in the process of being reassessed in order to decrease the risk of losses to the fund. Most housing developments are back on site but delays in planned completion are expected.

5.7 The GMCA general budget will be impacted by a detrimental impact on Business Rates growth for 2020/21 which will potentially remove the 50% element subsequently retained by the CA. In addition there is likely to be a deficit on Local Authority collection funds and a reduction in the overall Council Tax base which will reduce income from GMFRS, Mayoral and PCC precepts in cash terms from 2021/22. Police and Fire and Rescue have incurred additional costs for overtime and personal protective equipment which has largely been met from additional funding.

5.8 As part of the Government's 'Build, Build, Build' series of announcements and Covid-19 recovery plan, the GMCA has received allocations from Government for the Brownfield Land Fund (BLF) with an initial allocation of £81m over a five year period and Getting Building Fund of £54m.

5.9 The outcome of the 2020 Spending Review for GMCA will be reflected in budget process for 2021/22. Whilst the delay in the Comprehensive Spending Review removes the benefit of certainty of funding for 2022/23 and beyond, at this stage there are no significant new risks that have become apparent. The GMCA are leading on submissions to government for Greater Manchester to influence the outcome of the March 2021 Budget and the 2021 Spending Review.

6. TRANSPORT

6.1 The pandemic has had a significant impact on the finances of TfGM. This includes, in particular, on passenger revenue from Metrolink, which was significantly adversely impacted during the first national lockdown and continues to be materially below budgeted levels. As a consequence, and alongside exploring all opportunities to minimise its expenditure, TfGM has worked with the Department for Transport (DfT) to secure financial support to alleviate the financial impact of Covid-19 on TfGM. TfGM has received support through 'Covid-19 Light Rail Revenue Grant' which, to date, is providing funding for the period to 31 March 2021 and which has largely mitigated the shortfalls in net revenues over this period. Discussions are ongoing in relation to further funding beyond the end of this period however, to date, no firm commitment has been made.

6.2 TfGM has also suffered reduced levels of income and additional costs in other areas of activity, including loss of bus service related incomes and loss of commercial revenues. Government support has been received to alleviate the loss of revenues for the period to 31 March 2021, with commitment in the Spending Review to continue funding to in 2021/22 for bus services.

6.3 In the case of Metrolink, despite the funding received to date and agreed through to 31 March 2021, the uncertainties over funding for future periods cast significant doubt over TfGM's ability both to continue operating the level of services currently provided and to continue to contribute to GMCA's financing costs in line with the required funding profile.

6.4 TfGM performed a review of the cashflow projections for a period of 12 months after the date of the signing of the financial statements, to support the preparation of the Accounts on the 'Going Concern' basis. The conclusion of this review was that there is a material uncertainty regarding the ongoing level of Metrolink revenues and the level of funding that will be received. Notwithstanding this, on the basis of the cashflow forecasts prepared and the current levels of available cash and reserves, the TfGM Executive Board considered that it remains appropriate to prepare the Accounts on the 'Going Concern' basis.

6.5 Following the implementation of the national lockdown in January 2021 Metrolink revenues have reduced to c15% of pre-pandemic levels. For the period through to 31 March 2021 this does not impact the financial position as there is sufficient DfT funding available to absorb the additional shortfall in income. However for the period from 1st April 2021 there is an impact due to the longer period with lower revenues, which are not mitigated in full by a confirmed DfT grant.

6.6 A worst case scenario would be no DfT grant from 1st April 2021 and 25% of pre-pandemic revenues for the period April 2021 to January 2022 and 50% from February 2022 to July 2022. This would lead to a TfGM negative reserve position of £55m, which could be met from the GMCA Capital Financing Reserve. The reserves would need to be replenished from revenue funding in future years or a re-financing of the debt for Metrolink to manage the long term impact. It is concluded that the risk for the next 12-18 months is manageable in the context of the mitigations which would be possible and the reserves balance held.

7. CONCLUSION

7.1 The assessment of the GMCA's status as a "going concern" for the purposes of the Statement of Accounts 2019/20 demonstrates that the Authority is performing effectively and is in a strong position to respond to the current and emerging challenges and risks and there is no material risk to going concern for the next 12-18 months.

GMCA GREATER MANCHESTER COMBINED AUTHORITY

Date: **22nd January 2021**

Subject: **GMCA Treasury Management Strategy Statement, Borrowing Limits and Annual Investment Strategy 2021/22**

Report of: **Steve Wilson, Treasurer of the GMCA**

PURPOSE OF REPORT

To set out the proposed Treasury Management Strategy Statement, Borrowing Limits and Prudential Indicators for 2021/22 to 2023/24 for the GMCA.

The Strategy reflects the current approved 2021/22 capital programmes for GMCA transport, economic development, Fire, Police and Waste. The capital programme will be revised as part of the budget reports going to GMCA for approval on 12th February 2021.

RECOMMENDATIONS:

The Audit Committee is asked to recommend that the GMCA approve the proposed Treasury Management Strategy Statement and Annual Investment Strategy to apply from the 1 April 2021, in particular:

- The Treasury and Prudential Indicators listed in Section **Error! Reference source not found.**.
- The Minimum Revenue Provision (MRP) Strategy outlined in Appendix A.
- The Treasury Management Policy Statement at Appendix B.
- The Treasury Management Scheme of Delegation at Appendix C.
- The Borrowing Strategy outlined in Section **Error! Reference source not found.**.
- The Annual Investment Strategy detailed in Sections **Error! Reference source not found.**.
- Delegation to the Treasurer to step outside of the investment limits to safeguard the GMCA's position, as outlined in paragraph **Error! Reference source not found.**

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BACKGROUND PAPERS:

- GMCA Audit Committee, 27th November 2020, Treasury Management Interim Update 2020/21
- GMCA Audit Committee 20th January 2020, GMCA Treasury Management Strategy, Borrowing Limits and Annual Investment Strategy 2020/21

TRACKING/PROCESS		
Does this report relate to a Key Decision, as set out in the GMCA Constitution or in the process agreed by the AGMA Executive Board		No
EXEMPTION FROM CALL IN		
Are there any aspects in this report which means it should be considered to be exempt from call in by the AGMA Scrutiny Pool on the grounds of urgency?	No	
AGMA Commission	TfGMC	Scrutiny Pool
N/A	N/A	N/A

Treasury Management Strategy for 2021/22

The treasury officers' views on interest rates, supplemented with leading market forecasts provided by the GMCA's treasury advisor, Link Asset Services, are what the suggested strategy, in respect of the following aspects, is based upon.

The strategy covers:

Section **Error! Reference source not found.**: Introduction and Background

Section **Error! Reference source not found.**: Constitutional Arrangements

Section **Error! Reference source not found.**: Treasury Limits and Prudential Indicators

Section **Error! Reference source not found.**: Current Portfolio Position

Section **Error! Reference source not found.**: Prudential and Treasury Indicators for 2021/22 to 2023/24

Section **Error! Reference source not found.**: Prospects for Interest Rates

Section **Error! Reference source not found.**: Borrowing Strategy

Section **Error! Reference source not found.**: Annual Investment Strategy

Section **Error! Reference source not found.**: MIFID II Professional Client Status

Section **Error! Reference source not found.**: Investments that are not part of treasury management activity

Section 11: Scheme of Delegation

Section 12: Role of the Section 73 Officer

Section 13: Minimum Revenue Provision (MRP) Strategy

Appendix A: MRP Strategy

Appendix B: Treasury Management Policy Statement

Appendix C: Treasury Management Scheme of Delegation

Appendix D: The Treasury Management Role of the Section 73 Officer

Appendix E: Economic Background

Appendix F: Prospects for Interest Rates

Appendix G: Glossary of terms

1. INTRODUCTION AND BACKGROUND

1.1 Treasury Management in Local Government is regulated by the CIPFA Code of Practice on Treasury Management in Local Authorities. The Authority has adopted the Code and complies with its requirements. A primary requirement of the Code is the formulation and agreement by the Authority of a Treasury Policy Statement which sets out Authority, Committee and Chief Financial Officer responsibilities, and delegation and reporting arrangements.

1.2 The purpose of this report is to set out the proposed Treasury Management Strategy Statement, Borrowing Limits and Prudential Indicators for 2021/22 to 2023/24 for the GMCA. The Strategy reflects the current approved 2021/22 capital programmes for GMCA transport, economic development, Fire, Police and Waste. The capital programme will be revised as part of the budget reports going to GMCA for approval on 12th February 2021.

Background

1.3 The GMCA 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 GMCA's low risk appetite, providing adequate liquidity initially before considering investment return.

1.4 The second main function of the treasury management service is the funding of the GMCA's capital plans, incorporating transport, economic development and regeneration, waste disposal and those relating to the Mayor's Police and Crime Commissioner (PCC) and Fire functions. These capital plans provide a guide to the borrowing need of the GMCA, essentially the longer-term cash flow planning, to ensure that the GMCA 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 the risk or cost objectives.

1.5 The contribution the treasury management function makes to the GMCA 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 General Fund Balances.

1.6 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.'

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

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

Reporting Requirements

1.9 The Local Government Act 2003 (the Act) and supporting regulations require the GMCA to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the GMCA's capital investment plans are affordable, prudent and sustainable.

1.10 The Act therefore requires the GMCA to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance subsequent to the Act and included as Section 9 of this report); the Strategy sets out the GMCA's policies for managing its investments and for giving priority to the security and liquidity of those investments.

1.11 The GMCA has adopted the CIPFA Code of Practice on Treasury Management and this strategy has been prepared under the revised Code of December 2017. The CIPFA 2017 Prudential and Treasury Management Codes require all local authorities to prepare a capital 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; and
- the implications for future financial sustainability

1.12 The aim of the capital strategy is to ensure that all members of the GMCA fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

Treasury Management reporting

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

1.14 **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).

1.15 **A mid-year treasury management report** (last received 27th November 2020) – This is primarily a progress report and will update Members of the Audit Committee on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

1.16 **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.

1.17 The above reports are required to be adequately scrutinised before being recommended to the GMCA. This role is undertaken by the Audit Committee. The Corporate Issues and Reform Overview and Scrutiny Committee may also request to receive such reports for consideration at their meetings.

Training

1.18 The CIPFA 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. The training needs of treasury management officers are periodically reviewed.

Treasury management consultants

1.19 The GMCA uses Link Asset Services as its external treasury management advisors.

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

1.21 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 GMCA 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.

2. CONSTITUTIONAL ARRANGEMENTS

2.1 Currently the GMCA's Treasury Management functions are operated under a service level agreement by Manchester City Council Treasury Management which reports directly to the GMCA Treasurer. It is intended that this arrangement continues during 2021/22 whilst consideration is given to developing an in-house function within the GMCA.

2.2 The treasury portfolio position for the GMCA will be managed at a Group level, including Transport for Greater Manchester (TfGM) and Greater Manchester Police (GMP), which means that the combined cash flows of all the consolidated organisations will be taken into account when investing temporary surplus funds or making arrangements to meet borrowing needs.

2.3 As part of the 2016 Autumn Statement, Government announced that it would give mayoral combined authorities powers to borrow for their new functions, which would allow investment in economically productive infrastructure, subject to agreeing a borrowing cap with HM Treasury (HMT).

2.4 Subsequent work with HMT and Ministry of Housing, Communities and Local Government (MHCLG) has led to such an agreement which will limit the GMCA's long-term external debt in 2020/21 and the proposal for 2021/22 is as follows:

As at 31 March	**2020/2021**	**2021/22**
	£m	£m
Long term external debt	2,541	2,541

2.5 The above agreed limits have been derived from the current agreed long-term investment plans of the GMCA including Fire, Police and Waste.

2.6 The debt cap operates on long-term external debt and does not limit capital spending funded from internal cash flow or short-term external debt (less than 1 year). The agreement will be reviewed at least every 5 years with the first such review in 2019 but will also be reviewed in light of any initiative, local or national, which has a material impact on GMCA borrowing totals.

2.7 The projection of external debt figures outlined in this report fall well within the year end ceilings incorporated into the debt deal.

3 TREASURY LIMITS AND PRUDENTIAL INDICATORS

3.1 It is a statutory duty under Section 3 of the Act and supporting regulations that GMCA determines and keeps under review how much it can afford to borrow. The amount so determined is termed the 'Affordable Borrowing Limit'. In England, the Authorised Limit represents the legislative limit specified in the Act.

3.2 The GMCA must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon the future levies and precepts is acceptable.

3.3 When considering the Authorised Limit, the capital plans for inclusion in corporate financing include both external borrowing and other long-term liabilities, such as PFI and leasing arrangements.

3.4 The Authorised Limit is one of the Prudential and Treasury indicators recommended by the Code, which the GMCA operates for monitoring its treasury operations.

3.5 Listed below is the full set of indicators the Code recommends and are used by the GMCA. The Prudential Indicators are:

- Capital Expenditure
- Capital Financing Requirement (CFR)
- Authorised Limit – external debt
- Operational Boundary
- Actual external debt

- Gross Debt and the CFR
- Ratio of Financing Costs
- Maturity structure of fixed rate borrowing during the year
- Upper limit for total principal sums invested for over 364 days

4 CURRENT PORTFOLIO POSITION

4.1 The GMCA's forecast treasury portfolio position as at 31 March 2021 is:

		Principal		Ave rate
		£m	£m	%
Fixed rate funding	PWLB	562.5		4.57
	Market	90.0		4.15
	EIB	571.1		3.63
			1,223.6	
Variable rate funding	HILF – HMT[1]	210.4		0.00
	Market	15.0		4.50
			225.4	
Gross debt			**1,449.0**	
Money Market Funds			-	
Temporary Investments			15	0.00
DMO			-	
Net debt			**1,434.0**	

5 PRUDENTIAL AND TREASURY INDICATORS FOR 2021/22 TO 2023/24

5.1 Combined Prudential and Treasury Indicators are relevant for the purpose of setting an integrated treasury management strategy.

Capital Expenditure

5.2 This provides a summary of the GMCA's capital expenditure. It reflects matters previously agreed and proposed for the forthcoming financial periods. The extent to which such expenditure is to be financed will influence how the GMCA's Capital Financing Requirement Indicator will change. The capital programme will be updated and agreed as part of the budget process for 2021/22 to be approved by GMCA on 12th February 2021.

5.3 In reporting this Indicator to Members, the GMCA may choose to include a supplementary table detailing the resources to be applied to finance the capital spend and so highlight any net financing need over the reporting period.

[1] The HILF represents the Housing Investment Loans Fund, which was novated from Manchester City Council on 13 March 2019

	Actual 2019/20 £m	Estimate 2020/21 £m	Estimate 2021/22 £m	Estimate 2022/23 £m
Capital Expenditure	362.048	434.183	396.906	235.486
Financed by:				
Capital receipts	(21.230)	(6.851)	(33.282)	(17.000)
Revenue Contribution	(60.043)	(50.857)	(2.590)	(2.590)
Grants and other contributions	(110.897)	(186.376)	(135.494)	(89.441)
Total financing	(192.170)	(244.084)	(171.366)	(109.031)
Net financing need for the year	**169.878**	**190.099**	**225.540**	**126.455**

Capital Financing Requirement (CFR)

5.4 The CFR shows the difference between the GMCA's capital expenditure and the revenue or capital resources set aside to finance that spend. The CFR will increase where capital expenditure takes place and will reduce as the GMCA makes Minimum Revenue Provision (MRP), Voluntary Revenue Provision (VRP) or otherwise sets aside revenue or capital resources to finance expenditure.

	Actual 2019/20 £m	Estimate 2020/21 £m	Estimate 2021/22 £m	Estimate 2022/23 £m
Opening CFR	**2,138.307**	**2,382.404**	**2,487.745**	**2,625.644**
Net financing need for the year	324.454	190.099	225.540	126.455
MRP and VRP	(80.357)	(84.758)	(87.641)	(82.458)
Movement in CFR	**244.097**	**105.341**	**137.899**	**33.997**

Authorised Limit

5.5 This represents a control on the maximum level of external debt the GMCA can incur. The Authorised Limit is a statutory limit determined under Section 3(1) of the Local Government Act 2003. The GMCA has no legal power to borrow in excess of the limits set. Revision of this Indicator would need to be approved by the GMCA in advance of any external debt taken on in excess of the limit then in force.

5.6 The Authorised Limit reflects a level of external debt that, whilst not desired, could be afforded by the GMCA in the short-term, but which is not sustainable in the longer-term.

	Estimate 2020/21 £m	Estimate 2021/22 £m	Estimate 2022/23 £m
Borrowing	2,620.644	2,736.520	2,888.208
Other long-term liabilities	52.425	48.860	44.835
Total Authorised Limit	2,673.069	2,785.379	2,933.043

Operational Boundary

5.7 The GMCA will also set for the forthcoming financial year and the following two financial years an operational boundary for its total external debt, excluding investments, separately identifying borrowing from other long-term liabilities. This prudential indicator is referred to as the Operational Boundary.

5.8 Both the Authorised Limit and the Operational Boundary need to be consistent with the authority's plans for capital expenditure and financing; and with its treasury management policy statement and practices. The Operational Boundary should be based on the GMCA's estimate of most likely, i.e. prudent, but not worst case scenario. Risk analysis and risk management strategies should be taken into account.

5.9 The Operational Boundary should equate to the maximum level of external debt projected by this estimate. Thus, the Operational Boundary links directly to the GMCA's plans for capital expenditure; its estimates of capital financing requirement; and its estimate of cash flow requirements for the year for all purposes. The Operational Boundary is a key management tool for in-year monitoring.

5.10 It will probably not be significant if the Operational Boundary is breached temporarily on occasions due to variations in cash flow. However, a sustained or regular trend above the Operational Boundary would be significant and should lead to further investigation and action as appropriate.

	Estimate 2020/21 £m	**Estimate 2021/22 £m**	**Estimate 2022/23 £m**
Borrowing	2,501.524	2,612.132	2,756.926
Other long-term liabilities	50.042	46.639	42.797
Total Operational Boundary	2,551.566	2,658.771	2,799.723

Actual External Debt as at 31 March 2021

5.11 After the year end, the closing balance for actual gross borrowing plus (separately), other long-term liabilities is obtained directly from the GMCA's Balance Sheet. This prudential indicator is referred to as Actual External Debt.

5.12 The prudential indicator for Actual External Debt considers a single point in time and hence is only directly comparable to the Authorised Limit and Operational Boundary at that point in time.

	31 March 2021 £m
Borrowing	1,440.740
Other long-term liabilities	44.418
Total External Debt	**1,485.158**

Gross Debt and the CFR

5.13 The GMCA should only borrow to support a capital purpose, and borrowing should not be undertaken for revenue or speculative purposes. The GMCA should ensure that 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 the three subsequent financial years.

5.14 If the level of gross borrowing is below the GMCA's capital borrowing need – the CFR – it demonstrates compliance with this Indicator.

	Actual 2019/20 £m	**Estimate 2020/21 £m**	**Estimate 2021/22 £m**	**Estimate 2022/23 £m**
CFR	2,382.404	2,487.745	2,625.644	2,659.641
Gross borrowing	1,602.233	1,485.158	1,619.113	1,690.302
Under/(Over) borrowing	**780.171**	**1,002.587**	**1,006.531**	**969.339**

Gross External Debt

	Estimate 2020/21 £m	**Estimate 2021/22 £m**	**Estimate 2022/23 £m**
Loans at start of year	1,554.574	1,440.740	1,578.354
Lease/PFI liabilities at start of year	47.659	44.418	40.759
Total gross borrowing at start of year	**1,602.233**	**1,485.158**	**1,619.113**
New borrowing undertaken	-	225.540	126.455
Loan repayments	(113.834)	(87.926)	(51.184)
Lease and PFI repayments	(3.241)	(3.659)	(4.082)
Loans at end of year	1,440.740	1,578.354	1,653.625
Lease/PFI liabilities at end of year	44.418	40.759	36.677
Total gross borrowing at end of year	**1,485.158**	**1,619.113**	**1,690.302**

Ratio of Financing Costs to Net Revenue Stream

5.15 This Indicator shows the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream (levies, precepts and non-specific grant income). The higher the ratio, the higher the proportion of resources tied up just to service net capital costs, and which represents a potential affordability risk.

	Estimate 2020/21 %	Estimate 2021/22 %	Estimate 2022/23 %
Ratio of Financing Costs to Net Revenue Stream	13.1	13.5	13.6

<u>Maturity Structure of borrowing</u>

5.16 The GMCA is required to set gross limits on maturities for the periods shown and covers both fixed and variable rate borrowings. The reason being to try and control the GMCA's exposure to large sums falling due for refinancing.

	Lower Limit %	Upper Limit %
Under 12 months	0	50
12 months and within 24 months	0	50
24 months and within 5 years	0	50
5 years and within 10 years	0	50
10 years and above	0	100

5.17 The GMCA does not invest sums for longer than one year.

6. PROSPECTS FOR INTEREST RATES

6.1 The GMCA has appointed Link Asset Services as its treasury advisor and part of their service is to assist the GMCA to formulate a view on interest rates. Appendix G draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates. The following gives Link's central view:

Link Asset Services Bank Rate forecast for financial year ends (March)

2021	0.10%
2022	0.10%
2023	0.10%

6.2 Whilst these are the current forecasts, due to uncertainties as a result of COVID-19 the market is unlikely going to see a rise in the foreseeable future.

<u>Investment and borrowing rates</u>

6.3 Investment returns are likely to remain low during 2021/22 due to the uncertainty caused by the ongoing global pandemic. In September 2020, the Bank of England said it is unlikely to introduce a negative Bank Rate in the next 6-12 months, but recognises it as one of the tools available.

6.4 Negative rates have already been seen in the market specifically when placing cash with the Debt Management Office and the Money Market Funds. Investing short term at a negative rate will remain to be the option of last resort. At such time this is no longer possible, alternative longer-term investments no greater than 364 days will be considered to ensure the delivery of value for money.

6.5 Borrowing interest rates remain at historic lows. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when the GMCA may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

6.6 There will remain a cost of carry (the difference between higher borrowing costs and lower investment returns), to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

7. BORROWING STRATEGY

7.1 The GMCA currently has an under borrowed position, which means that the CFR, the underlying need to borrow, has not been fully funded by loan debt as cash supporting the GMCA's balances and reserves has been used as a temporary measure. The borrowing strategy of the GMCA is also heavily influenced by the cashflow. The GMCA, along with other Fire and OPCC authorities, receives pension grants from UK Central Government in July. Cash balances then reduce during the remainder of the year. The trend in cashflow shown below is expected to be replicated in 2021/22.

Borrowing Options

7.2 The GMCA’s borrowing strategy will firstly utilise internal borrowing as forgoing investment income at historically low rates provides the cheapest option. However, as the overall forecast is for long term borrowing rates to increase slightly over the next few years, consideration must also be given to weighing the short-term advantage of internal borrowing against potential long-term costs.

7.3 New borrowing will be considered in the forms noted below. At the time of the borrowing requirement the options will be evaluated alongside their availability and an assessment made regarding which option will provide value for money. The options described below are not presented in a hierarchical order. At the point of seeking to arrange borrowing all options will be reviewed.

Public Works Loan Board (PWLB)

7.4 PWLB borrowing is available for between 1 and 50 year maturities on various bases. This offers a range of options for new borrowing which will spread debt maturities away from a concentration in longer dated debt, and allow the GMCA to align maturities to MRP.

7.5 In February 2020 Parliament reformed the statutory basis of the PWLB, transferring lending powers to HM Treasury. In March 2020 the government consulted on revising the PWLB’s lending terms to reflect the new governance arrangements as well as to end the situation in which a minority of authorities used PWLB loans to fund debt for yield activity via commercial investments. The government published its response to this consultation and implemented these reforms in November 2020.

7.6 Additional requirements to borrow from PWLB were introduced. Each authority that wishes to borrow from the PWLB will need to submit a high-level description of their capital spending and financing plans for the following three years, including their expected use of the PWLB. Any investment assets bought primarily for yield will not be supported by PWLB.

7.7 Authorities will be asked to:

a) Categorise Capital Spending into: Service Spending, Housing, Regeneration, Preventative Action, Treasury Management, and Debt for Yield activity.
b) Provide a short description covering at least 75% of the spending in each category.
c) Provide assurance from the section 151 officer or equivalent that the local authority is not borrowing in advance of need and does not intend to buy investment assets primarily for yield.

European Investment Bank (EIB)

7.8 Rates can be forward fixed for borrowing from the EIB and this will continue to be considered as a primary borrowing source if the arrangement represents better value for money.

7.9 Historically, the EIB’s rates for borrowing were generally favourable compared to PWLB, however following the U.K. withdrawal from the E.U. as well as the reversal of PWLB rates as described above results with a reduced margin of benefit when comparing to the PWLB.

The EIB appraises its funding plans against individual schemes, particularly around growth and employment and energy efficiency, and any monies borrowed are part of the GMCA's overall pooled borrowing. The GMCA has already accessed £571m of borrowing from the EIB.

Third Party Loans

7.10 These are loans from third parties that are offered at lower than market rates, for example, Salix Finance Ltd is offering loans to the public sector at 0% to be used specifically to improve their energy efficiency and reduce carbon emissions.

Housing Investment Funding (HIF)

7.11 The Housing Investment Fund was previously operated on behalf of Greater Manchester by Manchester City Council, but the novation to the GMCA was completed on 13 March 2019. All short-term individual loans part of the HIF novated to the GMCA by 30 March 2020.

7.12 The funding from UK Central Government is held as an interest free loan, until such time as an investment is made. At this point, the approved element of the loan becomes risk-based, with any losses met by UK Central Government (up to £60m overall) or by the GMCA. The interest rate on the loan from UK Central Government, once an investment is made, is at the EU Reference rate, and is funded from the interest received from the investments made as part of the Housing Investment Fund. Part of the Housing Investment Fund funding relating to capital receipts from the HCA will also be transferred to the GMCA at a later date. This funding is also held as an interest free loan, and similarly has a risk based return to UK Central Government.

7.13 At the time of writing the report, it is not clear how MHCLG are anticipating the Fund to operate from 1 April 2021. In particular, whether they will be providing any further cash advances to meet future loan requirements including future legal commitments that amount to £233m and approved loans, which amount to £277m. Detailed conversations are continuing to take place in order to determine the way in which the Fund will operate post 1 April 2021.

Market / Local Authority Loans

7.14 There are occasionally offers available from the general market. These would be utilised when they deliver better value. These types of borrowing will need to be evaluated alongside their availability, particularly whilst there is a very limited availability of traditional market loans.

Sensitivity of the forecast

7.15 In normal circumstances the main sensitivities of the forecast are likely to be the two scenarios noted below. GMCA officers, in conjunction with the treasury advisors, will continually monitor both the prevailing interest rates and the market forecast, adopting the following responses to a change of sentiment:

If it were felt that there was a significant risk of a sharp FALL in long and short term rates, e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed.

If it were felt that there was a significant risk of a much sharper RISE in long and short term rates than that current forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, the portfolio position will be re-appraised. It is likely fixed rate funding will be drawn whilst interest rates were still relatively cheap.

External versus Internal borrowing

7.16 The next financial year is again expected to be one of historically low Bank Rate. This provides a continuation of the window of opportunity for organisations to fundamentally review their strategy of undertaking new external borrowing.

7.17 Over the next three years, investment rates are expected to be below long term borrowing rates and so value for money considerations would indicate that value could best be obtained by limiting new external borrowing and by using internal cash balances to finance new capital expenditure, or to replace maturing external debt. This is referred to as internal borrowing and maximises short term savings.

7.18 Short term savings from avoiding new long- term external borrowing in 2021/22 will also be weighed against the potential for incurring additional long-term extra costs by delaying new external borrowing until later years. However, given the current interest rate forecast, future long-term borrowing costs are unlikely going to be material. Consideration will also be given to forward fixing rates via the EIB facility whilst rates are favourable.

7.19 Against this background, caution will continue to be adopted within 2021/22 treasury operations. The Treasurer will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to the appropriate decision-making body at the next available opportunity.

Policy on borrowing in advance of need

7.20 The GMCA 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 GMCA can ensure the security of such funds. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

Forward Fixing

7.21 The GMCA will give consideration to forward fixing debt, whereby the GMCA agrees to borrow at a point in the future at a rate based on current implied market interest rate forecasts. There is a risk that the interest rates proposed would be higher than current rates, but forward fixing can be beneficial as the arrangement avoids the need to borrow in advance of need and suffer cost of carry. Any decision to forward fix will be reviewed for value for money, and will be reported to members as part of the standard treasury management reporting.

7.22 Forward fixing was a feature of the earlier EIB draw downs and may be available from various market sources.

Debt rescheduling

7.23 As short-term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long-term debt to short-term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred). The reasons for any rescheduling to take place will include:

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

7.24 Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt. All rescheduling will be reported to the GMCA at the earliest meeting following its action.

Lender Option Borrower Option (LOBO) loans

7.25 Within the portfolio there are 2 LOBO loans with Barclays which were taken out in 2005 and 2006 for a period of 60 years. Along with a number of local authorities, the GMCA has engaged specialist legal support to pursue a claim against Barclays in relation to elements of their loans.

8. ANNUAL INVESTMENT STRATEGY

Investment policy – management of risk

8.1 The GMCA'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 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

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

8.3 The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. The GMCA 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 GMCA will engage with its advisors to maintain a monitor on market pricing such as **“credit default swaps”** and overlay that information on top of the credit ratings.

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

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

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

8.4 As a result of the change in accounting standards for 2020/21 under **IFRS 9,** the GMCA 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.

8.5 However, the GMCA will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

Specified and Non-Specified Investments

8.6 Investment instruments identified for use in the financial year are listed below, and are all specified investments. Any proposals to use other non-specified investments will be reported to Members for approval.

	Minimum ‘High’ Credit Criteria	**Use**
Term deposits – banks and building societies₂[2]	See para 9.9	In-house / MCC
Term deposits – other local authorities	High security. Only one or two local authorities credit-rated	In-house / MCC

[2] Banks and Building Societies
The GMCA will keep the investment balance below or at the maximum limit based on the institutions credit rating. If this limit is breached, for example due to significant late receipts, the Treasurer will be notified as soon as possible after the breach, along with the reasons for it. Please note this relates to specific investments and not balances held within the GMCA’s bank accounts, including the general bank account. The balance will be kept to the maximum investment limit of the institution, with any breaches reported to the Treasurer.

	Minimum 'High' Credit Criteria	Use
Debt Management Agency Deposit Facility	UK Government backed	In-house / MCC
Certificates of Deposit issued by banks and building societies covered by UK Government guarantees	UK Government explicit guarantee	In-house / MCC
Money Market Funds (MMFs)	AAA_M	In-house / MCC
Treasury bills	UK Government backed	In-house / MCC
Covered Bonds	AAA	In-house / MCC

8.7 Specified investments are sterling denominated, with maturities up to a maximum of one year and meet the minimum 'high' rating criteria where applicable. Further details about some of the specified investments below can be found in later paragraphs within Section 9.

Creditworthiness policy

8.8 The GMCA applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modeling approach utilising credit ratings from the three main credit rating agencies; Fitch, Moody's and Standard & Poor's. Link supplement the credit ratings of counterparties with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- Credit Default Swap (CDS) spreads to provide early warning of likely changes in credit ratings; and
- sovereign ratings to select counterparties from only the most creditworthy countries.

8.9 This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads. The end product is a series of colour-coded bands, which indicate the relative creditworthiness of counterparties. This classification is called durational banding.

8.10 The GMCA has regard to Link's approach to assessing creditworthiness when selecting counterparties. It will not apply the approach of using the lowest rating from all three rating agencies to determine creditworthy counterparties. The Link creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system does not give undue preponderance to just one agency's ratings.

8.11 In summary therefore the GMCA will approach assessment of creditworthiness by using the Link counterparty list as a starting point, and then applying as an overlay its own counterparty limits and durations. All credit ratings will be monitored on a daily basis and re-assessed weekly. The GMCA is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

8.12 If a downgrade results in the counterparty/investment scheme no longer meeting the GMCA's minimum criteria, its further use as a new investment will be withdrawn immediately.

8.13 In addition to the use of Credit Ratings, the GMCA will be advised of information in CDS against the iTraxx benchmark[3] and other market data on a weekly basis. Extreme market movements may result in the downgrade of an institution or removal from the GMCA's lending list.

8.14 Sole reliance will not be placed on the use of this external service. In addition GMCA will also use market data and market information, information on government support for banks and the credit ratings of that government support. The GMCA will assess investments only against the criteria listed above, and will not seek to evaluate an organisation's ethical policies when making assessments.

Investment Limits

8.15 In applying the creditworthiness policy described above, the GMCA holds the security of investments as the key consideration when making investment decisions. The GMCA will therefore only seek to make treasury investments with counterparties of high credit quality. The financial investment limits of banks and building societies are linked to their short and long-term ratings (Fitch or equivalent) as follows:

Banks & Building Societies/MMFs

Long Term	Amount
Fitch AA+ and above / AAAM	£25m
Fitch AA/AA-	£15m
Fitch A+/A	£15m
Fitch A-	£10m
Fitch BBB+	£10m

GMCA will only utilise institutions that have a short term rating of F2 or higher, (Fitch or equivalent).

Government (includes Debt Management Office)	£250m
Manchester City Council	£50m
Other Local Authorities	£20m

8.16 In seeking to diversify from solely bank deposits and investments with Local Authorities, the GMCA will utilise other investment types which are described in more detail below. However it is important that the investment portfolio is mixed to help mitigate credit risk and therefore the following limits will apply to each asset type:

Total Deposit	**£m**
Local Authorities (exc. HILF)	250

[3] The Markit iTraxx Senior Financials Index is a composite of the 25 most liquid financial entities in Europe. The index is calculated through an averaging process by the Markit Group and is used as the benchmark level of CDS spreads on Capita Asset Services' Credit List.

UK Government (inc. Debt Management Office and Treasury Bills)	250
Banks, Building Societies and Money Market Funds	150
Certificates of Deposit	25
Covered Bonds	25

8.17 In the current economic environment where markets are saturated with cash and rates are historically low as a result of the global pandemic, delivering secure liquidity and value for money is paramount. To do so, it is proposed that the DMO and Treasury Bill Limits are increased by £50m to £250m and Banks, Building Societies, and Money Market Funds limits are increased by £25m to £150m in 2021/22.

8.18 It may be prudent, depending on circumstances, to temporarily increase the limits shown above if it becomes increasingly difficult for officers to place funds. If this is the case officers will seek approval from the Treasurer for such an increase and approval may be granted at the Treasurer's discretion. Any increase in the limits will be reported to Members of the Audit Committee as part of the normal treasury management reporting process.

Money Market Funds

8.19 The removal of the implied levels of sovereign support that were built into ratings throughout the financial crisis has impacted on bank and building society ratings across the world. Rating downgrades can limit the number of counterparties available to the GMCA. To provide flexibility for the investment of surplus funds the GMCA will use Money Market Funds when appropriate as an alternative specified investment.

8.20 Money Market Funds are investment instruments that invest in a variety of institutions, therefore diversifying the investment risk. The funds are managed by a fund manager and they have objectives to preserve capital, provide daily liquidity and a competitive yield. The majority of money market funds invest both inside and outside the UK. Money Market Funds also provide flexibility as investments and withdrawals can be made on a daily basis.

8.21 Money Market funds are rated through a separate process to bank deposits. This looks at the average maturity of the underlying investments in the fund as well as the credit quality of those investments. It is proposed that the GMCA will only use Money Market Funds where the institutions hold the highest AAA credit rating.

8.22 As with all investments there is some risk with Money Market Funds, in terms of the capital value of the investment. From 2019 European Commission Financial regulations require that all Money Market Funds adopt or move to a Low Volatility Net Asset Value (LVNAV) basis. This basis provides a guarantee that every £1 invested in a Money Market Funds will be returned with a range of +/- 20 basis points, whilst the timing of the return is at the discretion of the Fund. (i.e. for every £100 invested the return will be guaranteed +/- 20 pence.

8.23 There is ever growing pressure the MMFs will generate negative returns. Partly because the markets are oversaturated with cash and partly because there is a lack of demand for cash as a result of uncertainties around how the world economies will continue to deal with COVID-19 Pandemic as well as how the economies will manage post the end of the transition period. At the time of writing this report, negative rates have already been seen in MMFs, however Treasury Management has agreed with fund managers to waive administration fees for as long as possible in order to maintain a positive return. At such time, the waiving of fees is not possible alternative longer-term investments will be chosen.

Treasury Bills

8.24 These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is relatively low, although there is potential risk to value arising from an adverse movement in interest rates unless they are held to maturity.

8.25 Weekly tenders are held for Treasury Bills so the GMCA could invest funds on a regular basis, based on projected cash flow information. This would provide a spread of maturity dates and reduce the volume of investments maturing at the same time.

8.26 There is a large secondary market for Treasury Bills so it is possible to trade them in earlier than the maturity date if required; and also purchase them in the secondary market. It is anticipated however that in the majority of cases the GMCA will hold to maturity to avoid any potential capital loss from selling before maturity. The GMCA will only sell the Treasury Bills early if it can demonstrate value for money in doing so.

8.27 At the time of writing this report, Treasury Bills were yielding a negative return. Efforts to use Treasury Bills have been put on hold until the securities are once again yielding a higher than market average return.

Certificates of Deposit

8.28 Certificates of Deposit are short dated marketable securities issued by financial institutions, and as such counterparty risk is low. The instruments have flexible maturity dates, so it is possible to trade them in early if necessary, however there is a potential risk to capital if they are traded ahead of maturity and there is an adverse movement in interest rates. Certificates of Deposit are subject to bail-in risk as they are given the same priority as fixed deposits if a bank was to default. The GMCA would only deal with Certificates of Deposit that are issued by banks which meet the credit criteria.

Covered Bonds

8.29 Covered Bonds are debt instruments secured by assets such as mortgage loans. They are issued by banks and other non-financial institutions. The loans remain on the issuing institutions Balance Sheet and investors have a preferential claim in the event of the issuing institution defaulting. All issuing institutions are required to hold sufficient assets to cover the claims of all covered bondholders. The GMCA would only deal with bonds that are issued by banks which meet the credit criteria, or AAA rated institutions, (e.g. insurance companies).

Liquidity

8.30 Giving due consideration to the GMCA 's level of balances over the next year, the need for liquidity, its spending commitments and provisioning for contingencies, it is considered very unlikely that the GMCA will have cash balances to invest other than on a temporary basis. For this reason, no cash will be held in term deposit maturities in excess of 1 year.

Investment Strategy

8.31 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 for longer 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.

8.32 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

Bank Rate is forecast to remain constant over the next few years at 0.10% by 2024. Bank Rate forecasts, provided by the GMCA's treasury advisors, for financial year ends (March) are:

2021/22	0.10%
2022/23	0.10%
2023/24	0.10%

8.33 The suggested budgeted investment earnings rates for returns on investments placed for periods during 2021/22 are not forecast to be greater than 0.00%-0.05%. The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over the Global Pandemic COVID-19 as well as post transition period adjustment, combined with a softening global economic picture.

8.34 As noted in the latest GMCA Treasury Management Interim Report 2020/21, negative rates are already being seen in the markets. At such time these negative rates will impact the Authority's short-term investments, alternative longer-term deposits will be necessary in order to protect the overall value for money. As discussed above, investing at a negative return will remain to be the option of last resort.

End of Year Investment Report

8.35 At the end of the financial year, the GMCA will receive a report on its investment activity as part of its Annual Treasury Report.

Policy on the use of External Service Providers

8.36 The GMCA uses Link Asset Services as external treasury management advisors and has access to another provider who is an approved supplier should a second opinion or additional work be required. The GMCA recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon its external service providers.

8.37 The GMCA recognises there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. It will ensure the terms of the Advisor's appointment and the methods by which their value is assessed and properly documented, and subject to regular review.

9. MARKETS IN FINANCIAL INSTRUMENTS DIRECTIVE (MIFID) II PROFESSIONAL CLIENT STATUS

9.1 MIFID II is UK law and originates from European Commission legislation for regulation of European Union (EU) financial markets. The legislation requires firms offering products and services in Financial Markets and also external advisors to classify their clients as either Retail or Professional.

9.2 There are key differences between the Retail and Professional classifications, with the Professional classification assuming the client has a higher level of internal treasury expertise and experience. Financial firms may be unwilling to provide access to certain financial instruments to organisations with Retail status as such organisations have to be afforded more protections. Professional status will afford fewer protections, though eligibility for compensation from the Financial Services Compensation Scheme is not affected.

9.3 The default MIFID II classification is Retail and this applies to Local Authorities. There is a discretionary option where a client can elect to adopt Professional status and this will be granted if the client can demonstrate it meets the criteria required and can pass a qualitative test.

9.4 To continue to use the instruments available to it, the GMCA applied for and was granted MIFID II Professional status by each firm. MIFID II classification does not apply to cash deposits the GMCA places with the Bank of England or in its Call accounts held with banks. Failure to secure Professional status would have severely restricted the GMCA's ability to place funds with a diverse range of counterparties and was also likely to have significantly dampened the investment return possible. Any future new relationships with financial firms will also be approached on the basis of the GMCA evidencing its Professional status.

9.5 MIFID II also requires Professional status organisations to hold a Legal Entity Identifier, (LEI) if they wish to participate in financial instruments that are traded on an Exchange, e.g. these include Certificates of Deposit, Corporate Bonds, Treasury Bills, Gilts, etc. Trading in these instruments is included in this Treasury Management Strategy therefore the GMCA applied for and was granted a LEI in December 2017.

9.6 The risks associated with Professional Status are mainly that the protections given to Retail status clients are not available, moreover there is greater emphasis on internal decision making with limited reliance on advice and guidance provided by the financial firms. These risks are acknowledged, however it is believed that the existing risk framework for treasury management, including the Prudential Code and Treasury Management Code, will enable the GMCA to manage these risks. Without Professional Status the GMCA will be unable to continue trading in financial markets using past arrangements.

10. INVESTMENTS THAT ARE NOT PART OF TREASURY MANAGEMENT ACTIVITY

Growing Places Fund (GPF)

10.1 The Growing Places Fund (GPF) originally secured by the GMCA in 2012/13 totalled £34.5m of capital grant funding which is being used to provide up front capital investment in schemes. The Growing Places Fund has three overriding objectives:

- to generate economic activity in the short term by addressing immediate constraints:
- to allow Local Enterprise Partnerships (LEPs) to prioritise infrastructure needs, empowering them to deliver their economic priorities; and
- to establish sustainable recycled funds so that funding can be reinvested.

10.2 The full £34.5m has now been committed and the GMCA is fully in the recycling phase. There is likely to be opportunities to passport similar property investments using GMCA's own funds (prudential borrowing) to allow freeing up of GM wide Evergreen Funds for further investments.

Regional Growth Fund

10.3 The GMCA secured funds of £65m through two rounds of bidding for UK Central Government funding in 2012/13 and 2013/14. The Regional Growth Fund (RGF) has supported eligible projects and programmes raising private sector investment to create economic growth and lasting employment, with over 6,000 jobs being either created or safeguarded. As with the GPF the aim is to create a perpetual fund by using repaid loans to fund future commitments. The original funds were fully utilised by 2015/16.

Recycled Funds

10.4 Between 2018/19 and 2021/22 it is currently forecast that £55m will be recycled back out to businesses using capital receipts from both GPF and RGF. Given that both investment funds were funded through government grant there are no implications for the revenue budget should any loans default.

Housing Investment Fund

10.5 The Greater Manchester Housing Investment Fund has been designed to accelerate and unlock housing schemes. It will help build the new homes to support the growth ambitions across Greater Manchester.

Greater Manchester Loan Fund

10.6 The Greater Manchester Loan Fund (GMLF) was established in June 2013 in response to market constraints which significantly reduced the availability of debt finance. The GMLF was set up to provide debt finance of between £100k and £500k to small and medium enterprises in the Greater Manchester region, with the objective of generating business growth, creating and safeguarding jobs. A maximum of £10 million has been approved for use by the Fund.

Protos Finance Limited

10.7 In order to create capacity, GMCA is being asked to consider the purchase of a £12.1m loan committed by Evergreen to Protos Finance Limited. Protos Finance Limited is a subsidiary of Peel established to deliver the development of an industrial site in Cheshire for a variety of uses including waste to energy, biomass and environmental technology facilities. This will free up resources in the Evergreen Fund and allow it to further invest in Greater Manchester.

11. SCHEME OF DELEGATION

11.1 Appendix C describes the responsibilities of member groups and officers in relation to treasury management.

12. ROLE OF THE SECTION 73 OFFICER

12.1 Appendix D notes the definition of the role of the Treasurer in relation to treasury management.

13. MINIMUM REVENUE PROVISION (MRP) STRATEGY

13.1 Appendix A contains the GMCA's policy for spreading capital expenditure charges to revenue through the annual MRP charge.

Minimum Revenue Policy Strategy

Capital expenditure is incurred on assets that will be of long-term benefit to the GMCA. Such expenditure may not be wholly charged to revenue in the year that it is incurred but may be spread over several years to match the time that the asset will benefit the GMCA and the services it provides. The manner of spreading these costs is through an annual Minimum Revenue Provision (MRP). It should be noted that the MRP liability is not directly related to the actual repayment of principal and interest on long term loans taken.

The GMCA is required by legislation to make a prudent MRP provision each year. The legislation is supported by guidance issued by the Secretary of State which requires the GMCA to approve an MRP Policy Statement before the start of each financial year and sets out 4 options for calculating prudent provision. These options are:

- **Option 1: Regulatory Method**

  Under previous MRP regulations, the charge was set at a uniform rate of 4% of an authority's Capital Financing Requirement (CFR) at the start of the financial year. The CFR is derived from the balance sheet. With the introduction of the current MRP regime the Governments policy aim was that the move should not itself increase an authority's MRP liability. To achieve neutrality an amount, Adjustment A, was calculated at the point the change was made and is used to adjust the CFR each year. MRP under this method is calculated at 4% of the CFR less Adjustment A.

  This option may only be used for capital expenditure incurred before 1st April 2008 or capital expenditure incurred after that date which is part of Supported Capital Expenditure (SCE). Currently no new SCE's are being issued.

- **Option 2: Capital Financing Requirement (CFR) Method**

  This is a variation on option 1 based on 4% of the authority's CFR at the start of the financial year without the benefit of Adjustment A. Removal of the adjustment is likely to increases the MRP charge for most authorities.

  This option may only be used for capital expenditure incurred before 1st April 2008 or capital expenditure incurred after that date which is part of Supported Capital Expenditure (SCE). Currently no new SCE's are being issued.

- **Option 3: Asset Life Method**

This can only be applied to capital expenditure incurred on or after 1st April 2008 and is intended to spread MRP over the estimated useful life of assets. It may be assessed in one of two ways:-

a) Equal Instalment Method
A simple formula generates equal annual instalments over the asset's estimated life. The formula allows for voluntary extra provision to be made in any year.

b) Annuity Method
Annual payments gradually increase during the life of the asset.

Option 4: Depreciation Method

This can only be applied to capital expenditure incurred on or after 1 April 2008 and is based on the useful life of the asset using the standard accounting rules for depreciation. Any impairment charged to the income and expenditure account should also be included. MRP is made annually until the cumulative provision is equal to the expenditure originally financed by borrowing or credit arrangements, even if the asset is disposed of before that date. This method cannot be applied to Investment properties and Assets Held for Sale (AHFS) as they are not depreciated.

However, the guidance does not rule out use of an alternative method if the GMCA decides this is more appropriate. The GMCA may vary the methodologies it uses to make prudent provision during the year and if it does, should explain in its Statement why the change will better allow it to make prudent provision. The GMCA may choose to overpay MRP in any year. If so, the in year and cumulative amount overpaid should be disclosed in its Statement. It is possible to offset a previous year's overpayment against the current year's prudent provision. This should be disclosed in the statement together with any remaining cumulative overpayment.

The GMCA manages a diverse portfolio of assets and has considered the most appropriate option for each. Based on inherited MRP policies, legislation and guidance the GMCA is recommended to approve the following MRP Policy Statement for 2021/22:

The GMCA will assess its MRP charge for 2021/22 in accordance with the main recommendations contained within the guidance issued by the Secretary of State under Section 21(1A) of the Local Government Act 2003.

- MRP in relation to capital expenditure incurred before 1 April 2008 will be based upon 4% of the adjusted Capital Financing Requirement (CFR) in accordance with Option 1: the Regulatory method of the guidance.
- For capital expenditure incurred between 1 April 2008 and 31 March 2018 the following will apply (being the policies adopted by the previous organisations):
    - For capital expenditure incurred on the Metrolink and Transport Delivery Programme schemes and Waste Disposal assets, MRP will be calculated using Option 3b: the Asset life (Annuity) method.
    - For capital expenditure incurred on PCC assets MRP will be calculated using Option 3a: the Asset Life (Equal Instalment) method.
    - For capital expenditure incurred on GM Fire assets MRP will be calculated using Option 4: the Depreciation method.
- For capital expenditure incurred on or after 1 April 2018, MRP will be calculated using option 3b: the Asset life (Annuity) method for all classes of asset. The interest rate applied will be a rate deemed appropriate over the useful life of the asset. Where capital expenditure is incurred to allow a future capital receipt to be generated, no MRP will be applied to any borrowing to be repaid out of the receipt.
- In March 2019, the GMCA received the novation of loans to the private sector developers from Manchester City Council, totalling £112m in relation to the Housing Investment Loans Fund. These had been funded from loans received from MHCLG. Future investment loans will continue to be made, taking the total outstanding to likely maximum of £240m. Government have guaranteed to meet the first £60m of losses of such loans and, as such, no MRP is being applied. In the event that any losses are projected to exceed that level, then the MRP/debt write down position will be reviewed.
- MRP in respect of on balance sheet leases and PFI contracts is regarded as met by the amount that writes down the balance sheet liability.
- MRP will generally commence in the financial year following the one in which the expenditure was incurred. However, for major expenditure on long life assets, the GMCA may postpone the commencement of MRP until the financial year following the one in which the asset becomes operational.

Estimated asset lives will reflect the life assigned to the asset on the asset register unless the GMCA considers a different life is more appropriate. Estimated asset lives will be determined in the year that MRP commences and may not subsequently be revised. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the GMCA. However, the GMCA reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

Treasury Management Policy Statement

1. This organisation defines its treasury management activities as:

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

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

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

The GMCA will invest its monies prudently, considering security first, liquidity second, and yield last, carefully considering its investment counterparties. It will similarly borrow monies prudently and consistent with the GMCA's service objectives.

Treasury Management Scheme of Delegation

(i) Full Authority

- receiving and reviewing reports on treasury management policies, practices and activities; and
- approval of annual strategy.

(ii) Responsible body – Audit Committee

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

(iii) Body with responsibility for scrutiny – Audit Committee

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

The treasury management role of the Section 73 officer

The S73 (responsible) Officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit; and
- recommending the appointment of external service providers.

Economic Background December 2020 – Link Asset Services

This section has been prepared by the Authority's Treasury Advisors, Link Asset Services, for the Treasury Management Strategy Statement 2021/22.

- **UK.** The key quarterly meeting of the Bank of England Monetary Policy Committee (MPC) kept **Bank Rate** unchanged on 5 November 2020. However, it revised its economic forecasts to take account of a second national lockdown from 5 November 2020 to 2 December 2020 which is obviously going to put back economic recovery and do further damage to the economy. It therefore decided to do a further tranche of **Quantitative Easing (QE) of £150bn**, to start in January 2021 when the current programme of £300bn of QE, announced in March 2020 to June 2020, runs out. It did this so that 'announcing further asset purchases now should support the economy and help to ensure the unavoidable near-term slowdown in activity was not amplified by a tightening in monetary conditions that could slow the return of inflation to the target'.
- Its forecasts appeared, at that time, to be rather optimistic in terms of three areas:
    - The economy would recover to reach its pre-pandemic level in Q1 2022
    - The Bank also expected there to be excess demand in the economy by Q4 2022.
    - Consumer Price Index (CPI) inflation was therefore projected to be a bit above its 2% target by the start of 2023 and the 'inflation risks were judged to be balanced'.
- Significantly, there was no mention of **negative interest rates** in the minutes or Monetary Policy Report, suggesting that the MPC remains some way from being persuaded of the case for such a policy, at least for the next 6 - 12 months. However, rather than saying that it 'stands ready to adjust monetary policy', the MPC this time said that it will take 'whatever additional action was necessary to achieve its remit'. The latter seems stronger and wider and may indicate the Bank's willingness to embrace new tools.
- One key addition to **the Bank's forward guidance in August 2020** was a new phrase in the policy statement, namely that 'it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably'. That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. Our Bank Rate forecast currently shows no increase, (or decrease), through to quarter 1 2024 but there could well be no increase during the next five years as it will take some years to eliminate spare capacity in the economy, and therefore for inflationary pressures to rise to cause the MPC concern. **Inflation** is expected to briefly peak at just over 2% towards the end of 2021, but this is a temporary short-lived factor and so not a concern.
- However, the minutes did contain several references to **downside risks**. The MPC reiterated that the 'recovery would take time, and the risks around the GDP projection were judged to be skewed to the downside'. It also said 'the risk of a more persistent period of elevated unemployment remained material'. Downside risks could well include severe restrictions remaining in place in some form during the rest of December 2020 and most of January 2021 too. **Upside risks** included

the early roll out of effective vaccines.

- **COVID-19 vaccines.** We had been waiting expectantly for news that various COVID-19 vaccines would be cleared as being safe and effective for administering to the general public. The Pfizer announcement on 9 November 2020 was very encouraging as its 90% effectiveness was much higher than the 50-60% rate of effectiveness of flu vaccines which might otherwise have been expected. However, this vaccine has demanding cold storage requirements of minus 70c that impairs the speed of application to the general population. It has therefore been particularly welcome that the Oxford University/AstraZeneca vaccine has now also been approved which is much cheaper and only requires fridge temperatures for storage. The Government has 60m doses on order and is aiming to vaccinate at a rate of 2m people per week starting in January, though this rate is currently restricted by a bottleneck on vaccine production; (a new UK production facility is due to be completed in June 2021).

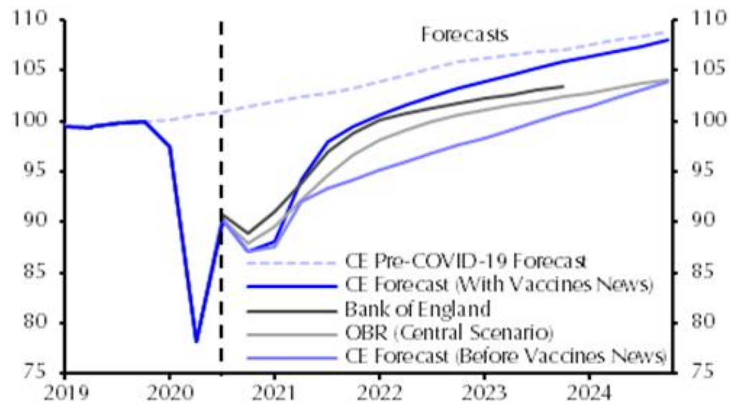
- These announcements, plus expected further announcements that other vaccines could be approved soon, have enormously boosted confidence that **life could largely return to normal during the second half of 2021**, with activity in the still-depressed sectors like restaurants, travel and hotels returning to their pre-pandemic levels; this would help to bring the unemployment rate down. With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of pent-up demand and purchasing power stored up for these services. A comprehensive roll-out of vaccines might take into late 2021 to fully complete; but if these vaccines prove to be highly effective, then there is a possibility that restrictions could start to be eased, beginning possibly in Q2 2021 once vulnerable people and front-line workers have been vaccinated. At that point, there would be less reason to fear that hospitals could become overwhelmed any more. Effective vaccines would radically improve the economic outlook once they have been widely administered; it may allow Gross Domestic Product (GDP) to rise to its pre-virus level a year earlier than otherwise and mean that the unemployment rate peaks at 7% in 2021 instead of 9%.

- **Public borrowing** was forecast in November 2020 by the Office for Budget Responsibility (OBR) to reach £394bn in the current financial year, the highest ever peace time deficit and equivalent to 19% of GDP. In normal times, such an increase in total gilt issuance would lead to a rise in gilt yields, and so Public Works Loan Board (PWLB) rates. However, the QE done by the Bank of England has depressed gilt yields to historic low levels, (as has similarly occurred with QE and debt issued in the US, the EU and Japan). This means that new UK debt being issued, and this is being done across the whole yield curve in all maturities, is locking in those historic low levels through until maturity. In addition, the UK has one of the longest average maturities for its entire debt portfolio, of any country in the world. Overall, this means that the total interest bill paid by the Government is manageable despite the huge increase in the total amount of debt. The OBR was also forecasting that the government will still be running a budget deficit of £102bn (3.9% of GDP) by 2025/26. However, initial impressions are that they have taken a pessimistic view of the impact that vaccines could make in the speed of economic recovery.

- Overall, **the pace of recovery** was not expected to be in the form of a rapid V shape, but a more elongated and prolonged one. The initial recovery was sharp after quarter 1 saw growth at -3.0% followed by -18.8% in quarter 2 and then an upswing of +16.0% in quarter 3; this still left the economy 8.6% smaller than in Q4 2019. It is likely that the one month national lockdown that started on 5 November 2020, will have caused a further contraction of 8% m/m in November 2020 so the economy may have then been 14% below its pre-crisis level.

- **December 2020 / January 2021**. Since then, there has been rapid back-tracking on easing restrictions due to the spread of a new mutation of the virus, and severe restrictions were imposed across all four nations. These restrictions were changed on 5 January 2021 to national lockdowns of various initial lengths in each of the four nations as the National Health Service (NHS) was under extreme pressure. It is now likely that wide swathes of the UK will remain under these new restrictions for some months; this means that the near-term outlook for the economy is grim. However, the distribution of vaccines and the expected consequent removal of COVID-19 restrictions, should allow GDP to rebound rapidly in the second half of 2021 so that the economy could climb back to its pre-pandemic peak as soon as late in 2022. Provided that both monetary and fiscal policy are kept loose for a few years yet, then it is still possible that in the second half of this decade, the economy may be no smaller than it would have been if COVID-19 never happened. The significant caveat is if another mutation of COVID-19 appears that defeats the current batch of vaccines. However, now that science and technology have caught up with understanding this virus, new vaccines ought to be able to be developed more quickly to counter such a development and vaccine production facilities are being ramped up around the world.

Chart: Level of real GDP (Q4 2019 = 100)



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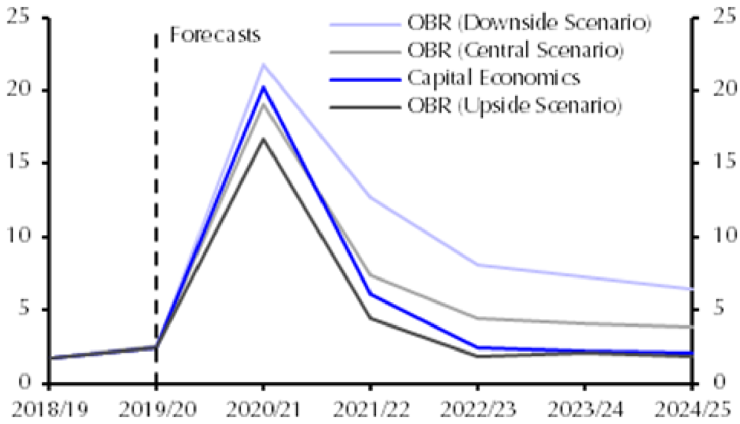
This recovery of growth which eliminates the effects of the pandemic by about the middle of the decade would have major repercussions for public finances as it would be consistent with the government deficit falling to around 2.5% of GDP without any tax increases. This would be in line with the OBR's most optimistic forecast in the graph below, rather than their current central scenario which predicts a 4% deficit due to assuming much slower growth. However, Capital Economics forecasts assumed that there is a reasonable Brexit deal and also that politicians do not raise taxes or embark on major austerity measures and so, (perversely!), depress economic growth and recovery.

Chart: Public Sector Net Borrowing (as a % of GDP)



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- There will still be some **painful longer term adjustments** as for example, office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever, even if vaccines are fully successful in overcoming the current virus. There is also likely to be a reversal of globalisation as this crisis has exposed how vulnerable long-distance supply chains are. On the other hand, digital services are one area that has already seen huge growth.

- **Brexit.** While the UK has been gripped by the long running saga of whether or not a deal would be made by 31 December 2020, the final agreement on 24 December 2020, followed by ratification by Parliament and all 27 EU countries in the following week, has eliminated a significant downside risk for the UK economy. The initial agreement only covers trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis. As the forecasts in this report were based on an assumption of a Brexit agreement being reached, there is no need to amend these forecasts.

- **Monetary Policy Committee meeting of 17 December 2020.** All nine Committee members voted to keep interest rates on hold at +0.10% and the QE target at £895bn. The MPC commented that the successful rollout of vaccines had reduced the downsides risks to the economy that it had highlighted in November 2020. But this was caveated by it saying, 'Although all members agreed that this would reduce downside risks, they placed different weights on the degree to which this was also expected to lead to stronger GDP growth in the central case.' So, while the vaccine is a positive development, in the eyes of the MPC at least, the economy is far from out of the woods. As a result of these continued concerns, the MPC voted to extend the availability of the Term Funding Scheme, (cheap borrowing), with additional incentives for small and medium size enterprises for six months from 30 April 2021 until 31 October 2021. (The MPC had assumed that a Brexit deal would be agreed.)

- **Fiscal policy.** In the same week as the MPC meeting, the Chancellor made a series of announcements to provide further support to the economy: -
  - An extension of the COVID-19 loan schemes from the end of January 2021 to the end of March 2021.
  - The furlough scheme was lengthened from the end of March 2021 to the end of April 2021.
  - The Budget on 3 March 2021 will lay out the 'next phase of the plan to tackle the virus and protect jobs'. This does not sound like tax rises are imminent, (which could hold back the speed

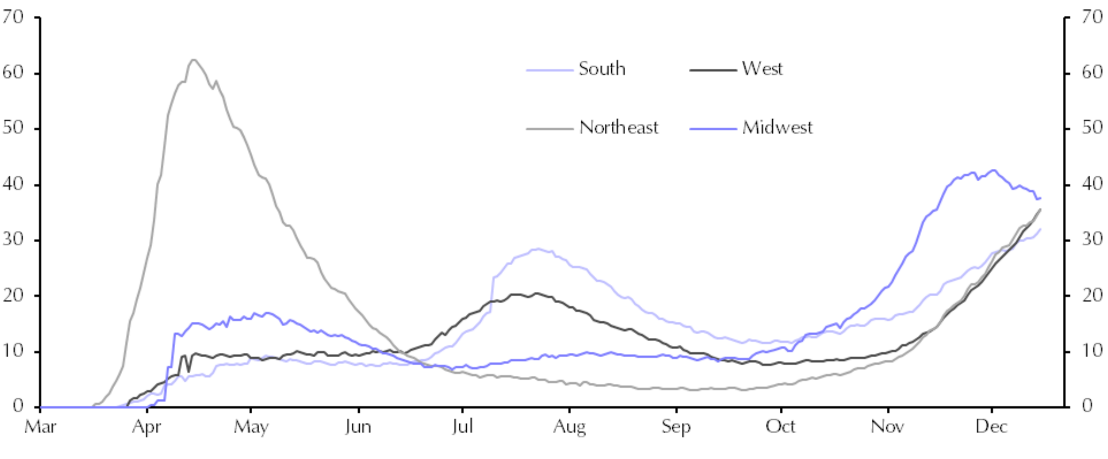
of economic recovery).

- The **Financial Policy Committee** (FPC) report on 6 August 2020 revised down their expected credit losses for the banking sector to 'somewhat less than £80bn'. It stated that in its assessment, 'banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC's central projection'. The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.

- **US.** The result of **the November 2020 elections** meant that while the Democrats gained the presidency and a majority in the House of Representatives, it looks as if the Republicans could retain their slim majority in the Senate provided they keep hold of two key seats in Georgia in elections in early January 2020. If those two seats do swing to the Democrats, they will then control both Houses and President Biden will consequently have a free hand to determine policy and to implement his election manifesto.

- **The economy** had been recovering quite strongly from its contraction in 2020 of 10.2% due to the pandemic with GDP only 3.5% below its pre-pandemic level and the unemployment rate dropping below 7%. However, the rise in new cases during quarter 4, to the highest level since mid-August 2020, suggests that the US could be in the early stages of a fourth wave. While the first wave in March 2020 and April 2020 was concentrated in the Northeast, and the second wave in the South and West, the third wave in the Midwest looks as if it now abating. However, it also looks as if the virus is rising again in the rest of the country. The latest upturn poses a threat that the recovery in the economy could stall. This is **the single biggest downside risk** to the shorter term outlook – a more widespread and severe wave of infections over the winter months, which is compounded by the impact of the regular flu season and, as a consequence, threatens to overwhelm health care facilities. Under those circumstances, states might feel it necessary to return to more draconian lockdowns.

COVID-19 hospitalisations per 100,000 population



- The restrictions imposed to control the spread of the virus are once again weighing on the economy with employment growth slowing sharply in November 2020 and retail sales dropping back. The economy is set for further weakness in December 2020 and into the spring. However, a $900bn fiscal stimulus deal passed by Congress in late December 2020 will limit the downside through measures which included a second round of direct payments to households worth $600 per person and a three-month extension of enhanced unemployment insurance (including a $300 weekly top-up payment for all claimants). GDP growth is expected to rebound markedly from the second quarter of 2021 onwards as vaccines are rolled out on a widespread basis and restrictions are loosened.

- After Chair Jerome Powell unveiled the **Fed's adoption of a flexible average inflation target** in his Jackson Hole speech in late August 2020, the mid-September 2020 meeting of the Fed agreed by a majority to a toned down version of the new inflation target in his speech - that *'it would likely be appropriate to maintain the current target range until labour market conditions were judged to be consistent with the Committee's assessments of maximum employment and inflation had risen to 2% and was on track to moderately exceed 2% for some time.'* This change was aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary 'trap' like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade, (and this year), so financial markets took note that higher levels of inflation are likely to be in the pipeline; long-term bond yields duly rose after the meeting. The Federal Open Market Committee's (FOMC) updated economic and rate projections in mid-September 2020 showed that officials expect to leave the fed funds rate at near-zero until at least end-2023 and probably for another year or two beyond that. There is now some expectation that where the Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal.

- The Fed's meeting on **5 November 2020** was unremarkable - but at a politically sensitive time around the elections. At its **16 December 2020** meeting the Fed tweaked the guidance for its monthly asset quantitative easing purchases with the new language implying those purchases could continue for longer than previously believed. Nevertheless, with officials still projecting that inflation will only get back to 2.0% in 2023, the vast majority expect the fed funds rate to be still at near-zero until 2024 or later. Furthermore, officials think the balance of risks surrounding that median inflation forecast are firmly skewed to the downside. The key message is still that policy will remain unusually accommodative – with near-zero rates and asset purchases – continuing for several more years. This is likely to result in keeping Treasury yields low – which will also have an influence on gilt yields in this country.

- **EU.** In early December 2020, the figures for Q3 GDP confirmed that the economy staged a rapid rebound from the first lockdowns. This provides grounds for optimism about growth prospects for next year. In Q2, GDP was 15% below its pre-pandemic level. But in Q3 the economy grew by 12.5% q/q leaving GDP down by 'only' 4.4%. That was much better than had been expected earlier in the year. However, growth is likely to stagnate during Q4 and in Q1 of 2021, as a second wave of the virus has affected many countries: it is likely to hit hardest those countries more dependent on tourism. The €750bn fiscal support package eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support, and quickly enough, to make an appreciable difference in the countries most affected by the first wave.

- With inflation expected to be unlikely to get much above 1% over the next two years, **the European Central Bank (ECB)** has been struggling to get inflation up to its 2% target. It is currently unlikely that it will cut its central rate even further into negative territory from -0.5%, although the ECB has stated that it retains this as a possible tool to use. The ECB's December 2020 meeting added a further €500bn to the Pandemic Emergency Purchase Programme (PEPP) scheme, (purchase of government and other bonds), and extended the duration of the programme to March 2022 and re-investing maturities for an additional year until December 2023. Three additional tranches of Targeted Longer-Term Refinancing Operations (TLTRO), (cheap loans to banks), were approved, indicating that support will last beyond the impact of the pandemic, implying indirect yield curve control for government bonds for some time ahead. The Bank's forecast for a return to pre-virus activity levels was pushed back to the end of 2021, but stronger growth is projected in 2022. The total PEPP scheme of €1,850bn of QE which started in March 2020 is providing protection to the sovereign bond yields of weaker countries like Italy. There is therefore unlikely to be a euro crisis while the ECB is able to maintain this level of support. However, as in the UK and the US, the advent of highly effective vaccines will be a game changer, although growth will struggle before later in quarter 2 of 2021.

- **China.** After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and then into Q3 and Q4; this has enabled China to recover all of the contraction in Q1. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth. At the same time, China's economy has benefited from the shift towards online spending by consumers in developed markets. These factors help to explain its comparative outperformance compared to western economies. However, this was achieved by major central government funding of yet more infrastructure spending. After years of growth having been focused on this same area, any further spending in this area is likely to lead to increasingly weaker economic returns in the longer term. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.

- **Japan.** A third round of fiscal stimulus in early December 2020 took total fresh fiscal spending this year in response to the virus close to 12% of pre-virus GDP. That's huge by past standards, and one of the largest national fiscal responses. The budget deficit is now likely to reach 16% of GDP this year. Coupled with Japan's relative success in containing the virus without draconian measures so far, and the likelihood of effective vaccines being available in the coming months, the government's latest fiscal effort should help ensure a strong recovery and to get back to pre-virus levels by Q3 2021 – around the same time as the US and much sooner than the Eurozone.

- **World growth.** World growth will have been in recession in 2020. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

- Until recent years, world growth has been boosted by increasing **globalisation** i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high tech areas and production of rare earth minerals used in high tech products. It is achieving this by massive financial support, (i.e. subsidies), to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a **reversal of world globalisation and a decoupling of western countries** from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation.

Summary

Central banks are, therefore, likely to support growth by maintaining loose monetary policy through keeping rates very low for longer. Governments could also help a quicker recovery by providing more fiscal support for their economies at a time when total debt is affordable due to the very low rates of interest. They will also need to avoid significant increases in taxation or austerity measures that depress demand in their economies.

If there is a huge surge in investor confidence as a result of successful vaccines which leads to a major switch out of government bonds into equities, which, in turn, causes government debt yields to rise, then there will be pressure on central banks to actively manage debt yields by further QE purchases of government debt; this would help to suppress the rise in debt yields and so keep the total interest bill on greatly expanded government debt portfolios within manageable parameters. It is also the main alternative to a programme of austerity.

INTEREST RATE FORECASTS

Brexit. The interest rate forecasts provided by Link in paragraph 3.3 were predicated on an assumption of a reasonable agreement being reached on trade negotiations between the UK and the EU by 31 December 2020. There is therefore no need to revise these forecasts now that a trade deal has been agreed. Brexit may reduce the economy's potential growth rate in the long run. However, much of that drag is now likely to be offset by an acceleration of productivity growth triggered by the digital revolution brought about by the COVID crisis.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is still subject to some uncertainty due to the virus and the effect of any mutations, and how quick vaccines are in enabling a relaxation of restrictions.

- There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, could impact gilt yields, (and so PWLB rates), in the UK.

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

- **UK government** takes too much action too quickly to raise taxation or introduce austerity measures that depress demand in the economy.
- **UK - Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis.** The ECB has taken monetary policy action to support the bonds of EU states, with the positive impact most likely for 'weaker' countries. In addition, the EU agreed a €750bn fiscal support package. These actions will help shield weaker economic regions for the next two or three years. However, in the case of Italy, the cost of the virus crisis has added to its already huge debt mountain and its slow economic growth will leave it vulnerable to markets returning to taking the view that its level of debt is unsupportable. There remains a sharp divide between northern EU countries favouring low debt to GDP and annual balanced budgets and southern countries who want to see jointly issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU in time to come.
- Weak capitalisation of some **European banks**, which could be undermined further depending on extent of credit losses resultant of the pandemic.
- **German minority government & general election in 2021.** In the German general election of September 2017, Angela Merkel's Christian Democratic Union (CDU) party was left in a vulnerable minority position dependent on the fractious support of the Social Democratic Party (SPD) party, as a result of the rise in popularity of the anti-immigration Alternative for Germany (AfD) party. The CDU has done badly in subsequent state elections but the SPD has done particularly badly. Angela Merkel has stepped down from being the CDU party leader but she will remain as Chancellor until the general election in 2021. This then leaves a major question mark over who will be the major guiding hand and driver of EU unity when she steps down.
- **Other minority EU governments.** Austria, Sweden, Spain, Portugal, Netherlands, Ireland and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- **Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU, and they had threatened to derail the 7 year EU budget until a compromise was thrashed out in late 2020. There has also been a rise in anti-immigration sentiment in Germany and France.
- **Geopolitical risks,** for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows.

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

- **UK -** a significant rise in inflationary pressures e.g. caused by a stronger than currently expected recovery in the UK economy after effective vaccines are administered quickly to the UK population, leading to a rapid resumption of normal life and return to full economic activity across all sectors of the economy.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and,

therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a rapid series of increases in Bank Rate to stifle inflation.

Appendix F

Prospects for Interest Rates – view of Link Asset Services as at 9 November 2020

Link Group Interest Rate View 9.11.20 These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10 yr PWLB	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50 yr PWLB	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60

Glossary of Terms

Authorised Limit - This Prudential Indicator represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing need, with some headroom for unexpected movements.

Bank Rate - The rate at which the Bank of England offers loans to the wholesale banks, thereby controlling general interest rates in the economy.

Certificate of Deposits - Short dated marketable securities issued by financial institutions, and as such counterparty risk is low.

Counterparty - One of the opposing parties involved in a borrowing or investment transaction.

Covered Bonds - Debt instruments secured by assets such as mortgage loans. These loans remain on the issuer's balance sheet and investors have a preferential claim in the event of the issuing institution defaulting.

Credit Rating - A qualified assessment and formal evaluation of an institution's (bank or building society) credit history and capability of repaying obligations. It measures the probability of the borrower defaulting on its financial obligations, and its ability to repay these fully and on time.

Discount - Where the prevailing interest rate is higher than the fixed rate of a long-term loan, which is being repaid early, the lender can refund the borrower a discount, the calculation being based on the difference between the two interest rates over the remaining years of the loan, discounted back to present value. The lender is able to offer the discount, as their investment will now earn more than when the original loan was taken out.

Fixed Rate Funding - A fixed rate of interest throughout the time of the loan. The rate is fixed at the start of the loan and therefore does not affect the volatility of the portfolio, until the debt matures and requires replacing at the interest rates relevant at that time.

Gilts - The loan instruments by which the Government borrows. Interest rates will reflect the level of demand shown by investors when the Government auctions Gilts.

High/Low Coupon - High/Low interest rate.

LIBID (London Interbank Bid Rate) - This is an average rate, calculated from the rates at which individual major banks in London are willing to borrow from other banks for a particular time period. For example, 6 month LIBID is the average rate at which banks are willing to pay to borrow for 6 months.

LIBOR (London Interbank Offer Rate) - This is an average rate, calculated from the rates which major banks in London estimate they would be charged if they borrowed from other banks for a particular time period. For example, 6 month LIBOR is the average rate which banks believe they will be charged for borrowing for 6 months.

Liquidity - The ability of an asset to be converted into cash quickly and without any price discount. The more liquid a business is, the better able it is to meet short-term financial obligations.

LOBO (Lender Option Borrower Option) - This is a type of loan where, at various periods known as call dates, the lender has the option to alter the interest rate on the loan. Should the lender exercise this option, the borrower has a corresponding option to repay the loan in full without penalty.

Market - The private sector institutions - Banks, Building Societies etc.

Maturity Profile/Structure - An illustration of when debts are due to mature, and either have to be renewed or money found to pay off the debt. A high concentration in one year will make the Authority vulnerable to current interest rates in that year.

Monetary Policy Committee - The independent body that determines Bank Rate.

Money Market Funds - Investment instruments that invest in a variety of institutions, therefore diversifying the investment risk.

Operational Boundary - This Prudential Indicator is based on the probable external debt during the course of the year. It is not a limit and actual borrowing could vary around this boundary for short times during the year. It should act as an indicator to ensure the Authorised Limit is not breached.

Premium - Where the prevailing current interest rate is lower than the fixed rate of a long-term loan, which is being repaid early, the lender can charge the borrower a premium, the calculation being based on the difference between the two interest rates over the remaining years of the loan, discounted back to present value. The lender may charge the premium, as their investment will now earn less than when the original loan was taken out.

Prudential Code - The Local Government Act 2003 requires the Authority to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Authority's capital investment plans are affordable, prudent and sustainable.

PWLB - Public Works Loan Board. Part of the Government's Debt Management Office, which provides loans to public bodies at rates reflecting those at which the Government is able to sell Gilts.

Specified Investments - Sterling investments of not more than one-year maturity. These are considered low risk assets, where the possibility of loss of principal or investment income is very low.

Non-specified investments - Investments not in the above, specified category,

e.g., foreign currency, exceeding one year or outside our minimum credit rating criteria.

Treasury Bills - These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is very low.

Variable Rate Funding - The rate of interest either continually moves reflecting interest rates of the day, or can be tied to specific dates during the loan period.

Rates may be updated on a monthly, quarterly or annual basis.

Volatility - The degree to which the debt portfolio is affected by current interest rate movements. The more debt maturing within the coming year and needing replacement, and the more debt subject to variable interest rates, the greater the volatility.

Yield Curve - A graph of the relationship of interest rates to the length of the loan.

A normal yield curve will show interest rates relatively low for short-term loans compared to long-term loans. An inverted Yield Curve is the opposite of this.

GREATER MANCHESTER COMBINED AUTHORITY

Date: **22nd January 2021**

Subject: **Capital Strategy 2021/22**

Report of: **Steve Wilson, Treasurer of the GMCA**

PURPOSE OF REPORT

This report sets out the Capital Strategy which provides the medium to long term context in which capital investment decisions are made and the governance for those decisions. It also gives a summary of the GMCA approach to investments and the Treasury Management Strategy which is in a separate document and the Treasury Management Strategy Statement for 2021/22.

RECOMMENDATIONS:

The Audit Committee is requested to:

1. Note the contents of the report and recommend its approval to the Greater Manchester Combined Authority following any changes to reflect the proposed 2021/22 budget and capital programme.

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BACKGROUND PAPERS: N/A

TRACKING/PROCESS		
Does this report relate to a Key Decision, as set out in the GMCA Constitution or in the process agreed by the AGMA Executive Board	No	
EXEMPTION FROM CALL IN		
Are there any aspects in this report which means it should be considered to be exempt from call in by the AGMA Scrutiny Pool on the grounds of urgency?	No	
AGMA Commission	TfGMC	Scrutiny Pool
N/A	N/A	N/A

1. INTRODUCTION/BACKGROUND

1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code requires local authorities to approve and publish an annual Capital Strategy. The Capital Strategy provides:

a) a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
b) an overview of the management of associated risks; and
c) the implications for future budgets and financial sustainability.

1.2 The Strategy sets the framework for all aspects of the GMCA's capital and investment expenditure; including planning, outcomes, prioritisation, management, funding and repayment. The Strategy informs the GMCA's Medium Term Financial Strategy (MTFS) and Greater Manchester Strategy and has direct links to GMCA's Treasury Management and Investment Strategy.

1.3 The strategy gives a clear and concise view of how the GMCA determines its priorities for capital investment, decides how much it can afford to borrow and sets its risk appetite. It should not duplicate other more detailed policies, procedures and plans, but instead sit above those plans and reference them to allow those seeking more detail to know where to find it.

1.4 The Capital Strategy covers the following key topics:

a) GMCA priorities;
b) Governance, reporting and scrutiny arrangements;
c) The Capital Programme;
d) Asset management;
e) Non-Treasury Investments / Commercial Activities;
f) The approach to borrowing, the revenue consequences for setting aside amounts to repay debt and the financial and prudential indicators required by the Prudential Code as set out in the Treasury Management Strategy Statement (TMSS); and
g) The approach to risk.

2. CORPORATE PRIORITIES

2.1 The Capital Strategy maintains a strong link to the vision and aims in the Greater Manchester Strategy (GMS). The GMS vision is to make Greater Manchester one of the best places in the world to grow up, get on and grow old.

2.2 This will be delivered by 10 key priorities:

a) Children starting school ready to learn
All GM children starting school ready to learn
b) Young people equipped for life
Reduced number of children in need of safeguarding and all young people in education, employment or training following compulsory education

c) Good jobs, with opportunities to progress and develop
Increased number of GM residents in sustained, 'good' employment and improved skills levels

d) A thriving and productive economy in all parts of Greater Manchester
Improved economic growth and reduced inequality in economic outcomes across GM places and population groups and increased business start-ups and inward investment, and improved business performance

e) World-class connectivity that keeps Greater Manchester moving
Improved transport networks and more sustainable GM neighbourhoods, reduced congestion and future-proofed digital infrastructure that fully supports commercial activity, social engagement and public service delivery in GM

f) Safe, decent and affordable housing
High quality housing, with appropriate and affordable options for different groups and no one sleeping rough on GM's streets

g) A green city region and a high quality culture and leisure offer for all
Reduced carbon emissions and air pollution, more sustainable consumption and production, and an outstanding natural environment. Increased local, national and international awareness of, pride in, and engagement with GM's culture, leisure and visitor economy

h) Safe and strong communities
People feeling safe and that they belong, reduced crime, reoffending and antisocial behaviour, and increased support for victims and more sustainable GM neighbourhoods

i) Healthy lives, with quality care available for those that need it
More people supported to stay well and live at home for as long as possible, improved outcomes for people with mental health needs and reduced obesity, smoking, alcohol and drug misuse

j) An age-friendly city region
People live in age-friendly neighbourhoods, inclusive growth and reduced inequality across GM places and population groups and reduced social isolation and loneliness

2.2 There are three key strategic documents that provide the frameworks for future investment and translate the ambitions set out in the Greater Manchester Strategy into new development and growth for the next two decades. These are the Greater Manchester Spatial Framework, the Greater Manchester Transport 2040 Implementation Plan and the Greater Manchester Housing Strategy.

3. GOVERNANCE FRAMEWORK

3.1 The GMCA Capital Programme involves the expenditure and financing of £1,053m of capital schemes over the period 2020/21 to 2023/24. It is important therefore that the risks surrounding the delivery and financing of the capital projects are understood and appropriate governance arrangements are in place. For GMCA these governance arrangements are:

a) The Capital Strategy itself which is scrutinised by Audit Committee prior to approval by GMCA;
b) The GMCA which approves the Capital Programme and capital schemes;
c) The Corporate Issues and Reform Overview and Scrutiny Committee which has the remit for budget oversight and other financial matters is responsible for scrutinising the Capital Programme;
d) The GMCA Senior Management Team (SMT) which has overall responsibility for the management and monitoring of the Capital Programme;
e) The Constitution which sets out the powers of Officers with regard to capital expenditure;
f) The GMCA receives quarterly capital monitoring reports which identifies any variation to the approved programme;
g) All capital expenditure follows the GMCA's financial accounting framework which ensures expenditure is treated in a manner compliant with accounting convention / statutory guidance; and
h) The Capital Programme is subject to both internal and external audit scrutiny.

4. CAPITAL PROGRAMME

4.1. Schemes are included in the Capital Programme with the aim of delivering the 10 key priorities of Greater Manchester. The proposed capital programme is shown below along with the along with the associated financing.

	Estimate 2020/21	Estimate 2021/22 £m	Estimate 2022/23 £m
Capital Expenditure	434.183	396.906	235.486
Financed by:			
Capital receipts	(6.851)	(33.282)	(17.000)
Revenue Contribution	(50.857)	(2.590)	(2.590)
Grants and other contributions	(186.376)	(135.494)	(89.441)
Total financing	(244.084)	(171.366)	(109.031)
Net financing need for the year	190.099	225.540	126.455

4.2. The Capital Programme is subject to regular review with quarterly monitoring reports presented to the GMCA. Estimates of capital grant allocations in the financing section above are known to be subject to variation.

4.3 Longer term plans of the GMCA contain rolling programmes of replacement of vehicles for transport, police and fire. The future capital plans of the GMCA are heavily influenced by central government and the Comprehensive Spending Review. Key capital priorities for GMCA include

a) investment to support low carbon transport such as electric buses, cycling and walking and Clean Air plans ahead of COP26; and

b) using intracity transport settlements, the Brownfield Land Fund, the UK Shared Prosperity Fund and the Levelling Up Fund to deliver an integrated and extensive infrastructure pipeline which will create livable, sustainable and well-connected places.

5. ASSET MANAGEMENT

5.1. Chaired by the Deputy Mayor for Policing and Crime, the Estates Strategy Group (ESG) adopts an integrated approach to share best practice and optimise all assets to ensure best use of public money.

5.2. The ESG oversees a broad range of assets to ensure GMCA maintains a fit-for-purpose estate that is responsive to change and enables the delivery of organisational objectives.

The focus of the ESG is to:

a) Drive improvement in the asset management of the GMCA’s property, utilising it to meet the GMS priorities and targeting resources across the GMCA;

b) Oversee, through the GM Estates Strategy, the strategic management of the whole of the GMCA estate and how it can work constructively with its partners;

c) Overseeing and managing investment programmes within the GMCA; and

d) Managing strategic property asset related risks.

5.3. Assets no longer required will be disposed of and the capital receipt used to fund the capital programme. The Constitution sets out the powers of Officers with regards to the disposal of assets.

6. NON-TREASURY MANAGEMENT AND INVESTMENTS

6.1 The GMCA does not make commercial investments, to the extent that it does not make investments purely to make a financial return. Where the GMCA has and does make capital investments, it is for strategic or regeneration purposes. The investments below align with the safe, decent and affordable housing priority within the GMS.

6.2. Growing Places Fund and Regional Growth Fund

6.2.1 The Growing Places Fund (GPF) originally secured by the GM in 2012/13 totalled £34.5m of capital grant funding which is being used to provide up front capital investment in schemes. The GPF has three overriding objectives:

a) to generate economic activity in the short term by addressing immediate constraints:

b) to allow Local Enterprise Partnerships (LEPs) to prioritise infrastructure needs, empowering them to deliver their economic priorities; and

c) to establish sustainable recycled funds so that funding can be reinvested.

6.2.2 The Regional Growth Fund (RGF) of £65m was secured by GM through two rounds of bidding for UK Central Government funding in 2012/13 and 2013/14. The RGF has supported eligible projects and programmes raising private sector investment to create economic growth and lasting employment, with over 6,000 jobs being either created or safeguarded.

6.2.3 The original GPF and RGF allocations have now been fully committed and the GMCA is in the recycling phase. Between 2018/19 and 2021/22 it is currently forecast that £55m will be recycled back out to businesses using capital receipts from both GPF and RGF. Given that both investment funds were funded through government grant there are no direct impact on the revenue budget should any loans default.

6.2.4 There is likely to be opportunities to passport similar property investments using GMCA's own funds (prudential borrowing) to allow freeing up of GM wide Evergreen Funds for further investments.

6.3 Housing Investment Fund (HIF)

6.3.1 The Greater Manchester Housing Investment Fund has been designed to accelerate and unlock housing schemes. It will help build the new homes to support the growth ambitions across Greater Manchester.

6.3.2 Projects greater than £2m are recommended for approval to the GMCA by the Gateway Panel who review all the detailed information. This results in two separate committees reviewing the detailed proposals. Loans for less the £2m are subject to review and approval by the Credit Committee.

6.4 Greater Manchester Loan Fund (GMLF)

6.4.1 The GMLF was established in June 2013 in response to market constraints which significantly reduced the availability of debt finance.

6.4.2 The GMLF was set up to provide debt finance of between £0.1m and £0.5m to small and medium enterprises in the Greater Manchester region, with the objective of generating business growth, creating and safeguarding jobs. A maximum of £10m has been approved for use by the Fund.

6.5 Protos Finance Limited

6.5.1 In order to create capacity, GMCA has purchased a £12.1m loan committed by Evergreen to Protos Finance Limited. Protos Finance Limited is a subsidiary of Peel established to deliver the development of an industrial site in Cheshire for a variety of uses including waste to energy, biomass and environmental technology facilities. This has freed up resources in the Evergreen Fund for further investments in Greater Manchester.

7 BORROWING, REVENUE CONSEQUENCES AND THE TREASURY MANAGEMENT STRATEGY STATEMENT (TMSS)

7.1 Capital Financing

7.1.1 The net financing need in paragraph 4 is after application of capital receipts, capital grants and revenue contributions. Wherever possible the Capital Programme will utilise and maximise external funding provided by central government or other third-party sources.

7.1.2 The Capital Programme is reliant on prudential borrowing totalling £542m between 2020/21 and 2022/23. This method of financing involves the GMCA borrowing from external sources and results in additional revenue costs of interest and borrowing plus a statutory charge known as the Minimum Revenue Provision. All prudential borrowing is undertaken in full compliance with the CIPFA Prudential Code which requires authorities to approve their own borrowing limits for the year with indicators to measure the affordability and sustainability of the Capital Programme.

7.2 Treasury Management Strategy Statement (TMSS)

7.2.1 The TMSS and the Capital Strategy are closely linked. The Capital Programme identifies the borrowing need of the GMCA whilst the TMSS considers how the GMCA will manage these cash requirements. This may involve arranging loans and taking decisions on whether these loans should be short or long term having regard to prevailing and forecast interest rates. The TMSS will also consider the GMCA's cash surpluses and how these should be managed. At times it may be beneficial to defer borrowing and use these cash surpluses to avoid borrowing and thereby saving interest expenditure.

7.2.2 The GMCA has successfully pursued a policy of internal borrowing using its cash surpluses over the last few years whilst keeping interest rates under review for signs they may increase. In times of increasing interest rates the GMCA may borrow early and then invest the surplus cash until it is required.

7.3 Borrowing Limits

7.3.1 At the end of 2020/21 it is forecast that the GMCA's external debt will be £1,485m (including PFI liabilities) and this is forecast to increase to £1,690m by the end of 2022/23 based on the borrowing needs of the Capital Programme.

7.3.2 The Prudential Code requires the GMCA to set two limits for external debt each year.

a) The Authorised Limit – this represents the maximum limit for external debt, including PFI liabilities, taking account of fluctuations in day to day cash requirements.

b) The Operational Boundary – this is the limit beyond which external debt is not normally expected to exceed. The GMCA is currently under borrowed as a result of pursuing an internal borrowing policy and thereby reducing financing costs.

7.3.3 Based on the forecast Capital Programme, the limits in the TMSS are:

	Estimate 2020/21 £m	Estimate 2022/23 £m	Estimate 2022/23 £m
Authorised Limit	2,673.069	2,785.379	2,933.043
Operational Boundary	2,551.566	2,658.771	2,799.723

8 APPROACH TO RISK

8.1 Risk is inherent with any investment or commercial activity and whilst it cannot be entirely eliminated the GMCA will adopt a strategic approach to risk management. The GMCA's approach to risk is to balance risk with the achievement of its ten priorities.

8.2 There is a clear distinction between capital investments, where the achievement of strategic aims will be considered and treasury management investments which are made for the purpose of cash flow management. The risk appetite for these two distinct types of investment may differ given the difference in expected outcomes.

8.3 For treasury management investments and debt the GMCA's risk appetite is extremely low with security of funds the primary concern. The GMCA seeks to invest surplus cash in instruments with high credit quality and for relatively short periods and to have debt options available at all times.

9 KNOWLEDGE AND SKILLS

9.1 Both the Capital Programme and the Treasury Management Strategy are managed by teams of professionally qualified, local government experienced accountants. Officers maintain and develop their knowledge through Continuous Professional Development and by attending courses offered by CIPFA and other sector experts. The GMCA use Link Asset Services to provide advice on treasury management issues.

9.2 The Treasurer has overall responsibility for ensuring the proper management of the GMCA's capital programme, assets and treasury management activities. The Treasurer is also a professionally qualified accountant.

9.3 The Audit Committee is the body that scrutinises all aspects of the Capital Strategy. Internal and external training is available to members of the committee to ensure they have the relevant skills, knowledge and understanding to undertake this role.

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GMCA Audit Committee

Date: 22 January 2021

Subject: Risk Management Update Report

Report of: Head of Audit and Assurance, GMCA

PURPOSE OF REPORT

The purpose of this report is to inform Members of the Audit Committee of the risk management activities undertaken since the last Meeting and to present responses to specific questions raised by the Audit Committee around risk.

RECOMMENDATIONS:

Audit Committee is requested to consider and comment on the report.

CONTACT OFFICERS:

Sarah Horseman, Head of Audit and Assurance - GMCA,
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Risk Management – see paragraph
Legal Considerations – n/a
Financial Consequences – Revenue – see paragraph 4
Financial Consequences – Capital – see paragraph

Number of attachments included in the report: None

BACKGROUND PAPERS:

TRACKING/PROCESS		
Does this report relate to a major strategic decision, as set out in the GMCA Constitution		No
EXEMPTION FROM CALL IN		
Are there any aspects in this report which means it should be considered to be exempt from call in by the relevant Scrutiny Committee on the grounds of urgency?	No	
TfGMC	Overview & Scrutiny Committee	
N/A	N/A	

1 Introduction

As the Audit Committee are aware, the Head of Audit and Assurance has resumed responsibility for developing a risk management framework for GMCA. At the Audit Committee meeting in November 2020, the proposed Risk Management Framework was presented for review and comment. Based on that, the final version of the framework has now ready to be launched.

This report provides an update on progress with the implementation plan and with more specific updates on GMFRS risks, as requested at the November 2020 meeting.

2 Risk Management Framework Implementation

An implementation plan was presented at the November meeting and we will provide regular updates to the Audit Committee on progress against that plan. A number of phases of implementation are included in the plan:

1. Develop the Risk Management Framework
2. Undertake a Risk Management Maturity Audit
3. Raise awareness and understanding across GMCA
4. Align the Corporate Risk register to the new framework
5. Develop departmental risk registers

As at this time, Phases 1 and 2 are complete and on track (respectively). Phases 3-5 have yet to be progressed.

In hindsight, setting concurrent timescales for these phases was ambitious so a revision to the original timescales is proposed, with Phases 3-5 now scheduled to run to the end of Q1 21/22 which is an extension of one quarter from the original timescales.

Appendix A provides an update of progress with the implementation plan.

3 Audit Committee Review

A full review and update of the GMCA Corporate Risk Register for originally scheduled in the Committee Schedule of Business to take place in January 2021. However, given the imminent conversion of the current CRR to the new format, the new risk register will be brought for review and comment to the April 2021 Audit Committee meeting.

4 GMFRS Risks

At the previous Audit Committee meeting, Members requested information regarding two risks relating to GMFRS that were contained within the Corporate Risk Register. These were:

- CA11: GMFRS - MTA Response (Marauding Terrorist Attack)
- CA13: GMFRS - Service Disruption

A paper from the Deputy Chief Fire Officer with further detail about those risks was commissioned and circulated to Members on 30 November 2020. That is appended to this document for reference (Appendix B).

A brief update on the status of both those risks as at January 2021 is as follows:

- **MTA capability** – an agreement has been reached with the Fire Brigade's Union to allow this capability to be introduced for a 8-month period. MTA Specialist Responder training is underway for the affected staff and arrangements will go live once training has been completed.
- **Service disruption** – the Service has continued to respond to the implications of Covid on a BCM related footing. An agreement has been reached with the Fire Brigade's Union regarding pre-arranged overtime and this is being used to address shortfalls in crewing of appliances. In addition, the Service has engaged with the GMCA Internal Audit team to undertake an assessment of key locations form a Covid safe perspective.

The Deputy Chief Fire Officer will be in attendance at the January 2021 Audit Committee Meeting to answer any further questions regarding GMFRS risks.

APPENDIX A – RISK MANAGEMENT FRAMEWORK IMPLEMENTATION PLAN

In order to effectively embed this risk management framework within GMCA there need to be a number of actions that initially take place to raise awareness and understanding of risk management but in the longer term to ensure GMCAs culture around risk management continues to evolve and mature so that it is an efficient and effective process within the organisation.

This implementation plan sets out the short, medium and long term action needed to implement the framework.

Activity	Responsibility	Original Timescale	Revised Timescale	Status
1. Develop the Risk Management Framework				
a) Define the risk management framework	HoAA	October 2020		Complete
b) Obtain SLT buy-in and support for the risk framework	HoAA	November 2020		Complete
c) CEMT approval of framework	HoAA	Prior to 13 November 2020		Complete
d) Audit Committee review and comment	HoAA	20 November 2020 (papers by 13 November)		Complete
2. Baseline risk management activity – Risk Management Maturity Audit				
a) Draft Terms of Reference for Risk Management Maturity audit	HoAA	October 2020		Complete
b) Approve Terms of Reference	SLT	November 2020		Complete
c) Undertake Internal Audit	Internal Audit	November – December 2020		Complete
d) Report results to SLT	Internal Audit	January 2021		On Track
3. Raise awareness and understanding across GMCA (excl GMFRS)				
a) Develop training and awareness materials	Risk resource	November – December 2020	February - March 2021	
b) Develop internal communications launching the risk framework	HoAA / Internal Comms	December 2020	February 2021	
c) Launch risk management framework	CEMT	January 2021	February 2021	

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d) Roll out training and awareness activities	Risk resource	January 2021 – March 2021	March 2021	
4. Corporate Risk Register				
a) Quarterly update of [existing] Corporate Risk Register	SLT/CEMT	November 2020		Complete
b) Quarterly review of Corporate Risk Register	Audit Committee	20 November 2020		Complete
c) Move Corporate Risk Register to new risk management framework	SLT/CEMT/Internal Audit	March 2021		
5. Develop risk registers				
a) SLT Risk workshop	Risk resource	December 2020	February 2021	
b) Directorate risk workshops	Risk resource	January – March 2021	February – May 2021	

APPENDIX B – GMFRS Strategic Risk Update – November 2020

DEPUTY CHIEF FIRE OFFICER

Date: 25th November 2020

Subject: GMFRS Strategic Risks

Report of: Sarah Scoales, Head of Service Excellence

PURPOSE

1. This briefing note is to address questions raised at Audit Committee on the 20th November and provide additional clarity on the two GMFRS risks, which have been escalated as strategic risks to the GMCA Risk Register.

CONTACT OFFICERS

2. Sarah Scoales, Head of Service Excellence – scoaless@manchesterfire.gov.uk - 07807 076368

BACKGROUND

3. As part of the review and introduction of new Governance Arrangements it was agreed that all risks on the GMFRS Corporate Risk Register would be reviewed, and key risks considered high priority, due to the risk score, were approved for escalation onto the GMCA Strategic Risk Register, providing visibility and transparency.

4. There two risks raised for additional clarity were:

    a. **CA11: GMFRS - MTA Response (Marauding Terrorist Attack) -** Due to ongoing national differences between the Fire Brigade Union and the Fire and Rescue Service employers regarding whether this is part of the Firefighters role map, there has been concerns raised regarding GMFRS's capability to deal with such incidents, including specific feedback as part of the HMICFRS Inspection. Specifically, these differences have affected Greater Manchester Fire & Rescue Service's (GMFRS) ability to carry out practical training either as a single service, or as part of a multi-agency response.

    b. **CA13: GMFRS - Service Disruption -** Due to the impact of the pandemic on the organisation, there is a risk that we will be unable to provide an effective service delivery.

CURRENT POSITION

CA11: GMFRS - MTA Response (Marauding Terrorist Attack)

5. Since 7th February 2017, ongoing differences between the Fire Brigades Union (FBU) and the Fire and Rescue Service (FRS) employers reduced GMFRS's ability to carry out practical training either as a single service, or as part of a multi-agency response in respect of an MTA event. As a direct result, GMFRS regrettably informed the Home Office on the 8th February 2019, that a full MTA Specialist Response Capability could no longer be provided.

6. On the 6th February 2020, GMFRS and the FBU submitted a joint application for the assistance of the National Joint Council (NJC) Secretaries on the matter in accordance with the NJC Model Consultation and Negotiation Procedures. A jointly agreed submission was subsequently provided to the Joint Secretaries on the 1st April 2020.

7. Notwithstanding challenges and delays resulting from the COVID-19 situation, a period of negotiation facilitated by the Joint Secretaries (JSs) has been underway to seek a local agreement to support the reintroduction of the capability.

8. This negotiation process has resulted in a number of draft agreements discussed in the strictest confidence, which as yet have proved not to be mutually acceptable.

9. The 16th July 2020 marked the first opportunity provided by the JSs for a bi-partite meeting to include both employer and employee representatives and their respective JS. The meeting was mutually positive in intent.

10. Progress has been made across number of areas of conflict. Although no element is to be considered approved until the agreement in its entirety is signed by both parties.

11. GMFRS remains committed to seeking a mutually agreed resolution to this matter and remain in process with the NJC JSs and, with authorisation, progress negotiations to reach an agreed resolution.

12. In preparation and anticipation of progress being made to reach a resolution, GMFRS's Contingency Planning Unit (CPU) have undertaken work to ready the equipment and vehicles currently in storage, and have scoped training requirements to reintroduce the MTA arrangements as part of a wider multi-agency specialist response capability.

CA13: GMFRS - Service Disruption (Due to Covid-19 Pandemic)

13. Since the start of the pandemic and the constantly developing situation, GMFRS have been trying to balance how we keep households safe from fire, whilst limiting the exposure of our operational and support staff to the public and / or the virus.

14. We enacted our business continuity plans to ensure we are able to maintain a level of service that fulfils all our critical functions, and as we work through this unprecedented situation, we have continued to adapt, implementing alternative ways of working.

15. In line with our business continuity plans, and to support our approach we have developed two documents that clarified how we would deliver our services and adapt as the situation changes, these are the **COVID-19 Strategy** and **COVID-19 Response Plan**.

16. In addition to these key documents, there has been a significant amount of activities undertaken to ensure that we effectively mitigate the potential impact of this risk and ensure our ability to continue to meet our statutory duties and respond to the need of the GM communities. The list below covers some of the key work undertaken:

    a. Production of a Managers Handbook to support managers in the day-to-day management of activities and personnel during the pandemic. This document has been updated regularly during the pandemic to reflect changes in Government guidance and organisational guidance.
    b. Regular comms has been ongoing throughout the pandemic, with key messages to all staff from CFO & CEO to ensure the reinforcement internal policies, procedures and government guidelines. Safety and Operational Alerts are being utilised to communicate with frontline firefighters around key messages.
    c. From 16th March, staff were encouraged staff to work from home, where able. To support this Microsoft Teams was rolled out across the organisation to enable staff to work from home and limiting the number of non-frontline staff going into offices / stations. Where required, additional ICT equipment has been provided to support home working.
    d. A dedicated page created on intranet as a one-stop shop for all Health & Wellbeing information.
    e. The degradation policy has been and is continually being reviewed in line with the changing situation in terms of reducing the number of appliances that we may have available at any one time, this is being reviewed in lines with incident data in order to ensure we can maximise operational availability at peak times.
    f. Guidance regarding cleaning arrangements has been put in place across the GMFRS estate, along with revised cleaning routines in high traffic areas and new arrangements

implemented across stations. All the relevant cleaning equipment and products are being made available to all staff.

g. Measures were put in place to protect those members of staff with underlying health conditions or from certain Black, Asian and Minority Ethnic (BAME) backgrounds, such as alternative delivery methods for prevention staff combined with other preventative methods.
h. Interim overtime arrangements have been reintroduced in order to bolster operational staff shortages.
i. Operational crewing bubbles have been introduced to keep more appliances on the run, enabling us to restrict the number of detachments / movement and further protect operational frontline staff.
j. ER Hub are working on some alternative shift patterns for operational staff and FDS officers in order to provide a more flexible agile workforce.

17. A full governance structure was put in place to support internal BCM arrangements from a strategic and tactical level, and coordinate activities from external groups. The governance arrangements ensured all internal activities were being effectively coordinated through a number of internal working groups.

18. To ensure all Covid-19 related risks are captured and monitored, a specific Covid-19 risk register was implemented and is regularly reviewed at Strategic and Tactical BCM meetings to ensure that all risks are captured at mitigated appropriately.

GMCA Audit Committee

Date: 22 January 2021

Subject: Internal Audit Progress Report

Report of: Head of Audit and Assurance, GMCA

PURPOSE OF REPORT

The purpose of this report is to inform Members of the Audit Committee of the progress to date of the delivery of the Internal Audit Plan for 2020/21. It is also used as a mechanism to approve and provide a record of changes to the internal audit plan.

RECOMMENDATIONS:

Audit Committee is requested to:

- Approve the changes to the Audit Plan (Section 3)
- Consider and comment on the progress report.

CONTACT OFFICERS:

Sarah Horseman, Head of Audit and Assurance - GMCA,
sarah.horseman@greatermanchester-ca.gov.uk

Risk Management – see paragraph

Legal Considerations – n/a

Financial Consequences – Revenue – see paragraph 4

Financial Consequences – Capital – see paragraph

Number of attachments included in the report: None

BACKGROUND PAPERS:

- Internal Audit Plan 2020/21 – June 2020

TRACKING/PROCESS		
Does this report relate to a major strategic decision, as set out in the GMCA Constitution		No
EXEMPTION FROM CALL IN		
Are there any aspects in this report which means it should be considered to be exempt from call in by the relevant Scrutiny Committee on the grounds of urgency?	No	
TfGMC	Overview & Scrutiny Committee	
N/A	N/A	

1 Introduction

The annual audit plan for GMCA was presented to the June 2020 Audit Committee and allocated 350 days of internal audit support in 2020/21.

Separate plans are approved by Transport for Greater Manchester (TfGM) and Greater Manchester Police (GMP) / Police and Crime Functions with reporting to their respective Audit, Risk and Assurance Committee (ARAC) and Joint Audit Panel.

The purpose of this progress report is to provide Members with an update against the GMCA audit plan.

2 Progress against the 2020/21 Internal Audit Plan

2.1 Internal Audit work completed since the last meeting of the Audit Committee

Since the last Audit Committee on 20 November 2020, we have issued two final reports as noted below.

- **Lessons Learned Review of the GM Mortuary Commissioning Project -** Internal Audit was asked to undertake a lessons learned review of the GM Mortuary Commissioning Project for and on behalf of the GM Executive Mortality Group. This report was shared with the Chief Executive and GM Resilience Forum with the recommendation that the GM Multi-Agency Excess Deaths Planning Group review the content of the report and incorporate identified learning as appropriate into their current review of Greater Manchester's Excess Deaths Plan and GM resilience planning.

- **GMFRS COVID-19 Secure Workplace Assessments (Reasonable Assurance) -** This audit involved compliance visits to 16 Fire Stations and 4 main buildings conducted during December 2020 to review the COVID-19 control measures developed and in place. We found broad compliance across the GMFRS estate and the report outlined good practice and also some recommended actions to improve controls and consistency. The report was shared with the Chief Fire Officer and member of SMT.

Details of the number and priority of agreed actions in respect of these audits are attached in **Appendix A** and the Executive Summaries from Final reports is included at **Appendix D**.

Our progress in delivering the audit plan is behind schedule with what we would expect at this stage in the year. Several reviews have taken longer to complete than initially expected due to their complexity and the impact of COVID19 pandemic and changes in working arrangements continues to affect audit capacity and client availability. We are continuing to support our staff in managing the difficulties of lockdown restrictions and will continue to keep this under review and make any necessary adjustments to planned audit work.

2.2 Internal Audit work in progress

A summary on the status of ongoing audit work is as follows:

Planning Stage	
Procurement – Contract Award (Q3)	Draft Terms of Reference has been issued, but discussion ongoing over the timing of the work as Client seeking deferral to Q1 21/22.
Programme and Project Governance (Q3)	Proposed scope and approach for the review discussed with the GMCA Programme and Project Network Group. IA to participate in initial sessions looking at consistency of approach.
GM Working Well Programme (Q4)	Client scoping discussion planned early January. However, the Government Internal Audit Agency (GIAA) have recently undertaken an ESF Article 127 audit on Working Well co-financing contracts. This covered procurement approach and processes, financial transactions alongside eligibility checks and review of participant records across the Working Well Expansion and Work & Health Programme contracts. GIAA provided a **positive assurance opinion** with no issues identified at this audit and no expenditure claimed in error. A copy of this report is shown at Appendix D. For 2020/21 Assurance therefore may be placed on the external GIAA report. To be confirmed during scoping meeting.
Adult Education Budget (Q4)	Client scoping discussion planned January 2021.
ICT Security Audit (Q4) - Outsourced	Discussions have taken place with Salford Computer Audit Team on a package of work across GMP and GMCA to commence in Q4. Scoping meeting scheduled for early February 2021.

Fieldwork Stage	
Risk Management Maturity Assessment (Q3)	Terms of Reference published and self-assessments issued to all Heads of Service in November. Responses will be evaluated and reported during Q4.

Payments during lockdown (Q3)	Initial data analysis of payment types and payment data completed. Work ongoing to sample check individual transactions, verify documentation and ensure control framework remains effective.

Reporting Stage	
Mayoral Advisors (Q3)	Draft report issued 30 November 2020, awaiting formal management response to emerging findings and opinion prior to finalisation.
GMFRS Fleet Services (Q2)	Draft report being prepared, with minor outstanding queries to resolve prior to this report being issued.
Grant Certification: Home to school and college transport (Q3)	Work to certify expenditure is complete and grant certification document being prepared for sign off and submission.

Details of our progress in respect of the 2020/21 Audit Plan is shown in **Appendix B.**

3 Changes to the Internal Audit Plan

The internal audit plan is regularly reviewed and can be amended to reflect changing risks and/or objectives. In line with the Internal Audit Charter, any significant changes to the plan must be approved by the Audit Committee.

The audit plan is agile and can be flexed to meet current risk requirements. In our latest review of the plan we have proposed the following changes for approval by the Audit Committee

- **Corporate Governance** – **Delegated Authorities**: There are two corporate governance pieces of work on the plan for Q4. Delegated Authorities will have been considered in part by the Payments during Lockdown audits. It is therefore proposed to remove this audit from the plan, keeping the Code of Corporate Governance audit.
- **Working Well**: As mentioned in section 2.2 GIAA have undertaken an audit of a number of key processes within the directorate. Subject to confirming that there are no significant areas not covered by that audit (to be confirmed Jan 2021) propose to rely on the GIAA report for assurance within this area.

These reflect the additions that Internal Audit have been asked to do during the year and as such the removal of a small number of audits, on a risk-based approach, to balance the resources available.

A cumulative record of changes to the plan, with the rationale for each, is shown as an **Appendix C** to this report.

4 Other Activities

Aside from delivery of the internal audit plan, since the last meeting internal audit have undertaken the following additional activities

4.1 Risk Management – See separate paper

4.2 Whistleblowing and Counter Fraud activities

4.2.1 **National Fraud Initiative** - GMCA expect the results from the NFI 2020/21 data matching exercise to be received in early 2021 and we will be developing a work plan to investigate and report on the matches during quarter 4. These datasets include GMFRS Pensions, Payroll and Trace Creditors.

4.2.2 **Whistleblowing** – The following activity has taken place in respect of whistleblowing

- One report was received which qualifies as a whistleblowing report, it is being investigated by the appropriate part of the organisation and the Head of Audit and Assurance is monitoring the progress and outcome.
- The Head of Audit and Assurance has continued to support the Deputy Mayor on a previous whistleblowing case.
- The whistleblowing policy was presented to the Standards Committee in November 2020 and this updated policy is awaiting upload onto the GMCA webpage.
- GMFRS have launched their own *freedom to speak up* (FTSU) scheme as part of their ongoing commitment to developing a culture of openness and learning. The scheme is designed to improve the opportunities staff have to raise concerns without risk of detriment to themselves whilst increasing trust between staff and the organisation and the aim of improving organisational performance.

4.3 Information Governance

- The Head of Audit and Assurance is a member of the Information Governance Board and of the Serious Information Governance Incident Panel both of which are chaired by the Senior Information Risk Owner.

- Internal Audit also attend the Freedom and Information (FOI/EIR) and Transparency User Group to feed into the development of processes around statutory duties under the Freedom of Information and Environment Information Regulations. This group will provide assurance to the Information Governance Board.

Appendix A - Summary of Internal Audit Reports issued

The table below provides a summary of the internal audit work completed. This will inform the annual Internal Audit opinion for the year 2020/21.

Audit	Assurance Level	Audit Findings					Coverage		
		Critical	High	Medium	Low	Advisory	GMCA	GMFRS	Waste
GM Housing Investment Loan Fund	Reasonable			2	1		✓		
GM Fire Service Pension Review	Reasonable			2	2	2		✓	
Lessons Learned – GM Mortuary commissioning project	N/A	N/A – Not an assurance review – Findings shared with GM Resilience Forum					✓		
GMFRS COVID-19 Secure Premises Assessments	Reasonable	N/A – Considerations for practical COVID-19 control and compliance measures have been made to Senior Leadership Team as part of this report but we will not seek formal confirmation of these under the normal follow up process.						✓	

Grant Certifications				
Grant Certification - Business Energy and Industrial Strategy (BEIS)	Positive	✓		
Grant Certification - GM EU exit Preparedness Funding	Positive	✓		
Grant Certification – Local Energy Market (LEM)	Positive	✓		

The following tables show definitions for the Assurance Levels provided to each audit report and the ratings attached to individual audit actions.

Assurance levels

	DESCRIPTION	SCORING RANGE	DESCRIPTION
	SUBSTANTIAL ASSURANCE	1-6	A sound system of internal control was found to be in place. Controls are designed effectively and our testing found that they operate consistently. A small number of minor audit findings were noted where opportunities for improvement exist. There was no evidence of systemic control failures and no high or critical risk findings noted.
	REASONABLE ASSURANCE	7-19	A small number of medium or low risk findings were identified. This indicates that generally controls are in place and are operating but there are areas for improvement in terms of design and/or consistent execution of controls.
	LIMITED ASSURANCE	20-39	Significant improvements are required in the control environment. A number of medium and/or high risk exceptions were noted during the audit that need to be addressed. There is a direct risk that organisational objectives will not be achieved.
	NO ASSURANCE	40+	The system of internal control is ineffective or is absent. This is as a result of poor design, absence of controls or systemic circumvention of controls. The criticality of individual findings or the cumulative impact of a number of findings noted during the audit indicate an immediate risk that organisational objectives will not be met and/or an immediate risk to the organisation's ability to adhere to relevant laws and regulations.

Audit Finding Classification

Risk Rating	Description/characteristics	Score
Critical	• Repeated breach of laws or regulations • Significant risk to the achievement of organisational objectives / outcomes for GM residents • Potential for catastrophic impact on the organisation either financially, reputationally or operationally • Fundamental controls over key risks are not in place, are designed ineffectively or are routinely circumvented • Critical gaps in/disregard to governance arrangements over activities	**40**
High	• One or more breaches of laws or regulation • The achievement of organisational objectives is directly challenged, potentially risking the delivery of outcomes to GM residents • Potential for significant impact on the organisation either financially, reputationally or operationally • Key controls are not designed effectively or testing indicates a systemic issue in application across the organisation • Governance arrangements are ineffective or are not adhered to. • Policies and procedures are not in place	**10**
Medium	• Minor risk that laws or regulations could be breached but the audit did not identify any instances of breaches • Indirect impact on the achievement of organisational objectives / outcomes for GM residents • Potential for minor impact on the organisation either financially, reputationally or operationally • Key controls are designed to meet objectives but could be improved or the audit identified inconsistent application of controls across the organisation • Policies and procedures are outdated and are not regularly reviewed	**5**
Low	• Isolated exception relating to the full and complete operation of controls (e.g. timeliness, evidence of operation, retention of documentation) • Little or no impact on the achievement of strategic objectives / outcomes for GM residents • Expected good practice is not adhered to (e.g. regular, documented review of policy/documentation)	**1**
Advisory	Finding does not impact the organisation's ability to achieve its objective but represent areas for improvements in process or efficiency.	**0**

Appendix B – Progress against the Internal Audit Plan 2020/21

The table below shows progress made in delivery of the 2020/21 Internal Audit Plan.

Key: ○ Not Yet started ⦿ Scheduled ◉ In progress ● Complete

Directorate	Audit Area	Audit	Timing	Planning	Fieldwork	Draft Report	Final Report	Audit Committee	Comments
Place making	CIT	GM Housing Investment Loan Fund	Q1	●	●	●	●	November 2020	Completed
Chief Executive's Office	Programmes and Projects	Lessons Learned - Mortuary Commissioning Project	Q1/Q2	●	●	●	●	January 2021	Completed See Appendix C
Corporate Services	Governance	Annual Governance Statement 2018/19	Q2	●	●	●	●	Sept 2020	Completed
Corporate Services	Finance	Payments during lockdown	Q3	●	◉	○	○		
Corporate Services	Grants	BEIS 2019/20 GM Growth Hub Finding	Q2	●	●	●	●	Sept 2020	Completed
Corporate Services	Grants	GM EU exit Preparedness Funding	Q2	●	●	●	●	Sept 2020	Completed
Cross-cutting	Programmes and Projects	Programme Governance	Q2	◉	○	○	○		Was Q2, delayed to Q4

Directorate	Audit Area	Audit	Timing	Planning	Fieldwork	Draft Report	Final Report	Audit Committee	Comments
Chief Executives Office	Governance	Mayoral Advisors	Q2	●	●	●	○		See Appendix C -Draft Report Issued
GMFRS	GMFRS	Pensions administration	Q2	●	●	●	●	November 2020	Completed
GMFRS	GMFRS	GMFRS Fleet	Q2	●	●	◉	○		Preparing Draft Report
Corporate Services	Health, Safety and Wellbeing	GMFRS Covid 19 workplace regulations	Q2	●	●	●	●	Jan 2021	Completed
PCC	PCC	Phase 2 audit of grant processes	Q3	●	●	●	●		Reported via Joint Audit Panel
Grants	Corporate Services	LEM Project	Q3	●	●	●	●	Nov 2020	Completed
Grants	Corporate Services	Home to School and College transport	Q3	●	●	●	●	Jan 2021	Completed
Chief Executive's Office	Governance	Risk Management Maturity	Q3	●	◉	○	○		
Corporate Services	HROD	Investigation process	Q3	⊙	○	○	○		
Corporate Services	Finance	Procurement – Contract Award	Q3	●	○	○	○		

Directorate	Audit Area	Audit	Timing	Planning	Fieldwork	Draft Report	Final Report	Audit Committee	Comments
Corporate Services	Governance	Code of Corporate Governance	Q4	○	○	○	○		Was Q2, delayed to Q4
~~Corporate Services~~	~~Governance~~	~~Delegated Authorities~~	Q4	○	○	○	○		See Appendix C
Corporate Services	Waste	Core financial processes (Waste)	Q4	○	○	○	○		
Work and Health	Work	Working Well	Q4	◉	○	○	○		
Education	AEB	Advice regarding AEB Assurance framework	Q4	◉	○	○	○		
Corporate Services	ICT	Cyber Security	Q4	◉	○	○	○		Discussions taking place with provider to complete this work during Q4
GMFRS	GMFRS	Training	Q4	○	○	○	○		

Other Audit Activity		**Quarter**
Information Governance	Head of IA is a member of the IG Board, ongoing advice and oversight of IG risks through this forum.	All
Risk Management	Internal audit facilitate quarterly risk register updates through the Risk and Governance Group. In 20/21 consideration will be given to the COVID CRR and the eventual merging of the COVID and Corporate risk registers. Development and implementation of a GMCA-wide risk management framework.	All
Audit action tracking	Internal audit will monitor and report on a quarterly basis the implementation of agreed audit actions	All
Whistleblowing investigations	Receipt and investigation of whistleblowing reports	As needed
Ad-hoc advice and support	Advice and reviews requested in-year in response to new or changing risks and activities.	As needed
Contingency days	Days reserved to address new or emerging risks	As needed

Appendix C - Changes to the Internal Audit Plan

The internal audit plan is designed to be flexible and can be amended to address changes in the risks, resources and/or strategic objectives. Similarly management and the board may request additional audit work be performed to address particular issues. In line with Public Sector Internal Audit Standards (PSIAS) the Audit Committee should approve any significant changes to the plan. This Section records any changes to the current internal audit plan since it was originally approved in June 2020.

Audit Area	Audit	Timing	Days	Change requested	Rationale	Approved by Audit Committee
Chief Executive's Office	Lessons Learned - Mortuary Commissioning Project	Q2/3	20	Addition to plan	Requested by the Chief Resilience Officer as a lessons learned exercise to inform any revisions to future plans and arrangements	June 2020
Chief Executive's office	Mayoral Advisors	Q3	20	Addition to plan	Requested by Chief Executive	September 2020
Finance	Payments during lockdown	Q3	20	Addition to plan	Added to the plan to address increased risk of fraud during Covid-19 lockdown period. This will in part encompass some of the delegated authorities review by providing assurance that payments made during the period were in line with the delegated authorities.	June 2020
Placemaking	Housing Investment Loan Fund	Q4	15	Removal from plan	This audit has been undertaken previously (last reported in Q1) with generally positive assurance opinions. No changes in the control environment have taken place that would indicate any changes to the control environment in this financial year that would require additional work.	Nov 2020
Programmes and Projects	Large Programme Governance	Q4	20	Removal from plan	A programmes and projects audit is to take place in 2020/21, it is proposed to defer the large programme governance audit to future years.	Nov 2020

Audit Area	Audit	Timing	Days	Change requested	Rationale	Approved by Audit Committee
Corporate Services	Governance – Delegated Authority	Q4	20	Removal from plan	Delegated Authorities covered in part by Payments during lockdown audit. There is another Corporate Governance audit within the plan which will contribute to the HoIA opinion around Governance.	

Appendix D - Executive Summary for Final Published Reports

GMFRS COVID-19 Secure Workplace Assessments

EXECUTIVE SUMMARY

1.1 Background and Context

Greater Manchester Fire and Rescue Service (GMFRS) has a responsibility to ensure appropriate arrangements are in place to manage the risk of Coronavirus (COVID-19) infection and transmission at all its sites.

The Government has continued to issue updated guidance to assist employers in ensuring staff can work safely and workplaces remain COVID-19 secure. These measures extend to:

- Risk Assessments
- Social Distancing
- Cleaning, Hygiene and Handwashing
- Workplace Guidance
- Vulnerable workers; and
- Working from Home (where possible)

Based on this guidance, and that produced by Public Health England, the Health and Safety Executive, and the National Fire Chiefs Council (NFCC), GMFRS has updated its own Manager's Handbook which is in use at all stations and there is a clear expectation that staff are following the practical measures put in place.

HMICFRS have recently carried out a COVID-19 themed virtual inspection and at the time of this audit, GMFRS were awaiting the full outcome of that inspection. In addition, the Health and Safety Executive (HSE), in response to an outbreak at Rochdale Fire Station, recently conducted a visit and provided feedback.

This Internal Audit review provides management with assurance over the adequacy of the measures put in place and level of compliance at a sample of GMFRS fire stations and other premises.

1.2 Audit Objective

The objective of this audit was to provide assurance that GMFRS have developed and implemented appropriate measures to minimise the risk of COVID-19 transmission in the workplace, in line with expectation set out in the Manager's Handbook and NFCC guidance.

1.3 Scope

Specifically, the audit assessed controls in the following key areas: -

- Manager's Handbook: confirmation that it encompasses all relevant guidance/ considerations provided by NFCC;
- Completeness of COVID-19 workplace risk assessments;
- Physical arrangements in place on premises (for example safety checkpoint notices, arrangements for social distancing);
- Awareness of and adherence to measures set out in the Manager's Handbook and application of these; and

- Observation of cleaning regime (where possible) and completion of checklist.

The audit included visits to 16 Fire Stations across GM which reviewed arrangements for COVID-19 safety measures in place for the station premises, fire appliances and equipment. Visits were also undertaken at Fire Service Headquarters (FSH), Bury Training and Safety Centre (BTSC); Manchester Training Centre (MTC); and Leigh Technical Services (LTS). All visits were conducted as announced visits with notice given in advance.

Limitations:

During site visits, the Internal Audit team sought to observe compliance with the arrangements put in place and noted areas of compliance and non-compliance. We are unable to provide assurance that Manager's Handbook guidance is complied with outside of the workplace visits. This audit did not encompass community activities and travelling in fire appliances.

The visits were undertaken on a sample basis and therefore we cannot provide assurance across the whole estate.

1.4 Audit Opinion

We can provide a **reasonable level of assurance** that appropriate COVID-19 secure control measures are being developed and are in place at fire stations and other main buildings and that there is general compliance with these.

Note: Due to the nature of this audit, the usual Internal Audit scoring mechanism (appendix 3) was not applied. Instead, an assessment of the level of assurance has been provided based on the results of the compliance testing.

Good practice

We observed several areas of good practice across all areas which included,

- COVID-19 risk assessments displayed in stations;
- Evidence of social distancing being applied;
- Enhanced workplace cleaning routines in place; and,
- New contractors and visitors signing in books in use.

Areas for improvement

- Building occupancy management expectations should be defined across the estate so it can be demonstrated that occupancy is being monitored.
- More prominent displaying of working safely notices to reinforce messaging to staff.
- Greater consideration of natural air-flow ventilation in buildings.
- Dedicated sanitising stations located in all rooms to encourage usage.
- Instructions on managing legionella risks in unused areas of buildings.
- Increased monitoring and supervision by Managers and reporting on compliance.

See below for further details.

SECURITY CLASSIFICATION: OFFICIAL

EXECUTIVE SUMMARY

1. In accordance with Article 127 of Regulation (EU) No. 1303/2013 and Article 27 of Commission Delegated Regulation (EU) No 480/2014, Greater Manchester ESF Co-Financing Organisation – GM Working Well Programme project has been reviewed by the Audit Authority. The scope of this review was provided in the Terms of Reference, issued to the grant recipient on 04 September 2020.

2. No issues were identified at this audit.

3. We have examined the expenditure in claims detailed in Annex A and did not identify any expenditure claimed in error.

Claim(s) value (£GBP)	9,187,892.87[1]
Ineligible expenditure (£GBP).	0
% of claim value ineligible (%)	0
Other expenditure affected (outside of project)[2]	N/A

4. A more detailed account of the above figures is at Annexes A.

5. Project outputs were being recorded and reported in line with the conditions specified in the Funding Agreement. Data quality and accuracy of the related Participant Data Schema (PDS) tested through a discrete sample of participant records confirmed eligibility of participants.

6. We would like to thank stakeholders within GMCA and partner organisations for their support and cooperation throughout the course of this review.

LIMITATIONS TO SCOPE

7. There were no limitations of scope.

ANNEX A: ARTICLE 127 - CLAIMS SAMPLE (INCLUDING ERROR QUANTIFICATION)

Audit findings

Claim(s)	Value	Tested	Projected Error
18Q03/19-/-a	£2,213,835.32	£2,213,835.32	£0
18Q03/19-/-b	£6,689,760.00	£19,830	£0
19Q02/22-/-i	£284,297.55	£284,297.55	£0
Total:	**£9,187,892.87**	**£2,517,962.87**	**£0**

When we initiated our audit, you will have received our Terms of Reference which sets out the Audit Authority's sampling approach and how we will project our audit findings to the level of the claim.

GMCA%20Revised%2
0Terms%20of%20Ref

Flat-Rate Technical Assistance
The Department for Work and Pensions has implemented the provisions of Commission Delegated Regulation 2019/1867 concerning the flat-rate financing of technical assistance that supports administration costs of the ESF programme. Where our findings refer to values of technical assistance, these have been claimed by DWP from the European Commission on a flat-rate basis as foreseen in the aforementioned regulations. If your organisation receives technical assistance via alternative routes, that will not be affected. The amounts above will not be audited by us, and you will not be expected to evidence these costs. However, if we identify any irregular expenditure in our review, we will apply this to the technical assistance element also. This element, however, is treated differently; application of a financial correction in this regard will follow a different route. Any financial errors in this report reflect those identified through our GR/Provider testing. If we have queries relating to the TA element, we will liaise with the DWP separately. If you have any questions relating to this please discuss with your contract manager in the DWP.

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GMCA Audit Committee

Date: 22 January 2021

Subject: Audit Action Follow up

Report of: Sarah Horseman, Head of Audit and Assurance

PURPOSE OF REPORT

This report advises Audit Committee of the progress to date in implementing the agreed actions from internal audit assignments.

RECOMMENDATIONS:

Members are asked to review the progress of the implementation of Internal Audit recommended actions.

CONTACT OFFICERS:

Sarah Horseman, Head of Audit and Assurance - GMCA,
sarah.horseman@greatermanchester-ca.gov.uk

Risk Management – N/A

Legal Considerations – N/A

Financial Consequences - Capital – N/A

Financial Consequences - Revenue – N/A

Number of attachments included in the report: One

BACKGROUND PAPERS: N/A

TRACKING/PROCESS		
Does this report relate to a major strategic decision, as set out in the GMCA Constitution		No
EXEMPTION FROM CALL IN		
Are there any aspects in this report which means it should be considered to be exempt from call in by the relevant Scrutiny Committee on the grounds of urgency?	No	
TfGMC	Overview & Scrutiny Committee	
N/A	N/A	

1 Introduction

1.1 The GMCA Internal Audit Plan comprises a range of audits agreed by Senior Leadership Team and Audit Committee. Each audit assignment concludes with the issue of an audit report and a number of agreed actions for implementation. Each action has a named responsible officer and an agreed target implementation date.

1.2 Previously, the responsibility for tracking implementation of agreed audit actions was held by Management, with quarterly reports on the implementation status provided to Audit Committee. In June, we reported that Internal Audit had taken responsibility for this process and providing assurance that progress is being made on actions to address identified risks.

1.3 This report provides an overview on the latest position of Internal Audit actions which were outstanding prior to this meeting.

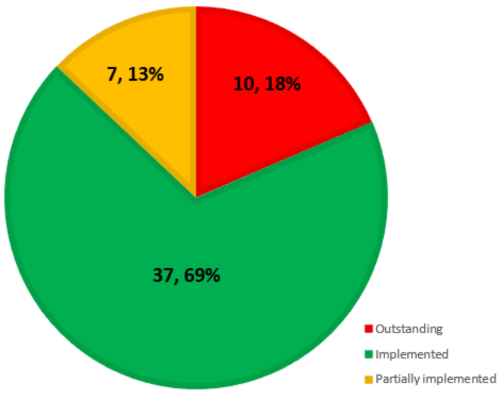
2 Agreed Process

2.1 It is the responsibility of management to implement audit actions on time and update the tracker. To aid facilitation of this, Internal Audit introduced a revised action tracker which is shared with risk owners to allow direct input of updates on progress of outstanding recommendations.

2.2 GMCA Senior Leadership Team have responsibility for overseeing the timely implementation of audit actions and the impact of risk.

3 Current Status

3.1 Since the last report in September 2020, we are pleased to report an improved position on implementation of audit actions, with several longstanding actions now implemented.

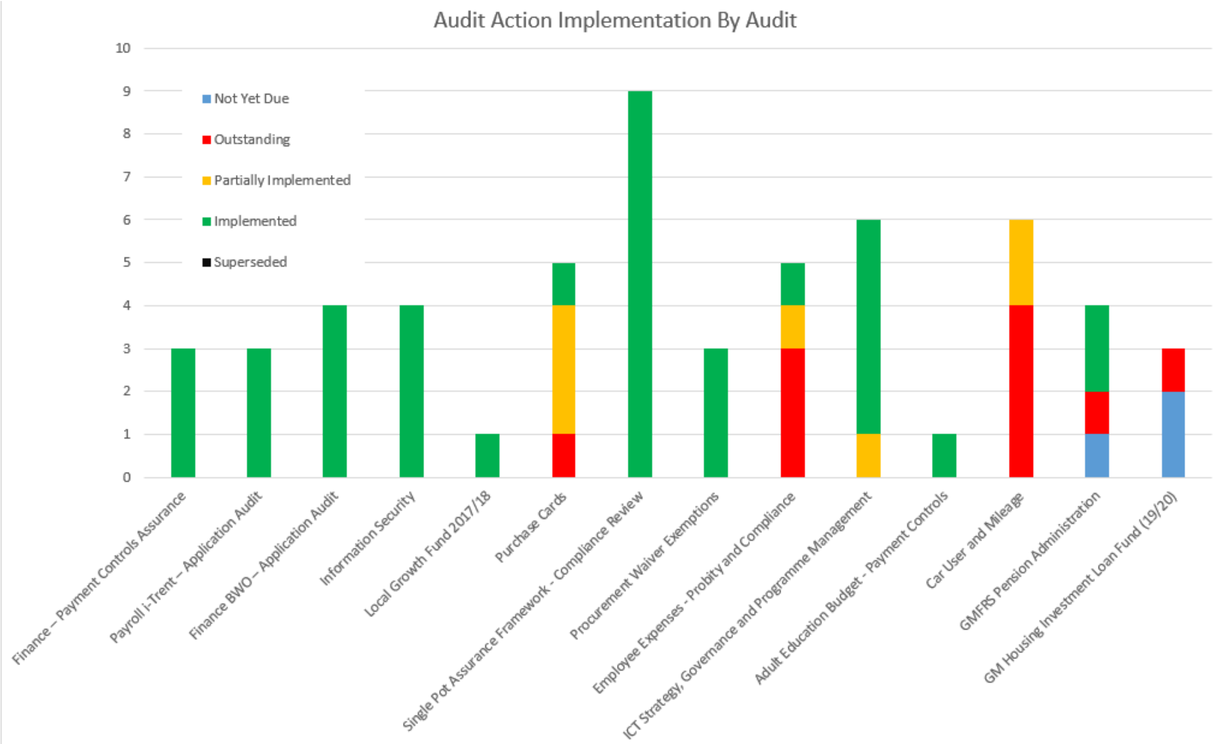


As at January 2021, **69%** of audit actions have been implemented. This represents an improvement from the Q3 position of 42%.

The target implementation rate is 85% so there is still progress to be made. Internal Audit continue to monitor action implementation and now report progress to SLT on a regular basis.

4 Analysis of Audit Actions – by Audit

4.1 The chart below shows the status of implementation of audit actions by audit.



4.2 Looking across the audits undertaken in 2019/20 and 2020/21, outstanding actions in relation to three reports (Purchase Cards, Employee Expenses and Car Mileage) can be attributed to delays in the agreement and roll out of revised policy frameworks with unions which have taken them beyond previously agreed target dates.

4.3 For the other two outstanding actions, one relates to a low risk finding in the GMFRS Pensions Audit regarding the design of a form and the other relates to a medium risk finding within the Housing Investment Loan Fund audit regarding the decision process for the Small Loan Fund. A revised date of February 2021 has been provided for that action.

4.4 The action in progress for the ICT Strategy, Governance and Programme Management audit relates to the acquisition of an IT Service Management Tool. This has been done and is due for implementation in March 2021.

5 Analysis of Audit Actions – by Risk Rating

5.1 The table below shows the status of audit actions by the risk rating of the associated audit finding

Status	**Total**	**Critical (*Major*)**	**High (*Significant*)**	**Medium (*Moderate*)**	**Low (*Minor*)**
Implemented	36	2	21	12	1
Partially Implemented	7	2	3	2	0
Outstanding	10	0	3	5	2
Not Yet Due	3	0	0	2	1
Total	**54**	**4**	**27**	**21**	**4**

Note: The terms in brackets relate to the legacy finding rating methodology. Those have been mapped to the current methodology of Critical, High, Medium and Low.

5.2 The two Major findings that are in progress both relate to the approval of policies, which as mentioned in 4.2 above require approval from Unions. Details of outstanding audit actions are provided in Appendix A.

Appendix A

Status of Overdue Actions

Audit Title	Risk Rating	Summary of Audit Recommended Action (taken from Audit Report)	Management Response to Agreed Action	Target Date	Responsible Officer	Implementation Status	Management Update on Progress
Purchase Cards (Jan 2019)	Significant	An updated and refreshed Purchase Card policy and user guidance to be shared across GMCA.	A revised purchase card policy will be produced, linked to the GMCA Expenses policy, providing clearer instruction and guidance on acceptable usage, approval requirements and management expectations.	April 2019	Head of Procurement	Partially implemented	Purchase Card Policy requires final approval following amendments in line with expenses policy (Green Book approved, however Grey Book still requires approval). Some policy areas dependant on finance system (BWO) improvements - namely punch out suppliers commonly procured by PCard. Monthly internal checking of PCard receipts now operating to check approx 10% of transactions and all over £500. Importance of this element communicated to all budget holders. **Internal Audit Opinion:** Revised Policy drafted but this needs to be rolled out across the organisation.
Purchase Cards (Jan 2019)	Significant	Approval process requires a clear distinction between the role and responsibilities of the 'line manager' and 'cost centre manager' for independent checking and	Approval process to be amended as part of revised policy to ensure that line managers have responsibility for approval of cardholder spend.	March 2019	Head of Procurement Sam Pickles	Partially implemented	Plan to amend existing approvals from cost centre manager to line manager as part of revised guidance and policy. This was a more complex piece of work than initially envisaged and required Technical consultancy to support

		approval of cardholder spend.					on system update. Line Manager approval process has been created in test and management are planning when this can be transferred to live system. **Internal Audit Opinion:** Progress has been made is being made but further work is required.
Purchase Cards (Jan 2019)	Significant	Unapproved Spend within the system must be dealt with as part of the monthly reconciliation process and month end procedures.	Process to be agreed and introduced to ensure all expenditure is posted to the financial ledger.	Feb 2019	Head of Procurement Sam Pickles	Outstanding	**Internal Audit Opinion:** Further work is required to analyse the level of outstanding approvals in the system and monthly reconciliation process. IA to seek further evidence of this from Finance.
Purchase Cards (Jan 2019)	Moderate	The review and update of purchase card guidance should include examples of acceptable and non-acceptable usage.	Revised p-card policy to provide clear guidance on acceptable and non-acceptable use of cards. Trade/business accounts to be explored and set up for relevant spend areas.	April 2019	Head of Procurement Sam Pickles	Partially implemented	The revised Purchase Card policy has been drafted and is awaiting approval. Alternative online business travel/accommodation solution now procured with Click Travel via AGMA. Anticipated implementation, training and go live date likely to take approximately three months. Effective usage, uptake and contract management should reduce p-card expenditure in this area. **Internal Audit Opinion:** Revised Policy drafted but not yet implemented.

Employee Expenses - Probity and Compliance (July 2019)	Major	**Policy and Procedures**: The priority should be the establishment and roll out the HR policy framework for employee expenses, car user mileage and other related policies including purchase cards. This will require consultation and clearance with the Trades Unions.	Agreed - Actions will be the responsibility of the Payroll and Pensions Manager	March 2020	Payroll and Pension Manager	Partially Implemented	A new Employee Travel, Mileage & Expenses Policy has been drafted and submitted to the Joint Trade Unions meeting in September 2020. The policy has been split between green/red and grey/gold book processes. The green/red book policy has been agreed with the union and has now been published on the staff intranet and highlighted on the staff newsletter. The grey/gold book policy is under negotiation with the unions. **Internal Audit Opinion:** Awaiting agreement with Unions
Employee Expenses - Probity and Compliance (July 2019)	Moderate	**Monitoring and Reporting**: There should be at least 6 monthly reporting to SMT/CLT of spend across various expense types to ensure this remained consistent with policy expectations.	Agreed	Arch 2020	Payroll and Pension Manager	Outstanding	Once policy agreed relevant reports to be submitted to SMT/CLT for discussion. **Internal Audit Opinion:** Remains Outstanding
Employee Expenses - Probity and Compliance (July 2019)	Minor	**VAT:** Consideration should be given to the process for reclaiming VAT on relevant VAT expense claim transactions.	Agreed	March 2020	Payroll and Pension Manager	Outstanding	No process in place for this at the moment but will investigate and check our systems will pick up this data for future claims. **Internal Audit Opinion:** Remains Outstanding

Employee Expenses - Probity and Compliance (July 2019)	Moderate	**Eligibility and Policy Compliance**: The draft policy guidance provides greater clarity over acceptable usage and claim rates in respect of travel, meals and hospitality. However, Management should consider the appropriateness of some existing expense claims in line with revised policy expectations and behaviours. Any known entitlement exceptions to standard policy conditions should be clearly stated.	Agreed	March 2020	Payroll and Pension Manager	Outstanding	Once the policy has been approved, we will liaise with Finance about compliance checks and whether claims are appropriate. At present any claims which are not deemed appropriate are challenged by the Payroll Team and relevant advice is given. **Internal Audit Opinion:** Remains Outstanding
ICT Strategy, Governance and Programme Management (Sept 2019)	Significant	Management should seek to implement a centralised and consistent approach to ICT projects across each of the services.	Invest in an IT Service Management Tool to track and record the service catalogue as part of an ITIL approach. Secure agreement from GMCA SMT/ ELT and GMFRS CLT/LT that no expenditure on ICT solutions should be approved without prior consideration by technical expertise in Digital ICT Services. Ensure through the Finance and Procurement Teams that	March 2020	Chief Information Officer	Partially Implemented	An ITSM tool has been purchased and is currently being implemented via a project (ref DSPB020). Anticipated go-live is March 2021. A Service Catalogue will be a deliverable that is supported by the successful implementation of the ITSM. The current BCM situation has continued to impact on the delivery of the Service Catalogue as the designated owner has been extensively involved in support the organisation's shift to a 'work from home' specifically around the issues of new kit. the focus on BCP during the COVID pandemic.

			potential ICT spend is flagged for attention.				**Internal Audit Opinion:** delayed due to the COVID-19 Pandemic
Car User and Mileage (June 2020)	Major	Policies and Procedures	An Employee Travel, Mileage & Expenses Policy which details claims which can be made through Payroll, to be drafted for consultation.	June 2020	Payroll and Pension Manager	Outstanding	A new Employee Travel, Mileage & Expenses Policy has been drafted and was due to be submitted to the Joint Trade Unions meeting in September 2020 for discussion **Internal Audit Opinion:** Outstanding – awaiting agreement with the Union
Car User and Mileage (June 2020)	Moderate	Eligibility and Policy Compliance	The claim forms will be reviewed prior to the launch on MiPlace to ensure they support HMRC and GMCA policy expectations.	July 2020	Payroll and Pension Manager	Outstanding	**Aug20**: Once the policy has been approved the forms will be reviewed prior to the online launch. **Internal Audit Opinion: Outstanding**
Car User and Mileage (June 2020)	Significant	Policy Revisions	Details of the proposed policy to be submitted to SMT/CLT for approval. FAQs to be drafted once policy agreed	August 2020	Payroll and Pension Manager	Outstanding	26.8.2020 As above, when agreed by Trade Unions, this will be submitted to SMT/CLT for final approval together with the FAQ's. 26.10.20 With the exception of the policy for grey book workers this has now been agreed by the union and will be submitted to SLT at the next meeting after which it will be launched across the authority. **12.1.21** The policy for non operational staff has now been

Appendix A

							approved and published on the intranet
Car User and Mileage (June 2020)	Moderate	Systems and Processes	iTrent Systems Team to liaise with Payroll to set up online all mileage and Payroll expense claims via MiPlace.	August 2020	Payroll and Pension Manager	Partially Implemented	26.8.2020 Online mileage claims are now processed online, online expenses will follow once approval of the policy has been approved. 26.10.2020 All online mileage claims are now processed via Miplace and the plan is for expenses claims to follow by December. 12.1.21 Online expense claims can now be made via MiPlace for green/red book employees
Car User and Mileage (June 2020)	Moderate	Monitoring and Reporting	iTrent to provide bi-annual reports to SMT/CLT with effect from October 2020 onwards	September 2020	Payroll and Pension Manager	Outstanding	26.10.20 Once the new policy is agreed and published regular reporting will be put in place.
Car User and Mileage (June 2020)	Significant	Private Vehicle Insurance and Document Validation	Discussions to take place with Director of Corporate Services to confirm business insurance needs required by employees. When the MiPlace Self Service is launched we will reiterate to Managers that they must request relevant documents before a	Sptember 2020	Payroll and Pension Manager	Outstanding	26.10.20 This will be completed following the publication of the new policy.

			claim is approved and retained by the Manager. Discussions with iTrent will follow after launch to enable the download of documents onto ITrent.				
GMFRS Pension Administration (Sept 2020)	Low	Improvements required to the Widow's application form	The widow's pension application form will be adjusted to allow for the provision of alternative information where necessary e.g. to enter a different surname or living arrangements.	September 2020	Payroll and Pension Manager	Outstanding	26.10.20 - This has not yet been changed as the team continue to assess the sensitivities of the situation. It is not thought appropriate that the main form is changed for this information but how this can be approached is being reviewed.
GM Housing Investment Loan Fund (19/20) (September 2020)	Medium	Review of Small Loan Fund Schemes by Gateway Committee	The Gateway Panel will be consulted to confirm that they agree with the decision to remove them from the approval and review process for Small Loan Fund schemes. If this is agreed the process will be updated.	December 2020	Laura Blakey / Michael Walmsley	Outstanding	In putting together a note on this for Gateway, it became clear that the full terms of reference for the gateway and the credit committee would benefit from a refresh; this issue will therefore be picked up as part of that. Estimated completion for the refresh of the ToR is February, so new target implementation date of 28/2/21 within the service. **Internal Audit Comment:** Given the increased scope of action the extension to the target date seems reasonable.