

JOINT INDEPENDENT AUDIT COMMITTEE

MONDAY, 28 FEBRUARY 2022

TEAMS

AGENDA

OPEN SESSION

1. **INTRODUCTION**
2. **DECLARATION OF INTEREST**
3. **MINUTES OF THE OPEN SESSION OF THE JOINT INDEPENDENT AUDIT COMMITTEE 22 NOVEMBER 2021**
(Attached)
4. **MATTERS ARISING**
(Action list attached)
5. **SUMMARY OF RECENT EXTERNAL INSPECTION, INVESTIGATION AND AUDIT REPORTS**
Head of Corporate Development
(Paper attached)
6. **JOINT STRATEGIC RISK REGISTER**
Head of Corporate Development
(Paper attached)
7. **TREASURY MANAGEMENT POLICY STATEMENT AND STRATEGY**
Head of Finance
(Paper attached)
8. **ANNUAL GOVERNANCE REVIEW - ASSURANCE FRAMEWORK**
Head of Finance
(Paper attached)
9. **INTERNAL AUDIT CHARTER, STRATEGY STATEMENT 2022-2025 AND 2022/23 AUDIT PLAN**
Report of Internal Audit Manager
(Paper attached)
10. **EXTERNAL AUDIT – INTRODUCTIONS AND AUDIT PLAN FOR 2020/21**
Report of the External Auditor
(Paper attached)
11. **DATE AND TIME OF NEXT MEETING**
Monday 25th April, 2pm, Teams/Baliol Meeting Room

12. EXCLUSION OF THE PRESS AND PUBLIC – EXEMPT BUSINESS

The Committee is asked to pass a resolution to exclude the press and public from the meeting during consideration of the following items on the grounds indicated.

Agenda item number	Paragraph of Schedule 12A to the Local Government Act 1972
13	7
14	7
15	7
16	7
17	7
18	7
19	7
20	7



NORTHUMBRIA POLICE MINUTES

Title Joint Independent Audit Committee (JIAC)	Meeting number 03/2021
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Date 22 November 2021	Location Teams Video Conference	Duration 14:00 – 15:20
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Present:

Committee Members	C Young K Amlani J Guy P Wood	Chair
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Officers:	R Durham D Ford P Godden M Tait	OPCC Chief of Staff and Monitoring Officer Deputy Chief Constable (DCC) Head of Corporate Development Department Joint Chief Finance Officer
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Invitees:

P Grady	Grant Thornton (<i>present for item 9</i>)
L Griffiths	Grant Thornton (<i>present for item 9</i>)
W Keenen	Chief Constable (<i>present for item 1</i>)
K Laing	Head of Finance Department
C Oakes	Internal Audit, Gateshead Council
C Bathan	Governance and Planning Adviser (<i>Secretary</i>)

OPEN SESSION**1. INTRODUCTION**

C Young opened the meeting, noting this would be her first as JIAC Chair. C Young welcomed all members, stating she was looking forward to being involved in the audit committee.

Chief Constable W Keenen joined the meeting to welcome C Young as Chair and welcome all members back to JIAC once again, confirming there are plans to meet with new members personally now COVID-19 restrictions have eased.

2. DECLARATION OF INTEREST

C Young confirmed no conflicts of interest for herself as a new committee member and Chair.

3. MINUTES OF THE OPEN SESSION OF THE JOINT INDEPENDENT AUDIT COMMITTEE 19 JULY 2021

Agreed as a true and accurate record.

4. MATTERS ARISING

Joint Chief Finance Officer confirmed actions allocated to previous auditors, Mazars, would not be completed therefore require to be removed from the action list.

Action list updated.

5. SUMMARY OF RECENT EXTERNAL INSPECTION, INVESTIGATION AND AUDIT REPORTS

P Godden, Head of Corporate Development, confirmed a considerable number of recommendations and areas for Improvement (AFIs) have now been closed by the HMICFRS Force Liaison Lead (FLL) I Levitt, which shows Northumbria Police to be in a positive position comparable to previous reports. Currently, the Force has only two open AFIs and 39 open Recommendations, 23 of which were opened as a result of more recent HMICFRS activity.

P Godden confirmed that, although a number of recommendations and AFIs have been officially closed, many of these relate to critical areas of business delivery for Northumbria Police. Monitoring will continue by the allocated Strategic Lead ahead of the next HMICFRS PEEL assessment, due in quarter 1 of 2022.

J Guy praised the transparency of the reporting; however, questioned whether the Force is fully satisfied of its position against Violence Against Women and Girls (VAWG), Response to Rape and Duty to Protect. J Guy stated that, in particular, the Duty to Protect thematic report was published in August 2021 and, thus far, does not seem to have a business lead determined; J Guy suggested an acceleration of these matters should be considered. DCC clarified that, although not reflected within the report, T/ACC Felton had been assigned Force Lead as these issues fall within Safeguarding. Work has already commenced in the form of the convening of a VAWG Gold Strategy Group with five assigned working groups, in a national effort to strengthen the approach to these areas of business.

P Wood questioned whether a brief presentation could be provided at the next JIAC on these issues so committee members could be fully sighted on how Northumbria manages its approach. DCC confirmed this would be acceptable after the PCC has been fully appraised. R Durham confirmed this would also include a section on relevant work which is being done by the Office of the Police and Crime Commissioner (OPCC).

DCC reassured members that, although there was a national focus on VAWG as a result of the rape and murder of Sarah Everard, Northumbria Police has not seen any evidence of a loss of public confidence and work completed aims to maintain the already high levels which are consistently attained by the Force.

Action: To prepare and present a presentation on Northumbria's approach to Violence Against Women and Girls (VAWG) and understanding of key issues.

6. JOINT STRATEGIC RISK REGISTER

P Godden, Head of Corporate Development, noted no significant changes to the Force Strategic Risk Register (SRR); the only revisions made are to associated wording to better clarify position and the scoring remains unchanged. The five high-risk areas for the Force continue to be Finance, ICT, Information and Data Management, Information and Data Quality and Workforce.

R Durham confirmed the only high risk for the OPCC is Finance; however, this is consistent with previous reporting and is expected to change in the future. R Durham confirmed the OPCC Risk Register has noted, within the section regarding public confidence, that review and report documentation commissioned by the Home Secretary, following the sentencing of Wayne Couzens, will cast continued scrutiny over all Forces.

J Guy noted the oversight of the JIAC should be listed as a control for Governance on the SRR. J Guy also suggested the oversight of the PCC by the Police and Crime Panel should be listed as a control for the Police, even though this control may be indirect; J Guy confirmed this control is included on the PCC Risk Register. P Godden confirmed the JIAC could be included in the controls for the discussed risk and the owner of the Governance Risk (DCC) would be consulted around the inclusion of the OPCC Police and Crime Panel as an additional control.

P Wood queried whether the statistics reported in support of the public confidence of Northumbria Police were consistent to previous reported figures. P Godden confirmed that reported statistical information was consistent and Northumbria Police reliably garner extremely positive results in feedback from surveys.

Action: Head of Corporate Development to discuss with DCC the inclusion of the oversight of the OPCC Police and Crime Panel as a control of the Governance Risk.

7. MID-YEAR TREASURY MANAGEMENT REPORT

K Laing, Head of Finance, presented the item noting that historically low interest rates of 0.1% have impacted both on borrowing and investment activity for the Force. With regards to borrowing activity, the Force is currently £100,000 under budget for borrowing interest. K Laing confirmed that a number of grants had also been received from Central Government in relation to COVID-19 which in turn has increased reserves. Overall, the Force has a total of £110,000 surplus against reported budgeted position.

K Laing confirmed a £10,000 uplift is expected to be achieved from forecasted position with regards to investment activity. The Force is also outperforming benchmarking data in a comparative report produced by Link Group.

K Laing noted one counterparty limit breach had occurred on 6th August 2021, which was identified and rectified the next working day, whereby the permitted 20% lower limit of investments was exceeded into Svenska Bank. Immediate remedial action was taken to ameliorate the situation and, as a result, further instructions and checks have been added to the daily investment proposal templates to ensure this does not happen again, even though the breach was considered to be no risk to the Commissioner's funds.

P Wood queried whether any internal or external auditors review methodologies are in place for such calculations. K Laing confirmed the treasury management auditors review methodologies which have been found to be appropriate; minor amendments have already been made to ensure due process.

P Wood noted a typing error in the *Appendix A 5.1 Borrowing Interest*. Joint Chief Finance Officer clarified this should read 2,940 rather than 3,940.

Update noted.

8. EMERGENT AUDIT PLAN 2022/23 – 2024/25

Chief Internal Auditor, C Oakes, clarified the Emergent Audit Plan requires to be approved by the committee by February 2022; the previous plan was agreed February 2021.

P Wood queried whether satisfactory time allocation was given to Patch Management. C Oakes confirmed he was satisfied and that, as it is marked as high risk, it is audited on a yearly basis.

Update noted.

9. EXTERNAL AUDIT UPDATE

P Grady and L Griffiths joined the meeting to introduce themselves as Northumbria Police's new external auditors, representing Grant Thornton. P Grady confirmed Grant Thornton's client base consists of a number of other Police Forces, and they are looking forward to adding Northumbria Police to that cohort.

Joint Chief Finance Officer welcomed P Grady and L Griffiths on board, noting Northumbria Police was looking forward to building positive relationships with Grant Thornton in the future.

Update noted.

10. DATE, TIME AND VENUE OF NEXT MEETING

Joint Chief Finance Officer confirmed new auditors, Grant Thornton, would be consulted as soon as possible regarding their availability and deadlines for 2022 in order to ascertain meeting dates and ensure a smooth transition. As of yet, there are no firm dates, and these will be confirmed with members when known.

Matters Arising

Meeting	Agenda Item/Title/Context	Open/Closed	Note/Decision/Action	Detail	Assigned to
JIAC 22/11/21	5. SUMMARY OF RECENT EXTERNAL INSPECTION, INVESTIGATION AND AUDIT REPORTS	OPEN	ACTION	To prepare and present a presentation on Northumbria's approach to the Violence Against Women and Girls (VAWG) and understanding of key issues.	Debbie Ford (DCC)
JIAC 22/11/21	6. FORCE STRATEGIC RISK	OPEN	ACTION	Head of Corporate Development to discuss with DCC the inclusion of the oversight of the OPCC Police and Crime Panel as a control of the Governance Risk as included on the SRR.	Paul Godden

AGENDA ITEM 5

Joint Independent Audit Committee	28 February 2022
Summary of Recent External Inspection, Investigation and Audit Reports	
Report of: Head of Corporate Development	
Author: Corporate Governance Manager	

I. PURPOSE

- 1.1. To provide details of recent external inspection, investigation and audit reports and an overview of the process in place to manage the Force's response to recommendations and findings.

2. BACKGROUND

- 2.1. All Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS) reports and other external inspection, investigation and audit reports are considered by the Executive Team. A lead is appointed to consider the findings and identify actions in response to any recommendations and areas for improvement. The Force position is reported to the Police and Crime Commissioner at the Business Meeting to inform the statutory response required under section 55 of the Police Act 1996 where required.
- 2.2. All activity is regularly reviewed by the respective owners. Delivery is overseen by the Executive Team through the Force's governance and decision-making structure and progress is reported to the Scrutiny Meeting of the Office of the Police and Crime Commissioner.
- 2.3. Corporate Development Department acts as the central liaison point for all HMICFRS related matters.
- 2.4. HMICFRS independently assesses the recommendations and AFIs either through further inspection or by undertaking reality testing.
- 2.5. The HMICFRS Monitoring Portal includes causes of concern and recommendations made to police forces by HMICFRS since January 2013, and areas for improvement since September 2019. The position as of 11th February 2022 was:

	Recs	AFIs
Total	297	55
Total closed	216	25
Total open	81	30
<i>Considered complete by the Force, awaiting HMICFRS review</i>	16	2
<i>Reviewed by HMICFRS for closure, awaiting update on the portal</i>	35	26
Subject to ongoing Force activity <i>(including 11 recommendations in response to super-complaints¹)</i>	30	2

¹ HMICFRS has incorporated the recommendations from super-complaints into the monitoring portal although, it will not be used to capture progress.

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- 2.6. Since the last Joint Independent Audit Committee (JIAC), four recommendations from one report 'A joint thematic inspection of the criminal justice journey for individuals with mental health needs and disorders' have been added to the portal.
- 2.7. HMICFRS has now closed 18 AFIs from the 2018/19 Integrated PEEL Assessments. These areas will continue to be reviewed as part of the evidence gathering for this year's PEEL inspection and the Force will ensure ongoing monitoring of these business areas within its performance management framework.
- 2.8. There are 30 recommendations and two AFIs subject to ongoing Force activity resulting from eight thematic inspection reports and two super-complaint investigations.
- 2.9. Appendix A provides an overview of the outstanding recommendations and AFIs assigned to Northumbria Police by HMICFRS on the monitoring portal. It includes the number closed by HMICFRS alongside the number of recommendations or AFIs assessed as complete by the Force. A summary of progress, together with an expected delivery date and RAG status is also included.
- 2.10. The following inspection report was published by HMICFRS on 17th November 2021:

[A joint thematic inspection of the criminal justice journey for individuals with mental health needs and disorders](#)
- 2.11. This inspection examined the progress of individuals through the criminal justice system (CJS) from first contact with the police to release from prison and had input from the four criminal justice inspectorates and the healthcare inspectorates in England and Wales.
- 2.12. It looked at the work carried out by each part of the CJS at six locations, not including Northumbria and covered the corresponding Crown Prosecution Service (CPS) areas, police forces, liaison and diversion (L&D) schemes, probation services and prisons.
- 2.13. The report stated that not enough progress had been made since the previous joint inspection 12 years ago.
- 2.14. The lack of a common definition of mental ill health means nobody has an accurate picture of the numbers of people with mental health issues in the CJS, or the collective needs or risks posed by these individuals.
- 2.15. Significant problems were found in the exchange of information in every agency and at every stage of an individual's journey in the CJS.
- 2.16. Inspectors welcomed the roll-out of mental health L&D services in police stations and courts, recent initiatives to increase the number of Mental Health Treatment Requirements given by the courts and the significant fall in the use of police custody as a 'place of safety' for people in mental health crisis. They also found police officers had a good understanding that minor crime – particularly crime caused by mental health issues – could be dealt with using a health care approach.
- 2.17. The report makes 22 recommendations, five for the police service. Four police service recommendations have been added to the HMICFRS monitoring portal for chief constables

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to consider whilst the fifth regarding a review of manual of guidance forms by police leadership has been aligned to the National Police Chiefs' Council.

3. FINANCIAL CONSIDERATIONS

3.1 There are no additional financial considerations arising from this report.

4. LEGAL CONSIDERATIONS

4.1 There are no legal considerations arising from the content of this report.

5. EQUALITY CONSIDERATIONS

5.1 There are no equality implications arising from the content of this report.

6. RISK MANAGEMENT

6.1 Activity in response to HMICFRS findings is monitored through the Northumbria Police governance structure and by the Office of the Police and Crime Commissioner.

6.2 HMICFRS expects that progress is made in response to the recommendations and uses progress against previous recommendations to assess risk when considering future inspection activity.

7. RECOMMENDATIONS

7.1 To note progress continues to be made against all recommendations and AFIs and there are currently no matters of exception to report in response to previous inspections.

Report Title	Business Lead	Executive Lead	Recommendation/ Area for Improvement (AFI)	Number of Recommendations/ AFIs		Context	Anticipated completion date	Progress on delivery	RAG	Reported to Scrutiny Meeting	PCC response	Next report to Scrutiny Meeting
				(& number considered complete on the HMICFRS Monitoring Portal)	Number considered complete by the Force not yet reviewed by HMICFRS							
<p>Fraud: Time to choose</p> <p>Published: 2nd April 2019 CC response to PCC: 16/5/19 PCC Section 55 response: August 2019 Reported to JIAC: 13/5/19</p>	Head of Crime	T/ACC (Crime and Safeguarding)	AFI	5(4)	0	<p>Issue</p> <p>National AFIs regarding improving the way the force uses the National Fraud Intelligence Bureau monthly victim lists to identify and support vulnerable victims and others who require additional support; ensuring forces improve the identification and mapping of organised crime groups in which the principal criminality is fraud; increased use of ancillary orders against fraudsters; compliance with the Code of Practice for Victims of Crime when investigating fraud; and ensuring that fraudsters are included among those considered for serious organised crime 'prevent' tactics, including by local strategic partnership boards and through integrated offender management processes.</p> <p>Focus for Northumbria Police</p> <p>Continue to improve VCOP compliance</p>	Apr-22	<p>An action plan was created following publication of this report and numerous activities have been undertaken to improve performance. Northumbria was selected as one of eleven forces to be part of the HMICFRS revisit of the 2019 fraud inspection report in January 2021. Feedback following the inspection was very positive and as a result, four of the five AFIs were considered complete by the HMICFRS Force Liaison Lead (FLL). One of the AFIs has been closed on the portal, with the remaining three awaiting closure. The fifth AFI regarding compliance with VCOP has remained open to be assessed through the continuous monitoring regime.</p> <p>Update: November 2021</p> <p>As previously reported four of the five AFIs are considered complete by both the Force and the FLL. One AFI has been closed on the portal and the remaining await confirmation by the HMI Chief of Staff.</p> <p>The remaining AFI is linked to compliance with the Victims' Code of Practice (VCOP) of fraud. VCOP is a priority for the Force and while HMICFRS is satisfied the Force is taking appropriate action to address this area for improvement, this remains open to ensure the improvements become established and embedded.</p> <p>VCOP compliance for all areas of crime continues to be managed and monitored via the LCJB.</p>		16/11/2021	The PCC welcomed the progress being made regarding HMICFRS AFIs.	19/05/2022
<p>A review of 'Fraud: Time to choose'</p> <p>Published 5th August 2021 CC response to PCC: 23/09/2021 PCC Section 55 response: August 2021 Reported to JIAC: 27/09/2021</p>	Head of Crime	T/ACC (Crime and Safeguarding)	Recommendations	2 (0)	2	<p>Issue</p> <p>HMICFRS has determined that not enough had changed since their previous fraud inspection with too many victims still receiving a poor service and denied justice. Two additional recommendations were made regarding ensuring that the guidance issued by the National Police Chiefs' Council Coordinator for Economic Crime about fraud-related calls for service is being followed and ensuring the adoption of the guidance issued in September 2019 by the National Police Chiefs' Council Coordinator for Economic Crime that was aimed at improving the information given to victims when reporting fraud.</p>	N/A	<p>One recommendation regarding ensuring the Force is following the guidance issued by the National Police Chiefs' Council (NPCC) Coordinator for Economic Crime about fraud-related calls for service, and the second regarding the adoption of the guidance issued in September 2019 by the NPCC Coordinator for Economic Crime aimed at improving the information given to victims when reporting fraud.</p> <p>A process has been developed for communications centre staff and rolled out 8th November 2021, alongside training by fraud specialists from Cyber Crime and Communications Department to reinforce the process and check understanding amongst staff. As part of the new process contact handlers and police officers will send the victim a designated link to consistent information for fraud victims.</p> <p>Update: February 2022</p> <p>Call handlers have now received fraud training and the new process for Communications Centre staff is in place. All victims of fraud are sent consistent and defined information and access to the Action Fraud website. These recommendations are now considered complete by the Force and will be reported to Scrutiny Meeting in line with the reporting schedule.</p>		16/11/2021	The PCC welcomed the progress being made regarding the HMICFRS recommendations.	19/05/2022
<p>PEEL spotlight report: The Hard Yards – Police to police collaboration</p> <p>Published 21st July 2020 CC response to PCC: 27/08/20 PCC Section 55 response: September 2020 Reported to JIAC: 24/08/20</p>	Funding and Innovation Manager	DCC Ford	Recommendation	1(0)	1	<p>Issue</p> <p>The report highlighted one national recommendation for forces suggesting that if forces had not yet implemented an effective system to track the benefits of their collaborations, they should use the methodology created by the NPCC, the College of Policing and the Home Office.</p> <p>Focus for Northumbria Police</p> <p>To improve ability to track the benefits of collaborations.</p>	N/A	<p>The recommendation stated that if forces did not have an effective system, they should use that produced by the NPCC, College of Policing and the Home Office.</p> <p>The College of Policing has confirmed it does not plan to undertake the work to create a benefits realisation methodology.</p> <p>The Force's strategy is to seek formal collaborative opportunities when there are clear business benefits and efficiencies to be achieved. The Force has a methodology for monitoring benefits realisation which will be applied to track collaboration benefits.</p> <p>Update: February 2022</p> <p>The Force now considers this recommendation complete and will report to Scrutiny Meeting in line with the reporting schedule. Should a methodology be developed by the NPCC, College of Policing and the Home Office in the future, this would be reviewed.</p>		16/11/2021	No issues raised.	19/05/2022
<p>Safe to share? Liberty and Southall Black Sisters' super-complaint on policing and immigration status (super complaint)</p> <p>Published 17th December 2020 CC response to PCC: 28/01/2021 PCC Section 55 response: N/A Reported to JIAC: 22/02/2021</p>	Head of Safeguarding	T/ACC (Crime and Safeguarding)	Recommendations	4(0)	2	<p>Issue</p> <p>This super-complaint considers the treatment of victims of crime and witnesses with insecure immigration status. It focuses on how information is passed to the HO for immigration enforcement (IE). It concerns two features of policing: the passing of victim and witness data to the HO by the police for immigration enforcement purposes; and the operation of and/or perception of a culture of police prioritising immigration enforcement over safeguarding and the investigation of crime.</p> <p>The national recommendations request that information sharing with IE on domestic abuse victims is stopped and that forces ensure that all migrant victims and witnesses of crime are effectively supported through safe reporting pathways to the police and other statutory agencies.</p> <p>Focus for Northumbria</p> <p>To ensure that victims with insecure immigration status are confident to report crimes to the Force and that they are appropriately safeguarded.</p>	To be determined following national direction.	<p>A joint Force/OPCC response to the recommendations was submitted to the HMICFRS Super-complaints team in June 2021 in line with the recommendation to provide a response within six months of the report.</p> <p>Update: February 2022</p> <p>On the 16th December 2021, the Home Office published a report following its review examining the legal framework and policy considerations submitted by Liberty and Southall Black Sisters concerning the data sharing arrangements between the Home Office and police in respect of migrant victims and witnesses of crime with insecure status. The review addressed wider considerations of public policy raised in the super complaint as well as those relating to policing and crime, including domestic abuse.</p> <p>Further national policing direction from the NPCC and College of Policing as a consequence of the Home Office report is awaited.</p> <p>A link to the six month update has been made available on the OPCC website in order for HMICFRS to publish links to all forces responses to the super-complaint.</p>		16/11/2021	The PCC welcomed the progress being made regarding the HMICFRS recommendations.	19/05/2022
<p>Getting the balance right? An inspection of how effectively the police deal with protests</p> <p>Published 11th March 2021 CC response to PCC: 29/04/2021 PCC Section 55 response: June 2021 Reported to JIAC: 19/07/2021</p>	Head of Operations Department	ACC (Force Coordination)	Recommendations	2 (0)	2	<p>Issue</p> <p>The Home Secretary commissioned HMICFRS to conduct an inspection into how effectively the police manage protests following several protests, by groups including Extinction Rebellion, Black Lives Matter and many others. This was to assess the extent to which the police have been using their existing powers effectively, and what steps the Government could take to ensure that the police have the right powers to respond to protests.</p> <p>There were two national recommendations regarding access to the College of Policing Knowledge Hub's Association of Police Lawyers group and to ensure that the Force has sufficiently robust governance arrangements in place to secure consistent, effective debrief processes for protest policing. The AFIs suggested the development of a stronger rationale for determining the number of commanders, specialist officers and staff needed to police protests; improvement in the police's protest-related community impact assessments; and improvement in the quality of the protest-related intelligence provided to the National Police Coordination Centre's Strategic Intelligence and Briefing team.</p>	Feb'22	<p>A national position statement is being produced by NPCC leads for Public Order which will respond to the recommendations and AFIs within the report.</p> <p>One recommendation was reported as complete at the Scrutiny Meeting in September 2021. Two further AFIs were reported as complete at the Scrutiny Meeting in November 2021.</p> <p>The Force has created an organisational learning plan and governance. Local reporting on progress is via the Force Coordination Centre/Operations Performance meeting.</p> <p>Intelligence products have been reviewed and quality assured, and protest-related community impact assessments (CIAs) are an important part of Protest planning and are now specifically referenced within Gold and Silvers plans and objectives. The CIA plans are pre, during and post event and also capture organisational learning.</p> <p>Update: February 2022</p> <p>The remaining recommendation regarding the governance processes to secure consistent, effective debrief processes for protest policing is now considered complete. All protests are debriefed proportionate to the scale of the operation and national post-event learning review forms are now prepared after every debrief and signed off by a gold commander prior to submission to the National Police Coordination Centre. This will be reported to Scrutiny Meeting in line with the reporting schedule. The remaining AFI re. determination of the numbers needed to police protests is now being finalised.</p>		16/11/2021	The PCC welcomed the progress being made regarding HMICFRS recommendations and AFIs.	19/05/2022
<p>Policing in the pandemic - The police response to the coronavirus pandemic during 2020</p> <p>Published 20th April 2021 CC response to PCC: 03/06/2021 PCC Section 55 response: June 2021 Reported to JIAC: 19/07/2021</p>	Multiple	DCC Ford	Recommendations	5 (0)	3	<p>Issue</p> <p>The report highlighted five national recommendations regarding ensuring that officers understand and correctly implement the guidance for managing registered sex offenders during the pandemic; that they can manage their responses to changes in coronavirus-related legislation; that a policy is in place to make sure that the guidance and self-isolation directions when members of the workforce come into contact with someone with coronavirus symptoms are followed; that custody records are updated with information about how/when/if detainees are informed of the temporary changes to how they can exercise their rights to legal advice and representation; and to assess the sustainability of any temporary measures introduced during the pandemic that change the way they work.</p> <p>The Force is well positioned with regard to the recommendations made.</p>	This is in part dependent upon the release of the new custody recording system.	<p>Update: November 2021</p> <p>Three of the five recommendations were reported as complete at the Scrutiny Meeting in September 2021. These relate to officers understanding of guidance regarding managing registered sex offenders and coronavirus legislation and also policy regarding test track and trace.</p> <p>A new ways of working project is underway to determine future working practices.</p> <p>Custody staff have been provided guidance to ensure that custody records are updated with information about how/when/if detainees are informed of the temporary changes to how they can exercise their rights to legal advice and representation.</p> <p>The Electronic Custody Recording system cannot mandate this information but quality assurance checks are being undertaken. The new custody system will improve monitoring in the future.</p>		23/09/2021	No issues raised.	22/02/2022

Report Title	Business Lead	Executive Lead	Recommendation/ Area for Improvement (AFI)	Number of Recommendations/ AFI's (& number considered complete on the HMICFRS Monitoring Portal)	Number considered complete by the Force not yet reviewed by HMICFRS	Context	Anticipated completion date	Progress on delivery	RAG	Reported to Scrutiny Meeting	PCC response	Next report to Scrutiny Meeting
Custody services in a COVID-19 environment Published 20th April 2021 CC response to PCC: 03/06/2021 PCC Section 55 response: June 2021 Reported to JIAC: 19/07/2021	Head of Custody	ACC (Force Coordination)	Recommendation	1 (0)	0	Issue This was a supplemental report to 'Policing in the Pandemic' with a further national recommendation providing detail of the custody information that HMICFRS recommends forces should collect and use.	This is dependent upon the release of the new custody recording system	Update: November 2021 Limitations with the current ICT systems do not allow the collation of some of the suggested data and some can only currently be obtained by manually checks of custody records. The new custody recording system will allow for the wider scrutiny of data and information.		23/09/2021	No issues raised.	22/02/2022
Review of policing domestic abuse during the pandemic – 2021 Published 22nd June 2021 CC response to PCC: 29/07/2021 PCC Section 55 response: August 2021 Reported to JIAC: 19/07/2021	Head of Safeguarding	T/ACC (Crime and Safeguarding)	Recommendations	3 (0)	0	Issue The report highlighted three national recommendations regarding a review of discontinued cases; the safeguarding and support of victims awaiting court; breaking down barriers to reporting and ensuring that new practices adopted during the pandemic are properly monitored for quality and safety.	Jun-22	Update: February 2022 Online contact methods are available to victims of domestic abuse although it is acknowledged that data analysis around online reporting requires enhancements. An options appraisal is currently being progressed to determine Northumbria's new digital platform, to ensure that it has the best reporting and monitoring mechanisms, for likely implementation in May 2022. A new digital contact handling team will also be implemented in March 2022. This will see a dedicated team servicing digital submissions. Telephone-based initial response to domestic abuse incidents and crimes is centrally managed by staff with domestic abuse training based within the Risk Management Desk within the Communications Department. This force wide function operates within the parameters set out by the College of Policing and guidance for Domestic Abuse telephone first response pilots. A victim services review has been completed and the project is preparing for implementation. This will provide additional resources to support victims and witnesses from the point of the crime through to the end of their Criminal Justice journey. One of the key elements of the additional resource will be to provide support to all DA victims who enter the court process. Each victim will receive a bespoke Criminal Justice Engagement plan at the point a case is listed and will have a dedicated liaison officer to work with them through the court process. A Domestic Abuse Improvement Plan is in place which includes activity to improve outcomes.		16/11/2021	The PCC welcomed the progress being made regarding the HMICFRS recommendations.	07/04/2022
A joint thematic inspection of the police and Crown Prosecution Service's response to rape – Phase one: From report to police or CPS decision to take no further action Published 16th July 2021 CC response to PCC: 23/09/2021 PCC Section 55 response: Reported to JIAC: 27/09/2021	Head of Safeguarding	T/ACC (Crime and Safeguarding)	Recommendations	8 (0)	0	Issue The inspection found that the criminal justice system's response to rape offences fails to put victims at the heart of building strong cases despite the national focus by the Government, policing and the CPS on improving outcomes for rape. Recommendations have been made to police regarding capturing the protected characteristics of rape victims; establishing reasons why victims withdraw from cases; working better with local support services to better understand their role; improving the effectiveness of case strategies and action plans with the CPS; improving relationships with the CPS to build a cohesive and seamless approach; reviewing the current process for communicating to victims the fact that a decision to take no further action has been made; ensuring investigators understand that victims are entitled to have police decisions not to charge reviewed under the Victims' Right to Review scheme; and the publication of annual SSAIDP attendance figures, and information on their numbers of current qualified RASSO investigators.	Delivery of two of the recommendations is dependent on the implementation of the Force's new Northgate Connect IT system.	Update: February 2022 Some of the requirements of the recommendations will require the implementation of the new Northgate Connect IT system to allow for the necessary information capture. A Joint National Action Plan has been circulated through CPS/Police leads and adopted locally; this addresses key performance areas for improvement.		N/A	N/A	07/04/2022
A duty to protect: Police use of protective measures in cases involving violence against women and girls (super complaint) Published 24th August 2021 CC response to PCC: 23/09/2021 PCC Section 55 response: N/A Reported to JIAC: 27/09/2021	Multiple	T/ACC (Crime and Safeguarding)	Recommendations	8 (0)	1	Issue This is a report following a super complaint where concerns were raised that the police are failing to use protective measures, namely pre-charge bail conditions, non-molestation orders, Domestic Violence Protection Notices and Domestic Violence Protection Orders (DVPN/DOs) and restraining orders, to protect women and girls. Chief constables have been recommended to implement processes for managing RUI in line with the letter from the NPCC Lead for Bail Management Portfolio; ensure data is gathered on the use of voluntary attendance, ensure that in all pre-charge bail cases where bail lapses, the investigator in charge of the case carries out an assessment of the need for pre bail-charge to continue; review their policy on how the force processes notifications of Non Molestation Orders; review their policy on DVPNs and DVPOs; ensure that officers are fully supported in carrying out their duties to protect all vulnerable domestic abuse victims; consider what legal support they need to use protective measures and secure this support. An update is required within six months of publication.	Six month Force position to be submitted by 24th February 2022	The Force position was presented to the PCC on 23rd September 2021; many of the recommendations are in the process of being or have been addressed to provide victims with the appropriate use of protective measures. Update: February 2022 An action plan is in place to support the management of open crimes where Released Under Investigation (RUI) is a factor. The creation of a Superintendent post for Criminal Justice Performance and the addition of four new Inspector posts within Custody will help improve and drive performance around appropriate use of RUI, Voluntary Attendance and anticipated changes to bail legislation. Force procedures regarding use of DVPN/DOs, and non-molestation orders provide clear instruction on their use. The use of DVPN/DOs is regularly monitored and learning opportunities are captured. Officers are fully supported in carrying out their duties to protect all vulnerable DA victims through training, toolkits, supervision and through learning identified through scrutiny panels.		N/A	N/A	22/02/2022
Police response to violence against women and girls - Final inspection report Published 17th September 2021 CC response to PCC: 16/11/2021 PCC Section 55 response: Reported to JIAC: 22/11/2021	Head of Safeguarding	T/ACC (Crime and Safeguarding)	Recommendations	3(0)	0	Issue The recommendations in the final report relate to increasing the prioritisation of VAWG offences in policing; the enhancement of capability and capacity to pursue and disrupt adult perpetrators; structures and funding to ensure tailored and consistent support for victims; reviewing and ensuring consistently high standards in responses to VAWG supported by national standards and data; and an immediate review of the use of outcomes 15 and 16 in VAWG offences.	To be determined	The report has been reviewed and the Force position presented to the PCC on 16th November 2021. Northumbria presently records information on victim age, gender and ethnicity. It is recognised that while Northumbria can provide overall victim data in terms of volumes, data relating to all nine protected characteristics is not available. Recent work has been conducted via the Northumbria Local Criminal Justice Board. The NPICCS Replacement Project Team confirm that in relation to the nine protected characteristics, Connect allows for the collection of far more data than NPICCS currently does. The force routinely monitors use of outcomes 15 and 16, and will support the NPCC VAWG national delivery lead in the development and implementation of the new process. Update: January 2022 Following the publication of the VAWG national delivery framework, a VAWG Delivery Group of identified SPOCs across all key force functions has been established to develop a force delivery framework aligned to the national publication. Governance in relation to VAWG is via the Protecting Vulnerable People Governance Group chaired by ACC Crime and Safeguarding.		16/11/2021	The PCC welcomed the progress being made regarding the HMICFRS recommendations.	19/05/2022
Pre-charge bail and released under investigation: striking a balance Published 08/12/2020 CC response to PCC: 28/01/21 PCC Section 55 response: March 2021 Reported to JIAC: 22/02/21	Head of Criminal Justice & Victim Services	T/ACC (Crime and Safeguarding)	Recommendations	2(0)	2	Issue The report highlighted two national recommendations suggesting that forces should develop processes and systems to clearly show whether suspects are on bail or RUI and that forces should record whether a suspect is on bail or RUI on the MG3 form when it is submitted to the CPS. The Force is already able to differentiate between those suspects on bail and those RUI. Whilst systems currently allow the recording of bail details for a suspect within the functionality of the MG 3, it does not ask for details of RUI; officers in charge have a responsibility to update the CPS in relation to any changes to Bail or RUI	N/A	Northumbria Police is able to differentiate between those cases on bail and those released under investigation from existing systems recognising if bail conditions are in place and the associated impact on safeguarding and controls. Update: November 2021 The notification of bail or RUI to the CPS will form part of future national guidance. The Force has introduced systems and processes to ensure information on whether a suspect has been on bail or RUI is submitted to the CPS. This recommendation is considered complete by the Force and was reported to Scrutiny Meeting on 16th November 2021.		16/11/2021	The PCC welcomed the progress made regarding HMICFRS recommendations.	N/A
Report on Hestia's super-complaint on the police response to victims of modern slavery (super complaint) Published 26th May 2021 CC response to PCC: 07/07/2021 PCC Section 55 response: N/A Reported to JIAC: 19/07/2021	Head of Crime	T/ACC (Crime and Safeguarding)	Recommendations	3 (0)	3	Issue Three national recommendations highlighting the requirement for the support of police officers and staff (including non-specialist staff, as appropriate) through access to learning, specialist policing resources and victim support arrangements; to ensure that resources are being deployed to enable effective investigation of modern slavery offences; and to support the needs of victims of modern slavery by providing appropriate support to augment the national provision so that victims feel safe and empowered to remain involved in any investigations. The Force is well positioned with regard to the recommendations made.	N/A	All of the force level recommendations within this report are considered complete by the Force. The Modern Slavery Human Trafficking procedure details officer and staff roles when dealing with incidents of modern slavery and human trafficking. Processes for the allocation of resources are in place to ensure the correct and appropriately skilled individuals and teams are allocated to modern slavery offences. Northumbria Police works in partnership with statutory agencies, non-statutory agencies and community groups to prevent, identify and protect those at risk of modern slavery. The Exploitation Hub performs a number of functions including: the design and implementation of bespoke victim contact plans to support victims; engagement with partners to enable a multi-agency approach to victims/families to provide support and intervention; and the provision of advice and support to the wider workforce regarding the management of victims presenting with complex needs. An update has been provided to the NPCC in line with reporting requirements.		16/11/2021	The PCC welcomed the progress made regarding the recommendations.	N/A

Report Title	Business Lead	Executive Lead	Recommendation/ Area for Improvement (AFI)	Number of Recommendations/ AFIs (& number considered complete on the HMICFRS Monitoring Portal)		Context	Anticipated completion date	Progress on delivery	RAG	Reported to Scrutiny Meeting	PCC response	Next report to Scrutiny Meeting
A joint thematic inspection of the criminal justice journey for individuals with mental health needs and disorders Published 17th November 2021 CC response to PCC: 18/01/2022 PCC Section 55 response: N/A Reported to JJAC: 28/02/2022	Head of Safeguarding	T/ACC (Crime and Safeguarding)	Recommendations	4 (0)	0	Issue Four national recommendations regarding: the need for dedicated investigative staff to receive training on vulnerability with inputs on responding to the needs of vulnerable suspects (as well as victims); assessment of outcome code 10 and 12 cases to assess the standard and consistency of decision making; a review of the availability, prevalence, and sophistication of mental health flagging; and the identification of risks and vulnerabilities during risk assessment processes, particularly for voluntary attendees.	To be determined	Update: February 2022 The report has been reviewed and the Force position was presented to Business Meeting on 18th January 2022. The areas identified for improvement will be coordinated by the Force Mental Health Lead for completion.		N/A	N/A	08/09/2022
Information Commissioner's Office data protection audit report – Northumbria Police Published 18/12/2020 Reported to JJAC: 22/02/2021	Head of Information Management & Data Protection	DCC Ford	Recommendations	Governance and Accountability (31) Training and Awareness (11) Information Risk Management (18)	Governance and Accountability (27) Training and Awareness (7) Information Risk Management (14)	Where weaknesses were identified recommendations have been made, primarily around enhancing existing processes to facilitate compliance with data protection legislation. Assurance ratings were attributed as follows: Governance and Accountability (Limited – 31 recommendations); Training and Awareness (Reasonable – 11 recommendations); and Information Risk Management (Reasonable – 18 recommendations). In addition seven AFIs were allocated. Focus for Northumbria Police To deliver against the action plan created in response to the findings to ensure compliance with data protection legislation..	Dec-21	An initial action plan in response to the findings was submitted to the ICO on the 21st January 2021 and an update provided week commencing 15th February. Action owners were assigned and timescales for delivery agreed. An Information Management Working Group was established to deliver the plan, reporting progress directly to the Operational Information Management Board and also to the ICO in line with their recommendations. The ICO requested further evidence following a review carried out in September 2021. Update: February 2022 The final report from the ICO was received on 7th January 2022 and noted that in all three scope areas, all of the accepted recommendations are either in progress or completed. Their assessment was that: - In the Governance and Accountability scope area 17 recommendations have been completed and 13 recommendations are still in progress. - In the Training and Awareness scope area 6 recommendations have been completed and 5 recommendations are still in progress. - In the Information Risk Management scope area 8 recommendations have been completed and 10 recommendations are still in progress. - Overall, of the 59 accepted recommendations over all scope areas, (53%) are completed and 28 (47%) are still in progress.		23/09/2021	No issues raised.	07/04/2022

■ On track - no concerns
■ Progressing - additional action required to ensure delivery/delivery delayed
■ Risk to completion

Short Report for Information

Joint Independent Audit Committee	28 February 2022
Joint Strategic Risk Register	
Report of: Chief of Staff and Monitoring Officer (OPCC) & Deputy Chief Constable (Northumbria Police)	
Author: Corporate Governance Manager, Corporate Development	

I. PURPOSE

- 1.1 To present the Joint Strategic Risk Register (JSRR); this incorporates the strategic risk(s) faced by the Force and Office of Police and Crime Commissioner (OPCC) within twelve thematic areas.

2. BACKGROUND

- 2.1 The OPCC and Northumbria Police share a JSRR. Each strategic risk is assigned an Executive or OPCC owner(s), who has responsibility for the management of controls and the implementation of new controls where necessary.

Governance of the Joint Strategic Risk Register

- 2.2 The JSRR identifies each risk, provides context to the risk and identifies current factors affecting thematic areas and captures the consequences if it were to happen. It also provides a summary of existing controls and rates risks on the likelihood of the risk occurring and the impact it would have. All risks are regularly reviewed by the respective owners and updated, where necessary.
- 2.3 Area Commanders, Department Heads and the OPCC are responsible for the identification of emerging risks which cannot be controlled locally and have the potential to prevent the Force and PCC from achieving objectives. Risks are escalated in line with the governance and decision-making structures and recorded on the JSRR. Recommendations and areas for improvement following external inspections are considered to ensure they are adequately reflected in current risks.
- 2.4 The JSRR is presented to the joint Business Meeting between the PCC and the Chief Constable on a quarterly basis. The Joint PCC/Chief Constable Governance Group and Joint Independent Audit Committee (JIAC) provide additional scrutiny and governance on a quarterly basis.
- 2.5 The JSRR captures risk(s) in twelve thematic areas: Finance; Governance; Digital Policing (previously Information and Communication Technology (ICT); Information and Data Management; Information and Data Quality; Infrastructure and Assets; Operational; Partnership and Collaboration; Public Confidence; Regulation and Standards; Strategy; and Workforce.
- 2.6 Appendix A provides an overview of the current RAG status of the strategic risks for Northumbria Police, alongside the Force Strategic Risk Register. (Thematic risk areas are recorded alphabetically and numbered for ease of reference only).

Short Report for Information

- 2.7 Appendix B provides an overview of the current RAG status of the risks for the OPCC, alongside the register.

Recent Updates

1A. Finance (Force)

Reduction in funding and/or the arising of additional funding pressures which require changes to financial planning and/or a change to the resourcing of service delivery.

Finance (OPCC)

Government reduces funding to PCCs/Police Forces which results in a reduced service ability. The need to contain expenditure within available resources and enable Northumbria Police to police effectively.

- 2.8 Both the Force and OPCC Finance risks have been updated to reflect a review of the funding formula used by government to distribute grant funding to police forces in England and Wales, which may lead to a reduction in the percentage of central government police funding allocated to Northumbria Police.
- 2.9 The Government has stated that the review of the Police Allocation Formula (PAF) will be completed in this parliament but has not given a date for implementation. If not implemented until next parliament and the current parliament runs to the maximum term, this could be 2025/26.
- 2.10 At the Police and Crime Commissioners Treasurers' Society (PACCTS) meeting 1 December 2021 it was confirmed that background work is continuing at pace with regards the review.
- 2.11 The current factors on the OPCC register have also been updated to reflect the current settlement, precept and uplift position for 2022/23 and beyond where known.
- 2.12 Both risks remain likelihood medium (3) and impact high (4).

2. Governance (Force)

Failures originating from a lack of scrutiny, oversight, transparency, internal controls and adherence to legislation.

- 2.13 In response to feedback provided at JIAC, 22 November 2021, the summary of controls has been updated to include oversight of the JIAC and scrutiny of the functions of the PCC by the Police and Crime Panel. The role of HMICFRS to work with the PCC has also been added as an additional control.
- 2.14 Likelihood remains very low (1) and impact low (2).

Short Report for Information**3. Digital Policing (Force)****Inability of the Force to respond effectively to service demand due to loss or failure of mission and business critical technology solutions.**

- 2.15 The thematic area has been updated from Information and Communication Technology (ICT) to Digital Policing to better reflect the increased scope of services (plan, design, build and run) being offered by the IT function as a result of the IT transformation programme. This name change has been made across the appropriate areas of business.
- 2.16 The current factors and summary of controls have been revised to include further detail on additional controls introduced as a result of the delay in the replacement of the Northumbria Police Integrated Computer and Communications System (NPICCS).
- 2.17 Likelihood medium (3) and impact high (4) remain unchanged due to current and additional controls in place.

Public Confidence (OPCC)

- 2.18 Current factors influencing public confidence now include the national issue in respect of Legally Qualified Chairs (LQCs) who undertake Misconduct Hearings.
- 2.19 Concerns have been raised about the level of indemnity provided to Chairs and there are ongoing discussions between the National Association of LQCs and the Home Office. The impact is a reduction in LQCs willing to undertake hearings which is likely to affect timeliness of misconduct hearings.
- 2.20 Likelihood remains low (2) and impact high (4).

12A. Workforce (Force)**Inability to attract, recruit and retain a competent workforce with the right skills, resilience and diversity to deliver effective policing service, particularly investigative (PIP level 2) resource.**

- 2.21 Current factors have been updated to reflect the buoyant and active job market at present, which has resulted in an increased number of vacancies across the region, as well as nationally. Some of these roles are encouraging hybrid/remote working which applies further pressure on the organisation with regard to attraction and retention.
- 2.22 The potential consequence includes loss of key and critical skills through attrition and ability to retain officers and staff, with an inability to recruit effective replacements quickly enough to maintain service delivery.
- 2.23 A Retention Strategy is being developed to address workforce retention and attrition currently experienced and implement short, medium and long term plans to mitigate against this including: enhanced reward offer, review of terms and conditions, early intervention, career development for internal talent, branding and market competitiveness (not exhaustive).

Short Report for Information

- 2.24 Likelihood remains medium (3) and impact high (4).
- 2.25 There have been no changes to the Force Strategic Risk Register which impact on the overall risk level and the assessment of risk ratings has not changed. Five areas remain high risk: Finance; Digital Policing; Information and Data Management; Information and Data Quality; and Workforce.
- 2.26 There have been no changes to the OPCC Strategic Risk Register which impact on the overall risk level and the assessment of risk ratings has not changed. The OPCC has assessed one area as high risk: Finance.

3. CONSIDERATIONS

Government Security Classification	Official
Freedom of Information	Non-Exempt
Consultation	Yes
Resources	No
<i>There are no additional financial considerations arising from this report.</i>	
Code of Ethics	No
<i>There are no ethical implications arising from the content of this report.</i>	
Equality	No
<i>There are no equality implications arising from the content of this report.</i>	
Legal	No
<i>There are no legal considerations arising from the content of this report.</i>	
Risk	No
<i>There are no additional risk management implications directly arising from this report.</i>	
Communication	No
Evaluation	No

AGENDA ITEM 6
APPENDIX A

Very High (5)			4 Information and Data Management	
High (4)			5 Information and Data Quality	
Medium (3)		10 Regulation and Standards	1 Finance 3 Digital Policing 12 Workforce	
Low (2)		6 Infrastructure and Assets	7 Operational 8 Partnership and Collaboration 9 Public Confidence 11 Strategy	
Very Low (1)	2 Governance			
	Very Low (1)	Low (2)	Medium (3)	High (4)
				Very High (5)

Overview of the RAG status of Strategic Risk – Northumbria Police

IMPACT

Assessment of Risk

Risks are rated on the basis of the likelihood of the risk materialising and the impact this would have. It is recognised rating risk is not an exact science and should be informed by evidence where possible.

Professional knowledge, judgement and active consideration are applied in assessing the likelihood and impact of a risk materialising; this is more important than the nominal rating itself.

The purpose of the rating of risk is to focus attention to ensure appropriate and proportionate mitigation plans and controls are in place.

L i k e l i h o o d	5. VERY HIGH	5	10	15	20	25
	4. HIGH	4	8	12	16	20
	3. MEDIUM	3	6	9	12	15
	2. LOW	2	4	6	8	10
	1. VERY LOW	1	2	3	4	5
		1. VERY LOW	2. LOW	3. MEDIUM	4. HIGH	5. VERY HIGH
	Impact					

The overall outcome of a risk rating assessment will identify the risk as being **very low/low (Green)**, **medium (Amber)** or **high/very high (Red)**. The residual risk rating is included on the Force Strategic Risk Register as a single overall score (identified by multiplying the impact by the likelihood rating) after controls/mitigations have been put in place.

Key:

Green: Very Low/Low -

Unlikely to occur or the risk is fully manageable. Likely to lead to no or only tolerable delay in the achievement of priorities.

Amber: Medium -

The Force is actively managing the risk as is practicable. The risk may lead to moderate impact on the achievement of priorities.

Red: High/Very High -

The Force has only limited ability to influence in the short term; however, is actively managing. The risk may lead to considerable impact on the achievement of priorities.

I	Strategic Risk – Finance	
A	Reduction in funding and/or the arising of additional funding pressures which require changes to financial planning and/or a change to the resourcing of service delivery.	
Owner(s)	Chief Constable and Director of Finance	
Governance & Oversight	Executive Board/Business Meeting	
Context	<ul style="list-style-type: none"> ▪ A review of the funding formula used by government to distribute grant funding to police forces in England and Wales may lead to a reduction in the percentage of central government police funding allocated to Northumbria Police. ▪ Reduction in central government funding as announced in the annual Home Office (HO) Police Funding Settlement. ▪ The funding settlement currently provides certainty for only one financial year and carries continued long-term uncertainty over several funding strands, including Uplift and Pensions. ▪ Other public sector funding reductions may reduce services provided, leading to increased service pressure on Northumbria Police and a need to look at potential collaboration opportunities. 	
Current factors	<ul style="list-style-type: none"> ▪ The Government has stated that the review of the Police Allocation Formula (PAF) will be completed in this parliament. ▪ Implications of the pension remedy, which are currently being progressed based on national guidance. ▪ Potential uncertainty of future implications/cost pressures/timescales relating to COVID-19 including costs of COVID-19 enforcement and operational policing in 2021/22. 	
Potential consequence	<ul style="list-style-type: none"> ▪ A reduction to national funding or short notice change may require a change in short and medium term force financial planning, including a need to deliver unplanned savings thereby impacting on service delivery. 	
Summary of Controls	<ul style="list-style-type: none"> ▪ Transparent ownership of financial matters between the Police and Crime Commissioner (PCC) and Chief Constable. ▪ HO reimbursement of costs relating to COVID-19: Personal Protective Equipment (PPE) medical grade; non-medical grade PPE and logistics cost; a proportion of irrecoverable income loss; a one off general COVID-19 grant. ▪ Well understood in-year financial monitoring and reporting governance. ▪ An effective Reserves Strategy to provide mitigation against known and potential future events (COVID-19 Enforcement and Operational Reserve, Emergency Services Network (ESN), Pension etc.), plus reserves providing financing to planned future investments. 	
Likelihood	3	12
Impact	4	

AGENDA ITEM 6
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I	Strategic Risk – Finance	
B	Unplanned in-year budget pressures.	
Owner(s)	Chief Constable and Director of Finance	
Governance & Oversight	Executive Board/Business Meeting	
Context	<ul style="list-style-type: none"> ▪ An in-year event or change, outside of Northumbria Police's control, may lead to unbudgeted costs that cannot be met from within the annual budget. 	
Current factors	<ul style="list-style-type: none"> ▪ There is still potential uncertainty of future implications/cost pressures/timescales relating to COVID-19 	
Potential consequence	<ul style="list-style-type: none"> ▪ Any in-year pressures which become a forecast overspend must be addressed through consideration of in-year savings and discussion with the PCC. 	
Summary of Controls	<ul style="list-style-type: none"> ▪ Transparent ownership of financial matters between the PCC and Chief Constable. ▪ Well understood in-year financial monitoring and reporting governance. ▪ Creation of a one-off 'COVID-19 Enforcement and Operational' reserve. 	
Likelihood	3	12
Impact	4	

2	Strategic Risk – Governance	
	Failures originating from a lack of scrutiny, oversight, transparency, internal controls and adherence to legislation.	
Owner(s)	Deputy Chief Constable	
Governance & Oversight	Executive Board	
Context	<ul style="list-style-type: none"> ▪ Chief Constable is unable to account to the PCC for the exercise of his functions and those under his direction and control. ▪ There is a breakdown in relationship between the Force and Office of the Police and Crime Commissioner (OPCC). 	
Current factors	<ul style="list-style-type: none"> ▪ Significant Transformation 2025 Programme including delivery of new digital policing platforms and Victims & Witnesses service improvement. ▪ Preparation for, and response to external inspection and investigation activity by Her Majesty’s Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS). ▪ Response to the findings of the October 2020 Audit by the Information Commissioner’s Office (ICO). ▪ Understanding and responding to disparity. 	
Potential consequence	<ul style="list-style-type: none"> ▪ Inability to identify and respond to deteriorating performance resulting in policing priorities not being achieved. ▪ Inability to work effectively in partnership to provide services to victims and witnesses. ▪ Slippage/failure of projects, which hamper the achievement of objectives. ▪ A decline in quality and service delivery, leading to a reduction in satisfaction levels. ▪ Adverse external inspection reports, leading to recommendations and wider escalation. ▪ Loss of public confidence. 	
Summary of Controls	<ul style="list-style-type: none"> ▪ Regular review of the governance and decision-making structure to ensure it provides appropriate governance arrangements. ▪ A Joint Independent Audit Committee to provide advice to the PCC and Chief Constable on the principles of corporate governance. ▪ Police and Crime Panel scrutiny of the functions of the PCC. ▪ Annual Governance Statement is prepared setting out the Force’s current governance arrangements. ▪ Role of HMICFRS to work with the PCC. 	
Likelihood Impact	1 2	2

3	Strategic Risk – Digital Policing
	Inability of the Force to respond effectively to service demand due to loss or failure of mission and business critical technology solutions.
	Owner(s)
	Governance & Oversight
	Context
Current factors	
Potential consequence	
Summary of Controls	

Chief Information Officer

Transformation Board

Context

- Limitations of current digital policing systems and the impact on service delivery.
- Loss of critical digital policing services.
- Significant information technology (IT) transformation programme.
- A malicious intent to compromise or access information or data.
- Failure of national projects to deliver on time and to specification.

Current factors

- New technology/new working practices being introduced.
- Masons Advisory risk assessment and identification.
- Major IT Transformation now running (recruitment phase).
- Impact internally and externally of further COVID-19 waves.
- Delay on the NPICCS Replacement to Connect.

Potential consequence

- Ineffective IT system to support business processes.
- Inability to effectively communicate with partners and the public.
- Loss of information from systems as a result of a cyber-attack.
- Loss of confidence in systems and the organisation from users, the public and partner organisations.

Summary of Controls

- Significant investment in place to provide core IT services.
- Digital policing senior leadership now fully recruited and robust governance via the Digital Policing Board.
- Contracted advisory service in place.
- Centralised hardware security monitoring now fully operable via the National Management Centre provided by the National Enabling Programme.
- Greater security enhancement via enhanced Firewalls and access controls.
- Annual and ad-hoc penetration testing regime embedded.
- Recruitment and retention arrangements being finalised over transition period.
- Recruitment to structure on target and to plan to achieve required capacity and capability.
- Dedicated Solution Delivery function focussed on project delivery of the transformation programme.
- Renegotiation of NEC/Northgate contract with more delivery focussed delayed payments and negotiated removal of current extended project costs.
- Improved remote working capabilities for project delivery staff in place and effective.
- Implementation of the cloud based Smart Contact Command and Control solutions removing the threat of loss of 999 and 101 calls due to loss of NPICCS.

AGENDA ITEM 6
APPENDIX A

	<ul style="list-style-type: none"> ▪ Automated and manual patching of key systems and operating systems completed across critical, high and medium high systems. ▪ Checks and review of the validity of the full systems back up. ▪ Enhanced payments incentives for existing Cobol Development personnel. ▪ Additional monitoring and tooling in place to alert on any cyber-attacks. 	
Likelihood Impact	3 4	12

4	<p>Strategic Risk – Information and Data Management</p> <p>Inability to implement consistent and sustainable data management processes and standards to prevent data breaches.</p>
Owner(s)	Assistant Chief Constable (Force Coordination)
Governance & Oversight	Operational Information Management Board
Context	<ul style="list-style-type: none"> ▪ The replacement of Force legacy systems presenting competing data management processes. ▪ The build of smart processing activities through the alignment of business leads, data and digital policing architecture ensuring interoperability. ▪ Developing workforce and the role of Information Asset Owner. ▪ New audit and organisational learning process to identify inappropriate handling and management of information. ▪ A recognition of the current position of the force data infrastructure is required to identify associated data use risks, compliance and ethical issues to prevent a breach of relevant legislation and/or non-compliance with statutory guidance.
Current factors	<ul style="list-style-type: none"> ▪ ICO Data Protection Audit (October 2020)
Potential consequence	<ul style="list-style-type: none"> ▪ Corruption or loss of Force systems. ▪ Loss of data and information assets. ▪ Failure to comply with both Force policy and procedure and MoPI statutory guidance relating to the retention and destruction of data. ▪ Force policy and procedure processing, storing and handling of data not followed. ▪ Mishandling of information through a lack of understanding of relevant legislation (DPA 2018). ▪ Failure to comply with ICO best practice, standards and relevant codes of practice. ▪ Litigation, legal action against the Force leading to enforcement action and monetary penalties. ▪ Limited ability to access information and/or respond to requests for information. ▪ Loss of confidence due to inappropriate or unlawful disclosures of personal data (internally and externally). ▪ Compromise of operational activity and/or covert tactics. ▪ Compromise of physical and technical security controls which would impact information assets and/or systems if vulnerability is exploited.
Summary of Controls	<ul style="list-style-type: none"> ▪ Information Management Unit with capability, including the roles of Data Protection & Disclosure Adviser (DPDA) and Information Security & Assurance Manager (ISAM). ▪ Oversight and management through the Governance and Decision-making structure – Operational Information Management Board. ▪ Plan for the implementation of formal Information Asset Registers in place.

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	<ul style="list-style-type: none">▪ Existing procedures in respect of data breaches ensure obligations placed on the organisation in such instances are met.▪ Monthly meeting with Senior Information Risk Owner to formally assess and govern risk.▪ Comprehensive response to the ICO's audit recommendations.	
Likelihood	5	20
Impact	4	

5	<p>Strategic Risk – Information and Data Quality</p> <p>Inability to intelligently use data through the technical and cultural implementation of control measures, storage and practice in support of existing and new operating platforms.</p>
Owner(s)	Assistant Chief Constable (Force Coordination)
Governance & Oversight	Operational Information Management Board
Context	<ul style="list-style-type: none"> ▪ A recognition of the force’s ability to accurately collect and present data required to support decision making in all areas of business, whilst ensuring statutory data returns to relevant bodies are concise, accurate and timely. ▪ The replacement of Force legacy systems presenting competing data collection processes. ▪ The ability to assign accountability/ownership of data assets to ensure data is collected, stored and used appropriately. ▪ The application of control measures that affect the way staff interact with data is needed to support the cultural change required to successfully deliver the new operating platforms. ▪ The implementation of data storage, audit and access capability that is complimentary across all new platforms is essential to ensure compliance, analysis and quality information readily accessible to staff to advise organisational and operational delivery.
Current factors	<ul style="list-style-type: none"> ▪ Migration to new operating platforms, including Northgate Connect and Steria – Storm. ▪ Ability to respond to external inspection findings. ▪ ICO Data Protection Audit – October 2020. ▪ Legacy data and systems.
Potential consequence	<ul style="list-style-type: none"> ▪ Inaccessible/inaccurate intelligence. ▪ Up-to-date crime and intelligence data is not available to officers/staff or data is stored in various locations and formats. ▪ Inaccurate crime recording or held data leading to non-compliance with regulations, a negative impact upon investigations and loss of public confidence. ▪ Reduction in force performance and delivery. ▪ Failure to identify risk of vulnerability, officer, public safety. ▪ Inaccurate data returns to the HO and other bodies e.g. HMICFRS. ▪ Implications of inaccurate crime recording or held data. ▪ Poor data quality affecting business decisions, meaning that critical risk factors may be missed or not fully understood.

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Summary of Controls	<ul style="list-style-type: none"> ▪ Investment in IT aligned to Masons Advisory review. ▪ Migration strategy as part of the Transformation 2025 programme IT strand to ensure data quality, accuracy and compliance with GDPR. ▪ Quality Assurance & Audits; identification of documentation and standards. ▪ Introduction of the Quality Standards Delivery Team. ▪ Self-service updates (i.e. HRMS). ▪ Use of the QlikSense Business Intelligence tool to identify compliance and data quality issues. ▪ Engagement with the HO/NPCC National Data Quality Improvement Service (NDQIS). ▪ Formal training provision for all staff and officers on new force systems. 	
Likelihood Impact	4 4	16

6	<p>Strategic Risk – Infrastructure and Assets</p> <p>Failure to effectively manage assets to ensure continued effective service delivery through provision of equipment and facilities which keep the workforce capable; able to respond to the public and maintain the physical security and safety of our estate.</p>
Owner(s)	Director of Finance
Governance & Oversight	Operational Information Management Board (Physical Security)/ People & Organisational Justice Delivery Board (Force Safety Group and subgroups).
Context	<ul style="list-style-type: none"> ▪ Failure to appropriately maintain assets may result in critical failure. ▪ Failure to comply with building regulations and legislation regarding the safety of our estate. ▪ Failure to ensure officers and staff have the right assets and equipment available to perform their role.
Current factors	<ul style="list-style-type: none"> ▪ Impact of post COVID-19 on force infrastructure, estate and assets. ▪ Implementation of New Ways of Working programme. ▪ COVID-19 - Delays in new supply of vehicles/availability of fleet. ▪ Physical security.
Potential consequence	<ul style="list-style-type: none"> ▪ Injury to users of assets or the public. ▪ Reduced availability of assets impacts on services across some or all business areas. ▪ Litigation and civil claims. ▪ Negative impact on the workforce and on public confidence.

Summary of Controls	<ul style="list-style-type: none"> ▪ Review and re-profile of building refurbishment programme in-line with COVID Secure and New Ways of Working requirements. ▪ Established internal arrangements to minimise the impact of proposed estate and infrastructure changes/refreshes on the business. ▪ Business Continuity Plans, Estate Strategies and policies and procedures in place, including organisational learning from COVID-19. ▪ Regular inspection, testing and maintenance programmes in place in respect of water hygiene, electricity and gas safety. ▪ Fire risk assessments in place. ▪ Asbestos management plan in place. ▪ All buildings are COVID Secure including enhanced cleaning regimes and investment in health and safety products. ▪ Health and Safety management embedded at tactical and strategic level. ▪ New fleet purchasing framework agreed. Vehicle purchases will be made using this framework once award of contracts to suppliers has been concluded. ▪ Vehicle maintenance, transportation and installation partners are vetted to ensure security and continuity of service. ▪ Internal fuel stock maintained. ▪ Asset management software. ▪ Telematics installed in all cars providing management oversight with timely maintenance and usage data. ▪ Operational equipment requirements are managed via the Force Safety Group and reported to the People & Organisational Justice Delivery Board.
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Likelihood	2	6
Impact	3	

7	<p>Strategic Risk – Operational</p> <p>Inability to implement centralised force coordination ensuring sustainable capacity and capability to meet statutory requirements under the Civil Contingencies Act (CCA) and responsibilities from the Strategic Policing Requirement.</p>
Owner(s)	Assistant Chief Constable (Force Coordination)
Governance & Oversight	Strategic Management Board
Context	<ul style="list-style-type: none"> ▪ The implementation of a new Force Operating Model, demographic and operational placement of officers and staff. ▪ The impact of the COVID-19 pandemic has led to a change to resource availability and capability due to the implementation of an exigency shift pattern and training ability. ▪ Lessons learned from the multiagency response to the pandemic have highlighted the need to review the CCA and the way CAT 1 and 2 responders work together. ▪ A specific focus on JESIP principles and preparedness planning through the LRF to manage Major Incidents. ▪ The national strategic threat and risk assessment (STRA) in specialist areas of POPS, FA and MP has led to the identification of shifting threats from extremist groups and associated learning from public inquiries. ▪ The uplift of staff and coordinated work force plan has predicted a significant gap in experience and skill base, particularly in specialist areas of investigation and TL2. ▪ A recognition of the Force’s ability to effectively deal with Societal Risks; Diseases; Natural Hazards; Major Accidents; Malicious Attacks to protect the public and comply with statutory requirements in these circumstances.
Current factors	<ul style="list-style-type: none"> ▪ Impact post COVID-19. ▪ Current review of the CCA. ▪ Proposed wider remit of Local Resilience Forums. ▪ Statutory guidance for JESIP. ▪ Force Operating Review. ▪ Interim exigency Response Policing Team (RPT) shift pattern. ▪ Work Force Plan. ▪ Significant Events.
Potential consequence	<ul style="list-style-type: none"> ▪ Inability to meet core policing requirements. ▪ Inability to respond effectively to Major Incidents. ▪ Reduced staffing and service provision. ▪ Inability to deliver services across some or all business areas. ▪ Inability to project accurate resourcing to meet future demand. ▪ Ability to meet mobilisation commitment. ▪ Negative impact on public confidence.

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Summary of Controls	<ul style="list-style-type: none"> ▪ Robust business continuity plans in place across all area commands and departments which have been reviewed in light of COVID-19 and EU Exit. ▪ COVID-19 Response plan and local response plan prepared for localised lockdowns. ▪ PMART Plan with partners and ability to activate in response to excess death management. ▪ Concept of Operations developed in line with the States of Policing Matrix to support resourcing decisions in order to maintain critical functionality for the force. ▪ Close working with National Police Coordination Centre (NPoCC) and the Regional Information and Coordination Centre (RICC) to test and exercise mobilisation commitment and provide and request mutual aid as appropriate. ▪ Mobilisation plan includes changes to NPoCC mobilisation commitment and deployments to British Overseas Territories with COVID-19 considerations. ▪ Ability to implement agile ways of working and COVID Secure estate. ▪ Northumbria Police currently chairs the Northumbria Local Resilience Forum (LRF) and work closely with partners on preparedness for civil emergencies and the testing and exercising of the multi-agency response. ▪ LRF Strategic Coordination Group (SCG) and Tactical Coordination Group (TCG) currently activated with Vice Chair status on each group. ▪ At Chief Constable level Recovery Plan and Recovery Coordination Group (RCG) participation. ▪ Ability to revise shift pattern to facilitate mobilisation of specialist staff, particularly in respect of Tier 2 assets. ▪ Force Coordination Centre and daily pace setter meetings to align demand and resources. 	
Likelihood Impact	2 4	8

8	<p>Strategic Risk – Partnership & Collaboration</p> <p>Reduction in or withdrawal of current and/or future partnership arrangements or collaborations leading to impact on service delivery or ineffective management of these arrangements including commercial partnerships (management of commercial contracts).</p>
Owner(s)	Deputy Chief Constable
Governance & Oversight	Business Meeting
Context	<ul style="list-style-type: none"> ▪ Lack of scoping and user requirements at the outset of partnerships/collaboration or commercial interest. ▪ Future financial constraints on public services. ▪ Lack of integrated planning with partners. ▪ Reduction in partnership services. ▪ Failure of significant collaborative agreement.
Current factors	<ul style="list-style-type: none"> ▪ Reduction in safeguarding activity and preventative work, particularly relating to domestic abuse. ▪ Limited Out of Court Disposals and Restorative Justice options for adults. ▪ Commercial contract management capability and capacity. ▪ Missed opportunities for further partnership collaboration with partners. ▪ Impact of post COVID-19 on current partnerships.
Potential consequence	<ul style="list-style-type: none"> ▪ Gaps in services and support to communities. ▪ Missed opportunities to prevent and reduce crime and disorder. ▪ Reduced public confidence. ▪ Reduced opportunities for more efficient and effective services. ▪ Increased costs due to poor scoping and/or contract management. ▪ Missed learning opportunities for partner agencies from serious case reviews.

Summary of Controls	<ul style="list-style-type: none"> ▪ Effective partnership governance arrangements and joint partnership plans through Community Safety Partnerships. ▪ Force wide business planning cycle and delivery of local business plans. ▪ Strategic Design Authority and Transformation Programme. ▪ Improving understanding of demand and external influences of demand enabling effective management of response. ▪ Business continuity plans between relevant partners. ▪ Access to local and/or national support programmes. ▪ Introduction of Chief Information Officer functions and change lead to oversee digital policing projects and contracts. ▪ Internal review of commercial contract arrangements in Northumbria Police by Director of Finance. ▪ Adoption of recommendations made in HMICFRS Thematic report ‘The Hard Yards’.
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	<ul style="list-style-type: none"> ▪ Joint work between agencies e.g. Newcastle Safeguarding Children’s and Adults Boards and Safer Newcastle to produce a Serious Violence and Criminal Exploitation Strategy. ▪ Ability to introduce and maintain joint Criminal Justice Impact and Recovery working exercises when required, utilising resources across disciplines to meet demand. ▪ Increased early interventions and out of court disposals in place for young people. 	
Likelihood Impact	2 4	8

9	Strategic Risk – Public Confidence	
	The loss of public confidence in Northumbria Police due to the behaviour, conduct, actions or inaction of Northumbria Police as an organisation or individuals representing the Force, including reduced legitimacy due to poor engagement, abuse of powers and disproportionality in practices.	
Owner(s)	T/Assistant Chief Constable (Communities)	
Governance & Oversight	Engaged Communities Group/Strategic Resourcing Delivery Board/ People & Organisational Justice Performance Board/Organisational Learning Board/Ethics Advisory Board	
Context	<ul style="list-style-type: none"> ▪ Force or an associated individual acts, in an inappropriate, discriminatory way or demonstrates corrupt behaviour. ▪ Death or serious injury following police contact, or following other adverse or critical incident, as a result of police action or omission. ▪ Misuse or deliberate disclosure of sensitive data or information. 	
Current factors	<ul style="list-style-type: none"> ▪ Current operating context and legitimacy in use of police powers. ▪ Disproportionality in use of powers. ▪ Embed organisational learning across the Force. ▪ Compliance with Authorised Professional Practice (APP) on Vetting. 	
Potential consequence	<ul style="list-style-type: none"> ▪ Abuse of authority for financial or sexual purpose, fraud or theft. ▪ Litigation, legal action against the Force. ▪ Reduced public confidence. ▪ Increased civil interest. ▪ Perception of disparity damaging confidence of minority groups. 	

Summary of Controls	<ul style="list-style-type: none"> ▪ Governance arrangements. ▪ Completion of Equality Impact and Community Tension Assessments. ▪ External advisory groups. ▪ Dedicated Counter Corruption Unit with appropriate capacity and capability to deliver a full range of covert tactics. ▪ Forcewide internal communications to increase awareness of behaviour and standards, such as corruption, ethical dilemmas, understanding boundaries. ▪ Vetting procedures in-line with APP on Vetting with full compliance achieved over the coming months. ▪ Identification and review of organisational learning, with organisational learning a standing agenda item within the Governance and Decision-making structure and oversight by the force Organisational Learning Board. ▪ Utilisation of information from abuse of authority problem profile. ▪ Unconscious bias training for all staff. ▪ Focus on diversity in recruitment, attraction, selection and retention. ▪ Development of formal external public confidence meeting. ▪ Continued appraisal and development of staff via performance management frameworks. 	
Likelihood	2	8
Impact	4	

10	Strategic Risk – Regulation & Standards	
	Northumbria Police and/or its staff fail to operate within the regulatory framework applicable to policing activity as defined by law or by Northumbria Police and in doing so create risks which may result in harm to individuals, groups or organisations.	
Owner(s)	Deputy Chief Constable	
Governance & Oversight	Engaged Communities Group/People & Organisational Justice Performance Board/People & Organisational Justice Delivery Board	
Context	<ul style="list-style-type: none"> ▪ Litigation, legal action and/or prosecution of the Force and/or individuals by former officers or staff members. ▪ Failure to comply with regulatory frameworks. 	
Current factors	<ul style="list-style-type: none"> ▪ Operational risks affecting international policing arrangements following exit from the European Union. ▪ Application of legislation under Health Protection Regulations during COVID-19. ▪ Increased scrutiny and challenge on police powers and super complaints. 	
Potential consequence	<ul style="list-style-type: none"> ▪ Litigation, legal action and/or prosecution of the Force and/or individual staff. ▪ Associated costs of dealing with litigation. ▪ Negative impact on the workforce and public confidence. ▪ Failure to achieve/maintain relevant ISO/IEC accreditation in line with relevant codes of practice. ▪ Failure to comply with relevant Health and Safety regulations. ▪ Delays/access to/inability to share information and intelligence effectively across European countries. 	
Summary of Controls	<ul style="list-style-type: none"> ▪ International Crime Co-ordination Centre in place to manage risks associated with the loss of EU policing tools ▪ The force has prepared contingency plans in response to the loss of EU policing tools, the impact is still unknown. ▪ Central review of all civil claims, with adverse trends and lessons learnt reported to People & Organisational Justice Delivery Board/ Engaged Communities Group. ▪ Audit arrangements and Quality Management System. ▪ ISO governance meeting. ▪ Health and Safety Management System and provision of health and safety advice. ▪ Investigations and review of health and safety incidents, with lessons learnt reported to People & Organisational Justice Delivery Board. ▪ Monitoring of regulations and standards in relation to COVID-19 now within business as usual, subject to any major changes in society / regulations etc. ▪ Introduction of scrutiny panel for use of police powers. 	
Likelihood	3	9
Impact	3	

II	<p>Strategic Risk – Strategy</p> <p>Northumbria Police fails to deliver its strategic objectives and those of the Police and Crime Plan, due to ineffective business planning, including effective management of performance, risk, demand, transformation, workforce and finance.</p>
Owner(s)	Chief Constable
Governance & Oversight	Executive Board
Context	<ul style="list-style-type: none"> ▪ Failure to deliver the Force Strategic Priorities. ▪ Failure to deliver against objectives set out in the Police and Crime Plan. ▪ Failure to achieve the business benefits from the Transformation Programme. ▪ Compliance and standards not meeting acceptable levels impacting on victim services. ▪ Failure to meet areas for improvement highlighted by external bodies.
Current factors	<ul style="list-style-type: none"> ▪ COVID-19 - Suspension of court trials resulting in significant backlog of court trials and an increased risk of victim attrition. ▪ Implementation and impact of Northgate Connect. ▪ Increased demand as the force implements the Transformation Programme.
Potential consequence	<ul style="list-style-type: none"> ▪ Deteriorating performance resulting in policing priorities not being achieved. ▪ A decline in quality and service delivery, leading to a reduction in satisfaction and confidence. ▪ Adverse external inspection reports, leading to recommendations and wider escalation. ▪ Reduction in services provided to victims and witnesses as a result of ineffective partnership working with other criminal justice agencies. ▪ Delays to criminal justice outcomes. ▪ Slippage/failure of projects, which hamper the achievement of objectives.
Summary of Controls	<ul style="list-style-type: none"> ▪ Business planning cycle and delivery of local business plans. ▪ Forcewide Performance Management Framework. ▪ Oversight and management of performance using the Governance and Decision-making structure. ▪ Transformation 2025 Programme. ▪ Local Criminal Justice Board (LCJB) Plan and supporting governance structures. ▪ Effective relationships and communication with partners locally enabling response to national issues (e.g. LCJB Strategic Recovery Group). ▪ Victim service review to improve service delivery to victims of crime and investigative standards. ▪ Transfer of Victim First Northumbria services to Northumbria Police.

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	▪ Ring fenced funding to deliver Force Strategic Priorities.	
Likelihood Impact	2 4	8

12	Strategic Risk – Workforce
A	Inability to attract, recruit and retain a competent workforce with the right skills, resilience and diversity to deliver effective policing service, particularly investigative (PIP level 2) resource.
Owner(s)	Director of People & Development
Governance & Oversight	People & Organisational Justice Performance Board, People & Organisational Justice Delivery Board, Strategic Resourcing Delivery Board, Strategic Design Authority, Transformation Board
Context	<ul style="list-style-type: none"> • Inability to attract, recruit and retain individuals with specialist/technical skills, both externally as well as internally into specialist roles. • Inability to attract, recruit and retain a diverse workforce at sufficient pace to reflect the communities we serve, with a particular focus on gender and ethnicity. • Significant gaps across PIP level 2 investigative roles and challenges to recruit detectives internally. • Increasing variances in key technical, particularly technology, roles. • Requirement to ensure efficiency of the recruitment vetting procedures to match pace of hiring and ensure standards are met.
Current factors	<ul style="list-style-type: none"> • Buoyant and active job market at present has resulted in an increased number of vacancies across the region, as well as Nationally. Some of these roles are encouraging hybrid/remote working which applies further pressure on the organisation with regard to attraction and retention. • Skills shortages in specialist / technical roles due to current recruitment climate. • Challenges in meeting diversity ambitions and limited pool which is in high demand from all sectors. • Challenges in meeting changing workforce expectations through new ways of working. • Challenges in the attraction of investigative resources through internal routes with low interest and uptake in exam registrations, with the exam process limiting the number of resources available to begin this route as there are a number of pre-requisite steps candidates are required to take. • Increased workforce attrition, particularly amongst police staff over the past 12 months in a number of junior, mid and senior roles across the Force. • Potential increase police officer attrition as predicted nationally through uplift as officers continue to leave the service who have not done as a result of COVID.
Potential consequence	<ul style="list-style-type: none"> • Failure to deliver service in key technical and specialist areas, impacting on public trust and competence. • Impact on investigative standards and quality due to insufficient investigative resources to meet demand. • Lack of representation of the communities we serve.

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	<ul style="list-style-type: none"> • Impact on wellbeing due to high vacancy and turnover rates. • Loss of key skills and knowledge through high turnover. • Increased recruitment cost and process inefficiency. • Loss of key and critical skills through attrition and ability to retain officers and staff, with an inability to recruit effective replacements quickly enough to maintain BAU service delivery. 	
Summary of Controls	<ul style="list-style-type: none"> • Investigative Plan – delivered through the Investigative Capability Working Group and governed via the Strategic Resourcing Delivery Board. • Operational Resourcing Meeting (ORM) – monitor tactical operational resourcing requirements. • Resourcing Strategy for each business area to deal with the demand, design, supply, capacity and capability segments for each functional area. • Workforce plan for police officer and police staff, which is affordable and achievable. • Career development plans. • Use of agency / organisations to provide Burst capability for technical skills. • DE&I Strategy and Plan (including Positive Action strategy/plan). • Appropriate and robust vetting framework. • Development of a Retention Strategy to address workforce retention and attrition currently experienced and implement short, medium and long term plans to mitigate against this. • Implementation of a new salary model following delivery of Role, Reward and Pay project ensuring Northumbria Police is aligned more closely to the current market. 	
Likelihood Impact	3 4	12

12	Strategic Risk – Workforce
B	Inability to ensure the workforce has the appropriate capacity and capability in order to meet the current and future requirements of an effective policing service.
Owner(s)	Director of People & Development
Governance & Oversight	People & Organisational Justice Performance Board, People & Organisational Justice Delivery Board, Strategic Resourcing Delivery Board, Strategic Design Authority, Transformation Board
Context	<ul style="list-style-type: none"> • Need to have an appropriate assessment of people performance through effective Performance and Development Review (P&DR) assessments • Need to ensure the workforce is developed in terms of their operational, technical, leadership and business skills. • Need to ensure training profiles and minimum levels are met and maintained. • Need to ensure ongoing professional development in key technical / specialist roles, in particular for investigative resource and the development of career pathways from PIP level 1 through PIP level 2. • Ensure the workforce understands its role in ensuring appropriate standards are met in line with the Code of Ethics. • Ensure the organisation becomes a learning organisation where the learning experience is supported through effective tutoring, mentoring and coaching.
Current factors	<ul style="list-style-type: none"> • Gap in knowledge of people performance • COVID-19 has impacted training delivery plans, particularly specialist training. • Current lack of investigative resources available, in particular PIP level 2, impacting the ability to meet investigative demands of the Force. • Lack of experienced investigative resource across a number of different teams, particularly in Secondary Investigation. • Need to ensure the organisation is able to respond to core operational capability risks, for example driver training. • Ability to respond to core operational capabilities i.e. driver training. • Lack of understanding of business and leadership skills profiles and requirements to bridge the gap. • Lack of clarity and action in regard to people performance and understanding of expectations. • PEQF entry routes require the organisation to effectively support the learner experience.
Potential consequence	<ul style="list-style-type: none"> • People performance is not maximised • Inability to deliver service and reduction of service quality will impact on trust and confidence. • Inability to meet demand, particularly from an investigative perspective. • Impact on wellbeing through increased pressure on a smaller number of resources to deliver services.

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	<ul style="list-style-type: none"> • Inability to meet minimum training profile requirements. 	
Summary of Controls	<ul style="list-style-type: none"> • Investigative Plan – delivered through the Investigative Capability Working Group and governed via the Strategic Resourcing Delivery Board. • Operational Resourcing Meeting (ORM) – monitor tactical operational resourcing requirements. • Resourcing Strategy for each business area to deal with the demand, design, supply, capacity and capability segments for each functional area. • Clear, achievable training plan for the next 12 months in detail, with projections across the 4-year MTFS period. • Embedded training profiles and plans. • Enhanced development offer including leadership and career development. • Ongoing workforce development through P&DR and local ownership. • DE&I Strategy and Plan (including Positive Action strategy/plan) • Vetting – integrity health checks through the P&DR • Performance and promotion assessment uses the national competency and values framework which is built on the Code of Ethics. • The development of a Professional Development Unit (PDU) within Area Commands will provide support to student officers to maximise their learner experience. 	
Likelihood	3	12
Impact	4	

Very High (5)				
High (4)				
Medium (3)			(OPCC) Finance	
Low (2)			(OPCC) Partnership and Collaboration (OPCC) Public Confidence	
Very Low (1)	(OPCC) Governance			
	Very Low (1)	Low (2)	Medium (3)	High (4)
				Very High (5)

Overview of the RAG status of Strategic Risk – OPCC

IMPACT

OPCC has identified risks in four thematic risk areas: Finance; Governance; Partnership and Collaboration; and Public Confidence

OPCC	<p>Strategic Risk – Finance (OPCC)</p> <p>Government reduces funding to PCCs/Police Forces which results in a reduced service ability. The need to contain expenditure within available resources and enable Northumbria Police to police effectively.</p>
Owner(s)	Chief Finance Officer – OPCC
Governance and Oversight	Joint Business Meeting/OPCC Business Meeting
Context	<ul style="list-style-type: none"> ▪ The review of the funding formula used by government to distribute grant funding to police forces in England and Wales may lead to a reduction in the percentage of central government police funding allocated to Northumbria Police. ▪ The PCC has a robust, balanced MTFS that meets the medium term financial plans of the Chief Constable and facilitates delivery against the Police and Crime Plan. ▪ The balanced nature is predicated by the risk of Home Office funding being guaranteed for one year only which requires an annual review of the MTFS and potential reprioritisation of spending plans ▪ Affordability may also be affected by changes in national interest rates. ▪ Reserves policy is crucial to medium term sustainability. ▪ In-year financial monitoring must be robust. ▪
Current factors	<ul style="list-style-type: none"> ▪ The Government has stated that the review of the Police Allocation Formula (PAF) will be completed in this parliament. ▪ Settlement 2022/23 remains one-year only although there is longer term certainty of the scope for Precept increases for a three year period. ▪ Settlement 2022/23 has confirmed continued funding to support the Uplift programme and therefore no change to direction of funding at this time. ▪ At this time, the level of national funding and the robust controls detailed below mitigate in the short term the consequence also detailed below. ▪
Potential consequence	<ul style="list-style-type: none"> ▪ A reduction to national funding or short notice change may require a change in short and medium term force financial planning, including a need to deliver unplanned savings thereby impacting on service delivery. ▪ Any in-year pressures which become a forecast overspend must be addressed through consideration of in-year savings and discussion with the Chief Constable.

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Summary of Controls	<ul style="list-style-type: none"> ▪ Transparent ownership of financial matters between the PCC and Chief Constable. ▪ Comprehensive approach to business planning cycle and annual budget setting process. ▪ Well understood in-year financial monitoring and reporting governance. ▪ Medium and long term financial planning. ▪ Regular oversight of revenue & capital budget. ▪ Maintain adequate risk assessed reserves. ▪ Audit Committee /Internal Audit Treasury Management strategy in place outcomes reviewed by PCC. ▪ HMICFRS inspection regime. ▪ 	
Likelihood Impact	3 4	12

OPCC	<p>Strategic Risk – Governance (OPCC)</p> <p>Existing arrangements for the PCC to carry out robust scrutiny and hold the Chief Constable to account for efficient and effective delivery of the Police and Crime Plan are ineffective or inconsistent.</p>
Owner(s)	Chief of Staff and Monitoring Officer
Governance and Oversight	Joint Business Meeting/ Annual Scrutiny Programme/CC/PCC Governance Meeting/ JIAC/Police and Crime Panel/PCC/CC 1:1 Meeting
Context	<ul style="list-style-type: none"> ▪ Ineffective governance, scrutiny, oversight of services and outcomes delivered and lack of reaction to organisational learning by NP ▪ Need to target resources and priorities towards changing performance/landscapes or community needs. ▪ Chief Constable setting high performance standards and appropriate culture and values is crucial to meaningful scrutiny. ▪ Trust in the transparency of NP. ▪ Effective governance includes effective oversight of complaints against the Chief Constable and Northumbria Police. ▪ Effective systems and controls to manage risk are needed to support the delivery of service. ▪ A strong relationship between the Office of the Police and Crime Commissioner and Force which is resilient to external factors.
Current factors	<ul style="list-style-type: none"> ▪ National PCC Review – expansion of PCCs remit into fire and criminal justice ▪ Policing protocol review ▪ Expanded devolution deals
Potential consequence	<ul style="list-style-type: none"> ▪ Loss of public confidence. ▪ Reputational risk ▪ A decline in quality and service delivery, leading to a reduction in public satisfaction with policing. ▪ Deteriorating performance resulting in policing priorities not being achieved. ▪ Poor relationship with Northumbria Police. ▪ Government Intervention. ▪ Challenge by the Police and Crime Panel ▪ Adverse external inspection reports, leading to recommendations and potential escalation.
Summary of Controls	<ul style="list-style-type: none"> ▪ Police and Crime Plan (regularly reviewed) ▪ Joint Business Meeting ▪ Annual Scrutiny Programme ▪ Provision of the Complaints Statutory Review Process ▪ Public and Partnership Engagement and Feedback ▪ PCC and Chief Constable 1:1s ▪ Police and Crime Panel Scrutiny ▪ Scrutinising Force response to HMICFRS Inspection Findings ▪ Audit Committee, audit, annual governance statement ▪ Contributing to Governments PCC Review

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Likelihood	1	2
Impact	2	

OPCC	<p>Strategic Risk – Partnership & Collaboration (OPCC)</p> <p>Reduction in or withdrawal of partnership working for the OPCC leading to a failure to identify, develop and retain collaborative arrangements that support communities with sustainable multi agency responses.</p>
Owner(s)	Chief of Staff and Monitoring Officer
Governance and Oversight	Joint Business Meeting/VRU Strategic Board/Local Criminal Justice Board
Context	<ul style="list-style-type: none"> ▪ Uncertainty of long-term sustained resourcing to deliver current public health approach collaboration - Violence Reduction Unit and other joint projects including Victims Service Provision. ▪ Challenging budget and service pressures within organisations both in public and voluntary sector can lead to silo working. ▪ Potential for national issues and crisis to affect collaborative working. ▪ Requirement to retain engagement of the public as a partner. ▪ Ensuring external factors do not alter relationships preventing joint working. ▪ Clear outcomes not being identified and reported can risk sustainability and ongoing partner engagement.
Current factors	<ul style="list-style-type: none"> ▪ PCC Review Government ambition to strengthen and expand the role of PCCs and maximise potential for wider efficiencies. ▪ Impact of the current pandemic on the Local Criminal Justice System
Potential consequence	<ul style="list-style-type: none"> ▪ Reduced public confidence. ▪ Reduced opportunities for more efficient and effective services. ▪ Missed opportunities to prevent and reduce crime and disorder and maintain an efficient and effective Criminal Justice System ▪ Increased costs due to poor partnership and commissioned service management.
Summary of Controls	<ul style="list-style-type: none"> ▪ Effective partnership/commissioning governance arrangements that identify and report outcomes and progress ▪ Comprehensive public engagement and communication strategies to inform multi agency responses. ▪ Scrutiny of effectiveness of Force collaborative activity. ▪ Focus on accessing funds for collaborative working and lobbying government for sustained funding streams. ▪ VRU Strategic Board and Response Strategy ▪ PCC Charing Local Criminal Justice Board, LCJB Business Plan and Covid Recovery Group. ▪ Collaboration and engagement with other PCCs, nationally and regionally. ▪ Comprehensive engagement with and monitoring of commissioned services. ▪ Regular ‘sector’ engagement meetings with potential and current partners.

AGENDA ITEM 6
APPENDIX B

Likelihood	2	8
Impact	4	

OPCC	<p>Strategic Risk – Public Confidence (OPCC)</p> <p>Loss of public confidence in the PCC resulting from a lack of engagement and communication, leading to a failure to reflect public priorities in the Police and Crime Plan. Failure to hold the Chief Constable to account on behalf of the public for delivery of their priorities or other statutory obligations.</p>
Owner(s)	Chief of Staff and Monitoring Officer and Director of Planning and Delivery
Governance and Oversight	Joint Business Meeting/Annual Scrutiny Programme/
Context	<ul style="list-style-type: none"> ▪ A robust communications plan is needed to demonstrate effective and visible accountability of the chief constable to the PCC. ▪ Delivery of the PCCs manifesto commitments on which they were elected with the continual need to understand and react to changing communities or priorities and reflect this in the Police and Crime Plan. ▪ Engagement with communities to identify and respond to trends identified through the complaints process and external communication to reflect organisational learning. ▪ The OPCC business must ensure compliance with legal, information management legislation and transparency guidance.
Current factors	<ul style="list-style-type: none"> ▪ Role of social media in shaping public perceptions. ▪ Changes to law to allow the public to report crimes via social media. ▪ Responding to and reassuring communities following recent tragic events, through robust scrutiny of Northumbria Police and engagement with partners and communities. ▪ National action by Legally Qualified Misconduct Hearing Chairs may delay the police misconduct process.
Potential consequence	<ul style="list-style-type: none"> ▪ Reputational damage. ▪ Police and Crime plan and actual delivery not aligned to public concerns and priorities. ▪ Loss of trust/confidence in the PCC as a result of crime perceptions. ▪ Poor service delivery damages public confidence. ▪ Relationship with force and partners. ▪ Government penalties Poor assessment results.

AGENDA ITEM 6
APPENDIX B

Summary of Controls	<ul style="list-style-type: none"> ▪ Police and Crime Plan (annually updated to reflect local priorities). ▪ Annual Scrutiny Programme. ▪ Police and Crime Panel Scrutiny. ▪ Reporting back to the public crime data and on their concerns and progress towards the Police and Crime plan. ▪ External evaluations including impact of the VRU. ▪ Rolling programme of engagement across demographics and issue based topics, including regular connection with the PCC Advisory Groups. ▪ Annual Report. ▪ OPCC Delivery Plan. ▪ Governance Framework. ▪ Annual Assurance Statement/Audit Committee. ▪ Internal Audit. ▪ OPCC Website. ▪ Data Protection Officer. ▪ Complaints Review process. ▪ Service level agreement with Northumbria Police. 	
Likelihood Impact	2 4	8

Joint Independent Audit Committee	28 February 2022
Treasury Policy Statement & Treasury Strategy 2022/23 To 2025/26	
Report of: Joint Chief Finance Officer	

I PURPOSE

- 1.1 To review and recommend the adoption by the Commissioner of the attached four year Treasury Policy Statement and Strategy 2022/23 to 2025/26.

2 RECOMMENDATION

- 2.1 To recommend the adoption by the Commissioner of the attached four year Treasury Policy Statement and Strategy 2022/23 to 2025/26.

3 BACKGROUND

- 3.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) has produced the Code of Practice on Treasury Management in the Public Services (the Code) which represents best practice in Treasury Management. By adopting the attached Treasury Policy Statement and Strategy for 2022/23 to 2025/26 the Commissioner contributes towards achieving best practice.
- 3.2 Part I of the Local Government Act 2003 specifies the powers of local authorities to borrow for any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs. For the purpose of the Local Government Act 2003 Police and Crime Commissioners are classified as local authorities. The CIPFA Prudential Code for Capital Finance in Local Authorities sets out a range of prudential and treasury indicators that must be calculated to ensure borrowing is affordable, prudent and sustainable. The Prudential Code also refers to the need for a clear and integrated Treasury Strategy.
- 3.3 Both the Treasury Management Code and the Prudential Code were revised for 2021 and issued on 20 December 2021. The main objective of the 2021 Code changes (and the previous 2017 Codes) was to respond to the major expansion of local authority investment activity over recent years into the purchase of non-financial investments, particularly property. Whilst CIPFA has stated that there will be a soft launch of the new 2021 codes for 2022/23 with local authorities having a choice over whether to adopt the changes, full implementation is required from 1 April 2023. The attached Treasury Policy Statement and Treasury Strategy 2022/23 to 2025/26 fully comply with the new 2021 code editions.
- 3.4 In addition, under Section 15 of the Local Government Act 2003, local authorities are required to have regard to the DLUHC's Guidance on Local Government Investments. This document stipulates the requirement for an annual investment strategy to be integrated into the Commissioner's Treasury Strategy.

4. TREASURY POLICY AND TREASURY STRATEGY

- 4.1 The Treasury Policy 2022/23 to 2025/26 is set out in Appendix 1, and details the overarching approach to the provision of Treasury Management which includes the Treasury Strategy, Investment Strategy and appropriate delegations.
- 4.2 The Treasury Strategy for 2022/23 to 2025/26 covers the specific activities proposed for the next four years in relation to both borrowing and investments and ensures a wide range of advice is taken to maintain and preserve all principal sums, whilst obtaining a reasonable rate of return, and that the most appropriate borrowing is undertaken. The primary objective of the investment strategy is to maintain the security of investments at all times. The Strategy is attached at Appendix 2 to this report.
- 4.3 The Treasury Strategy complies with the requirements of the Code, the Prudential Code for Capital Finance in Local Authorities and Part 1 of the Local Government Act 2003.
- 4.4 The Department of Levelling Up, Housing and Communities (DLUHC - this was formerly the Ministry of Housing, Communities and Local Government (MHCLG)) and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments are essentially the purchase of income yielding assets. The Commissioner has no non-financial investments.
- 4.5 In addition, there are further Appendices 3 to 7, which set out the current interest rate forecasts, Prudential Treasury Indicators, Specified Investments, Maximum Maturity Periods, and details of foreign countries that could be invested with, all of which underpin the core approach detailed in the Strategy.

5 FURTHER INFORMATION

- 5.1 The following documents have been used in preparation of the report:
 - Local Government Act 2003.
 - DLUHC Guidance on Local Government Investments.
 - CIPFA’s Prudential Code for Capital Finance in Local Authorities 2021.
 - CIPFA’s Code of Practice on Treasury Management in the Public Services 2021.
 - The approved Treasury Management Practice Statements as used for day to day management purposes.
 - Link Group Treasury Management Strategy template 2022/23.

6 CONSIDERATIONS

Freedom of Information	NON-EXEMPT
Consultation	Yes
Consultation has taken place with external treasury advisers Link Group.	
Resource	Yes

There are no financial implications directly arising from the contents of this report. Any income and expenditure within the scope of the report is already included in the agreed revenue budget.	
Equality	No
Legal	No
Risk	Yes
The Treasury Policy and Strategy recommended for approval have been prepared with the aim of maintaining the security and liquidity of investments to ensure that the Commissioner's principal sums are safeguarded. Maximising income is considered secondary to this main aim.	
Communication	No
Evaluation	No

Treasury Policy 2022/23 to 2025/26

I. Introduction

I.1 The Commissioner has adopted the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code) and maintains:

- A Treasury Management Policy Statement, stating the policies, objectives and approach to risk management of our treasury management activities.
- Suitable Treasury Management Practices (TMPs), setting out the manner in which the policies and objectives are carried out, and prescribing how the activities will be managed and controlled.

I.2 CIPFA defines Treasury Management as:

'The management of the organisation's borrowing, investments and cash flows, including 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.'

I.3 On 20 December 2021 CIPFA issued revised Prudential and Treasury Management Codes (2021 Editions). Whilst CIPFA has stated that there will be a soft launch of the new 2021 codes for 2022/23 with local authorities having a choice over whether to adopt the changes, full implementation is required from 1 April 2023.

I.4 The main objective of the 2021 Code changes (and the previous 2017 Codes) was to respond to the major expansion of local authority investment activity over recent years into commercial activity and the purchase of non-financial investments, particularly property.

I.5 The Police and Crime Commissioner for Northumbria has not engaged in any commercial investments and has no non-treasury investments.

I.6 The Commissioner's Treasury Policy Statement and Strategy 2022/23 to 2025/26 is fully compliant with the new 2021 Code editions. The main changes required under the revised Codes and relevant to the Commissioner's Treasury Policy and Strategy are:

- All investments to be attributed to either: Treasury Management, Service Delivery or Commercial Return.
- Adoption of a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement (CFR).
- Amendments to the knowledge and skills register for those involved with the treasury management function.
- Quarterly reporting of prudential indicators.
- Environmental social and governance (ESG) issues to be addressed within an authority's treasury management policies and practices (TMPI). (This area is under further development by CIPFA.)

I.7 The CIPFA Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report. The capital strategy will be approved by the Police and Crime

Commissioner as part of the Medium Term Financial Strategy (MTFS) 2022/23 to 2025/26 approval process, and will include the approval of final prudential indicators set for 2022/23.

- 1.8 The Police and Crime Commissioner for Northumbria has delegated responsibility to the Chief Finance Officer (CFO) for the treasury management function and the undertaking of investment and borrowing on behalf of the Commissioner, ensuring that all activities are in compliance with the CIPFA Code of Practice for Treasury Management in the Public Services.

2. Treasury Strategy

- 2.1 The Commissioner regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on the risk implications for the Commissioner.
- 2.2 The Treasury Strategy encompasses the requirements of CIPFA's Treasury Management Code of Practice, CIPFA's Prudential Code and the DLUHC's Guidance on Local Government Investments. This document stipulates the requirement for an annual investment strategy to be integrated into the Commissioner's Treasury Strategy Statement.
- 2.3 The Treasury Strategy covers the following:
- a) Treasury limits in force which will limit the treasury risk and activities of the Commissioner, including prudential and treasury indicators.
 - b) Prospects for interest rates.
 - c) The borrowing strategy.
 - d) Debt rescheduling.
 - e) Policy on borrowing in advance of need.
 - f) Management of interest rate exposure.
 - g) The investment strategy.
 - h) Creditworthiness policy.
 - i) The policy on the use of external service providers.
- 2.4 The strategy for 2022/23 to 2025/26 is attached at Appendix 2.

3. Prudential and Treasury Indicators

- 3.1 Under Part I of the Local Government Act 2003 the Commissioner may borrow money:
- a) For any purpose relevant to its functions under any enactment; or
 - b) For the purposes of the prudent management of its financial affairs.
- 3.2 Under the requirements of the Prudential Code and Code of Practice on Treasury Management in the Public Services the following indicators have been adopted for 2022/23:
- Compliance with the Code of Practice on Treasury Management in the Public Services.
 - Calculations of:
 - Authorised limit.
 - Operational boundary.

- Actual external debt.
- Maturity structure of borrowing.
- Upper limits for principal sums invested for periods of over 365 days.
- Gross debt and Capital Financing Requirement (CFR).
- Debt liability benchmark.

3.3 The draft prudential indicators are attached to the Treasury Strategy at Appendix 4. These indicators will be finalised and approved by the Commissioner by 31 March 2022 as part of the Medium Term Financial Strategy (MTFS) 2022/23 to 2025/26 and Capital Strategy approval process.

3.4 Regulations came into effect from March 2008 with regard to preparing an Annual MRP Statement. MRP is the amount that needs to be set aside to reflect the depreciation of capital assets. There are no proposed changes to the method used to calculate MRP and the Annual MRP statement for 2022/23 is included in appendix 4.

4. Annual Investment Strategy

4.1 Part I of the Local Government Act 2003 relaxed the investment constraints for local authorities.

4.2 The DLUHC has issued guidance to supplement the investment regulations contained within the Local Government Act 2003. It is also referred to under Section 15 (1) of the 2003 Local Government Act which requires authorities to “have regard (a) to such guidance as the Secretary of State may issue and (b) to such other guidance as the Secretary of State may by regulations specify”. The guidance encourages authorities to invest prudently but without burdening them with the detailed prescriptive regulation of the previous regime.

4.3 Central to the guidance and the Code is the need to produce an annual investment strategy. This is included as Section 6 of the Treasury Strategy in Appendix 2.

4.4 The annual investment strategy document will include:

- The Commissioner’s risk appetite in respect of security, liquidity and return.
- The definition of ‘high’ and ‘non-high’ credit quality to determine what are specified investments and non-specified investments.
- Which specified and non-specified instruments the Commissioner will use, dealing in more detail with non-specified investments given the greater potential risk.
- The categories of counterparties that may be used during the course of the year e.g. foreign banks, nationalised/part nationalised banks, building societies.
- The types of investments that may be used during the course of the year.
- The limit to the total amount that may be held in each investment type.
- The Commissioner’s policy on the use of credit ratings, credit rating agencies and other credit risk analysis techniques to determine creditworthy counterparties for its approved lending list and how the Commissioner will deal with changes in ratings, rating watches and rating outlooks.
- Limits for individual counterparties, groups and countries.

- Guidelines for making decisions on investments and borrowing.

5. Policy on Interest Rates Exposure

- 5.1 The Commissioner's approach to managing interest rate exposure is described at section 4.10 of the Treasury Strategy 2022/23 to 2025/26.
- 5.2 The use of any financial instruments, such as derivatives, to mitigate interest rate risks will be considered on an individual basis and the CFO will require approval from the Commissioner prior to entering into any arrangement of this nature.

6. Policy on External Managers

- 6.1 Treasury management advisers (Link Group) assist the Commissioner in achieving the objectives set out in the Treasury Policy Statement. The CFO has not appointed external investment fund managers to directly invest the Commissioner's cash.

7. Policy on Delegation, Review Requirements and Reporting Arrangements

- 7.1 It is the Commissioner's responsibility under the Code to approve a Treasury Policy Statement.
- 7.2 The Commissioner delegates the review and scrutiny of the Treasury Management Strategy and Policies, along with monitoring performance by receiving the mid-year review and annual report, to the Joint Independent Audit Committee, and the execution and administration of Treasury Management decisions to the CFO. Any proposals to approve, adopt or amend policy require the consent of the Commissioner and are matters for the Commissioner to determine.
- 7.3 The Commissioner will receive:
- a) A four year Treasury Strategy report, including the annual Investment Strategy, before the commencement of each financial year.
 - b) A mid-year report on borrowing and investment activity.
 - c) An annual report on borrowing and investment activity by 30 September of each year.
 - d) A Capital Strategy report providing the following:
 - A high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services.
 - An overview of how the associated risk is managed.
 - The implications for future financial sustainability.

Treasury Strategy 2022/23 to 2025/26**I. Introduction**

- I.1 The Treasury Strategy has been prepared in accordance with the Treasury Management Code of Practice (the Code). The Code emphasises a number of key areas including the following:
- a) The Code must be formally adopted.
 - b) The strategy report will affirm that the effective management and control of risk are prime objectives of the Commissioner's treasury management activities.
 - c) The Commissioner's appetite for risk, including the appetite for any use of financial instruments in the prudent management of those risks, must be clearly identified within the strategy report and will affirm that priority is given to security of capital and liquidity when investing funds and explain how that will be carried out.
 - d) Responsibility for risk management and control lies within the organisation and cannot be delegated to any outside organisation.
 - e) Credit ratings should only be used as a starting point when considering risk. Use should also be made of market data and information, the quality financial press, information on government support for banks and the credit ratings of that government support.
 - f) A sound diversification policy with high credit quality counterparties which considers setting country, sector and group limits.
 - g) Borrowing in advance of need is only to be permissible when there is a clear business case for doing so and only for the current capital programme or to finance future debt maturities.
 - h) The main annual treasury management reports must be approved by the Commissioner.
 - i) There needs to be a mid-year review of treasury management strategy and performance. This is intended to highlight any areas of concern that have arisen since the original strategy was approved.
 - j) Each Commissioner must delegate the role of scrutiny of treasury management strategy and policies to a specific named body.
 - k) Treasury management performance and policy setting should be subjected to prior scrutiny.
 - l) Commissioner's and scrutiny members dealing with treasury management activities should be provided with access to relevant training as those charged with governance are also personally responsible for ensuring they have the necessary skills and training.
 - m) Responsibility for these activities must be clearly defined within the organisation.
 - n) Officers involved in treasury management must be explicitly required to follow treasury management policies and procedures when making investment and borrowing decisions on behalf of the Commissioner.
- I.2 The management of day to day working capital (cash flow) including the requirement for temporary borrowing and/or investment will be monitored along with the limits noted below.

The Commissioner will adopt the following reporting arrangements in accordance with the requirements of the Code:

Area of Responsibility	Commissioner/ Committee/ Officer	Frequency
Treasury Management Policy & Strategy / Annual Investment Strategy	Commissioner with review delegated to Joint Independent Audit Committee	Annually before the start of the year
Annual Report	Commissioner with review delegated to Joint Independent Audit Committee	Annually by 30 September after the end of the year
Scrutiny of treasury management performance via mid-year report	Commissioner with review delegated to Joint Independent Audit Committee	Mid-Year
Scrutiny of treasury management strategy, policies and procedures	Joint Independent Audit Committee	Annually before the start of the year
Treasury Management Monitoring Reports, including any amendments to Treasury Management Practices	CFO	Monthly report, quarterly TM monitoring meeting

1.3 The Treasury Management Code covers the following prudential indicators:

- Authorised limit for external debt.
- Operational boundary for external debt.
- Actual external debt.
- Upper and lower limits to the maturity structure of borrowing.
- Upper limits to the total principal sums invested longer than 365 days.
- Gross debt and Capital Finance Requirement.
- Debt liability benchmark.

1.4 The draft prudential indicators are attached to the Treasury Strategy at Appendix 4. These indicators will be finalised and approved by the Commissioner by 31 March 2022 as part of the Medium Term Financial Strategy (MTFS) 2022/23 to 2025/26 and Capital Strategy approval process.

1.5 In addition to the above indicators, where there is a significant difference between the net and the gross borrowing position the risk and benefits associated with this strategy will be clearly stated in the annual strategy.

1.6 The strategy covers:

- a) Prospects for interest rates.
- b) Treasury limits in force which will limit the treasury risk and activities of the Commissioner, including prudential and treasury indicators.
- c) The borrowing strategy.
- d) Sensitivity forecast.
- e) External and internal borrowing.
- f) Debt rescheduling.
- g) Policy on borrowing in advance of need.
- h) The investment strategy.
- i) The policy on the use of external service providers.

2. Prospects for Interest Rates

2.1 The table shown below outlines the Commissioner’s view of anticipated movements in interest rates, based on guidance received from the Commissioner’s treasury management advisers Link Group (as at 07/02/2022). A more detailed interest rate forecast is shown in Appendix 3.

(The PWLB rates shown below include a 20 basis point ‘certainty rate’ discount effective 01/11/2012)

	March	June	Sept	Dec	March	June	March	March
	2022	2022	2022	2022	2023	2023	2024	2025
Bank Rate	0.75%	1.00%	1.00%	1.25%	1.25%	1.25%	1.25%	1.25%
5 yr PWLB*	2.20%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%
10 yr PWLB	2.30%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%
25 yr PWLB	2.40%	2.50%	2.50%	2.60%	2.60%	2.60%	2.60%	2.60%
50 yr PWLB	2.20%	2.30%	2.30%	2.40%	2.40%	2.40%	2.40%	2.40%

* (PWLB) Public Works Loan Board is a statutory body operating within the UK Debt Management Office, which is an executive agency of HM Treasury. The PWLB’s function is to lend money to other prescribed public bodies.

The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to first 0.25%, and then to 0.10%, it then left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16 December 2021 and 0.50% on 3 February 2022. As shown in the forecast table above, the forecast for Bank Rate now includes 3 increases, with three rises of 0.25% by December 2022 to end at 1.25%. This position is then maintained during the forecast period through to March 2025.

2.2 Significant risks to the forecasts

- **Further Lockdowns** due to new variants of the Coronavirus which render current vaccines ineffective.
- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity.

- **The Monetary Policy Committee** acts too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- **The Monetary Policy Committee** tightens monetary policy too late to ward off building inflationary pressures.
- **The Government** acts too quickly to cut expenditure to balance the national budget.
- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
- **Longer term US treasury yields** rise strongly and pull gilt yields up higher than forecast.
- **Major stock markets** e.g., in the US, become increasingly judged as being over-valued and susceptible to major price corrections. Central banks become increasingly exposed to the “moral hazard” risks of having to buy shares and corporate bonds to reduce the impact of major financial market selloffs on the general economy.
- **Geopolitical risks**, for example in Ukraine, Iran, North Korea, but also in Europe and Middle Eastern countries; on-going global power influence struggles between Russia/China/US. These could lead to increasing safe-haven flows.

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

2.4 **Forecasts for Bank Rate**

The Monetary Policy Committee is now very concerned at the way that forecasts for inflation have had to be repeatedly increased within a matter of just a few months. Combating this rising tide of inflation is now its number one priority and the 5-4 vote marginally approving only a 0.25% increase on 3 February rather than a 0.50% increase, indicates it is now determined to push up Bank Rate quickly. A further increase of 0.25% is therefore probable for March, and again in May, followed possibly by a final one in November. However, data between now and November could impact on the forecasts, requiring a further change within a relatively short timeframe for the following reasons:

- The significant risks set out at section 2.2.
- Impact on economic growth of 54% energy cost cap increases from April together with an increase of 1.25% in the national insurance contribution rate, food inflation around 5% and council tax likely to rise by 5% too.
- Consumers are estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above increases. But most of those holdings are held by more affluent people whereas poorer people already spend nearly all their income before these increases hit and have few financial reserves.
- These increases are already highly disinflationary; inflation will also be on a gradual path down after April so that raises a question as to whether the MPC may shift into protecting economic growth by November, i.e., it is more debatable as to whether they will deliver another increase then.

- The BIG ISSUE – will the current spike in inflation lead to a second-round effect in terms of labour demanding higher wages, (and/or lots of people getting higher wages by changing job)?
- If the labour market remains very tight during 2022, then wage inflation poses a greater threat to overall inflation being higher for longer, and the MPC may then feel it needs to take more action.
- If the UK were to invoke article 16 of the Brexit deal over the dislocation in trading arrangements with Northern Ireland, this would have the potential to end up in a no-deal Brexit.

2.5 In summary, with the high level of uncertainty prevailing on several different fronts, Link Group have advised that they expect to have to revise their forecasts again - in line with whatever the 'new news' is.

Investment and Borrowing Rates

- 2.6 Investment returns have started improving in the second half of 2021/22 and are expected to improve further during 2022/23 as the MPC progressively increases Bank Rate.
- 2.7 Borrowing interest rates fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England and still remain at historically low levels.
- 2.8 On 25 November 2020 the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates which had been increased by 100 bps in October 2019. The standard and certainty margins were reduced by 100 bps but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority/Commissioner which had purchase of assets for yield in its three-year capital programme. The current margins over gilt yields are as follows:
- PWLB Standard Rate is gilt plus 100 basis points (G+100bps)
 - PWLB Certainty Rate is gilt plus 80 basis points (G+80bps)
- 2.9 The policy of avoiding new borrowing by maximising the use of internal borrowing through reserves, has served the Commissioner well in recent years. However, this will be subject to continuous review in order to avoid the risk of incurring higher borrowing costs in the future when new long-term borrowing to finance capital expenditure or refinance maturities is required. As Link's long-term (beyond 10 years) forecast for Bank Rate is 2.00%, and as nearly all PWLB certainty rates are now above this level, better value can be obtained at the very short and at the longer end of the curve and longer-term rates are still at historically low levels. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive as part of a balanced debt portfolio.
- 2.10 There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

3. Treasury Limits for 2022/23 to 2025/26 including Prudential Indicators

- 3.1 It is a statutory requirement of the Local Government Finance Act 1992, for the Commissioner to produce a balanced budget. In particular, Section 31(a), as amended by the Localism Act 2011, requires the Commissioner to calculate the budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from increases in interest charges and increases in running costs from new capital projects are limited to a level, which is affordable within the projected income of the Commissioner for the foreseeable future.
- 3.2 It is a statutory duty under Section 3 of Part 1 of the Local Government Act 2003, and supporting regulations, for the Commissioner to determine and keep under review how much it can afford to borrow. The amount so determined is termed the Affordable Borrowing Limit. The Authorised Limit represents the legislative limit specified in the Act.
- 3.3 The Prudential Code for Capital Finance in Local Authorities is a professional code that sets out a framework for self-regulation of capital spending, in effect allowing Commissioners to invest in capital projects without any limit as long as they are affordable, prudent and sustainable.
- 3.4 The Commissioner must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires the Commissioner to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax levels is affordable.
- 3.5 To facilitate the decision making process and support capital investment decisions the Prudential Code and the Treasury Management Code requires the Commissioner to agree and monitor a minimum number of prudential indicators. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance.
- 3.6 The following indicator provides a debt related activity limit:
- Maturity structure of borrowing. These gross limits are set to reduce the Commissioner's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.
- 3.7 The treasury limits and draft prudential indicators have been reviewed and updated and are attached at Appendix 4.
- 3.8 Minimum revenue provision (MRP): Regulations came into effect from March 2008 with regard to preparing an Annual MRP Statement. MRP is the amount that needs to be set aside to reflect the depreciation of capital assets. There are no proposed changes to the method used to calculate MRP and the Annual MRP statement for 2022/23 is included in Appendix 4.
- 3.9 The CFO has systems in place to monitor the treasury limits and will report to the Commissioner instances where limits are breached, with the exception of short-term breaches of the Operational Boundary. The Operational Boundary is set so that if breached it acts as an early warning of the potential to exceed the higher Authorised Limit and as such temporary breaches due to debt restructuring and temporary borrowing are acceptable, providing they are not sustained.

4. Borrowing Strategy

- 4.1 The Local Government Act 2003 does not prescribe approved sources of finance, only that borrowing may not, without the consent of HM Treasury, be in other than Sterling.
- 4.2 The main options available for the borrowing strategy for 2022/23 are PWLB loans, market loans and a potential option to use the Municipal Bond Agency. The interest rate applicable to either PWLB or markets loans can be fixed or variable.
- 4.3 The Commissioner is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Commissioner's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.
- 4.4 There are different types of market loans available, including variable and fixed interest rate loans. These loans are usually offered at an interest rate lower than the corresponding PWLB loan rate to try to encourage local authorities and other public sector bodies to use as an alternative to PWLB. They may only be attractive if they are forward starting i.e. to secure the rate at an earlier point than actually drawing down the funds to mitigate interest rate risk and avoid the cost of carry.
- 4.5 To mitigate variable interest rate risk a limit is placed on the total level of borrowing that can be taken as variable interest rate loans. To provide scope to utilise new market products should they become available as well as minimise the cost of borrowing and increase the diversification of the debt portfolio it is proposed that the limit on variable rate loans should be 40% of total borrowing 2022/23.
- 4.6 The main strategy is therefore:
- Consider the use of short term borrowing as a bridge until receipts are received.
 - Consideration will be given to borrowing market loans which are at least 20 basis points below the PWLB target rate, where they become available.
 - When PWLB rates fall back to or below Link Group trigger rates borrowing should be considered, with preference given to terms which ensure a balanced profile of debt maturity.
- 4.7 In addition, reserve and fund balances may be utilised to limit the new external borrowing requirement, or to make early debt repayments, as an alternative to investing these resources. Reducing investment balances rather than increasing external borrowing could reduce interest payable, as short term rates on investments are likely to be lower than rates paid on external borrowing, and limit exposure to investment risk.

Sensitivity of the Forecast

- 4.8 The Commissioner, in conjunction with Link Group, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to any changes. The main sensitivities of the forecast are likely to be the two scenarios below:
- *If it was felt that there was a significant risk of a sharp FALL in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation),*

then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- *If it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.*

- 4.9 Against this background, caution will be adopted in the management of the 2022/23 treasury operations. The CFO will monitor the interest rate market and adopt a pragmatic approach to any changing circumstances having delegated powers to invest and manage the funds and monies of the Commissioner.

Interest Rate Exposure

- 4.10 Interest rate exposure is managed and monitored through the use of forward balance sheet analysis. This approach requires consideration of the level of the Commissioner's underlying borrowing requirement (CFR) compared to its actual external borrowing position, to ensure the Commissioner remains comfortable with the level of interest payable budget subject to movements in interest rates. Borrowing decisions will be made with reference to the capital plans and core cash position of the Commissioner in association with both the interest rate forecast (section 2.1), and maturity profile of the current portfolio. Investment decisions will be made with reference to the core cash balances, cash flow requirements and the outlook for short-term interest rates.

External and Internal Borrowing

- 4.11 As at 31 January 2022 the Commissioner has net debt of £41.069m; this means that borrowing is currently higher than investments with total borrowing of £86.969m and investments of £45.900m.
- 4.12 Investment interest rates are expected to be below long term borrowing rates throughout 2022/23 therefore value for money considerations indicate that best value can be obtained by delaying new external borrowing and by using internal cash balances to finance new capital expenditure in the short term (this is referred to as internal borrowing). A close watch will be kept on interest rate movements to ensure that interest rates do not rise quicker than forecast. The Commissioner has set trigger rates for long term borrowing and when these rates are attained consideration will be given to long term borrowing. Any short term savings gained by deferring long term borrowing will be weighed against the potential for incurring additional long term costs by delaying unavoidable new external borrowing until later years when PWLB long term rates are forecast to be higher.
- 4.14 The CFO has examined the potential for undertaking early repayment of some external debt to the PWLB in order to benefit from lower interest rates currently available. The significant difference between early redemption rates and interest rates payable on PWLB debt means that large premiums are likely to be incurred by such action. This situation will be monitored in case the differential is narrowed by the PWLB.

Borrowing in advance of need

- 4.15 The Commissioner 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 considered carefully to ensure value for money. Specifically, there will be a clear link to the capital investment programme, which supports the decision to take funding in advance of need.

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

- 4.16 Currently the PWLB Certainty Rate is set at gilts + 80 basis points. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:
- Local authorities (primarily shorter dated maturities)
 - Financial institutions (primarily insurance companies and pension funds but also some banks, out of spot or forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).
 - Municipal Bonds Agency (possibly still a viable alternative depending on market circumstances prevailing at the time).
- 4.17 Treasury advisors, Link Group, will continue to provide advice as to the relative merits of each of these alternative funding sources.

5. Debt Rescheduling

- 5.1 Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates. Any rescheduling opportunities will be considered in line with procedures approved under the Treasury Management Practice Statements and will include a full cost/benefit analysis of any proposed variations. Any positions taken via rescheduling will be in accordance with the strategy position outlined in Section 4 above and will also take into account the prudential and treasury limits.
- 5.2 The reasons for any proposed rescheduling will include:
- The generation of cash savings at minimum risk.
 - In order to amend the maturity profile and/or the balance of volatility in the Commissioner’s borrowing portfolio.
- 5.3 The CFO in-line with delegated powers outlined in the approved Treasury Management Practice Statement will approve all debt rescheduling.
- 5.4 Consideration will also be given to the potential for making savings by running down investment balances by repaying debt prematurely as short term rates on investments are likely to be lower than rates paid on currently held debt. However, this will need careful consideration in the light of premiums that may be incurred by such a course of action and other financial considerations.
- 5.5 All rescheduling will be reported to Commissioner in the mid-year and annual reports.

6. Investment Strategy 2022/23 to 2025/26

Introduction

- 6.1 The Commissioner has regard to the DLUHC's Guidance on Local Government Investments and CIPFA's Code of Practice. The Commissioner must produce a strategy on an annual basis which covers the subsequent four year period.
- 6.2 This annual strategy maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below and in Appendix 5. The policy also ensures that it has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These are detailed in Appendix 6.
- 6.3 The Commissioner will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Commissioner may use, rather than defining what types of investment instruments are to be used.
- 6.4 Specified investments are denominated in Sterling, are for periods of 365 days or less and do not involve the acquisition of share or loan capital in any body corporate. Such an investment will be with either:
- The UK Government or a local authority, parish or community council, or
 - A body or investment scheme which has been awarded a high credit rating by a credit rating agency.
- 6.5 Non-specified investments are deemed more risky and guidance on local government investments requires more detailed procedures. Such procedures are required in order to regulate prudent use and establish maximum amounts which may be invested in each category.
- 6.6 Both specified and non-specified investment types currently utilised by the Commissioner are detailed in Appendix 5, along with approved limits. In addition to these numerous other investment options are available for use and these may be considered suitable for use in the future. Should this be the case then the options will be evaluated in line with the procedures contained within the approved Treasury Management Practice Statement.

Investment Objectives

- 6.7 All investments will be in Sterling.
- 6.8 The Commissioner's primary investment objective is the security of the capital investment. The Commissioner will also manage the investments to meet cash flow demands and to achieve a reasonable return commensurate with the proper levels of security and liquidity. The risk appetite of the Commissioner is low in order to give priority to security of its investments.
- 6.9 The borrowing of monies purely to invest is unlawful and the Commissioner will not engage in such activity.

Other Limits

- 6.11 The Police and Crime Commissioner will continue to use UK banks irrespective of the UK sovereign rating and will specify a minimum sovereign rating of AA+ for non-UK banks, as

recommended by our advisors. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 7. This list will be added to, or deducted from, should ratings change in accordance with this policy.

Creditworthiness Policy

- 6.12 The creditworthiness service provided by Link Group is used to assess the creditworthiness of counterparties. The service provided by Link Group uses a sophisticated modelling approach with credit ratings from the three main rating agencies - Fitch, Moody’s and Standard and Poor’s, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following information as overlays which are combined in a weighted scoring system:
 - Credit watches and credit outlooks from credit rating agencies.
 - Credit Default Swap spreads, financial agreements that compensate the buyer in the event of a default, which give an early warning of likely changes in credit ratings.
 - Sovereign ratings to select counterparties from only the most creditworthy countries.
- 6.13 The end product of this modelling system is a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Commissioner to determine the duration for investments and are therefore referred to as durational bands. The Commissioner is satisfied that this service gives the required level of security for its investments. It is also a service which the Commissioner would not be able to replicate using in-house resources.
- 6.14 Sole reliance will not be placed on the use of this external service. In addition the Commissioner will also use market data and information, information on government support for banks and the credit ratings of the government support.
- 6.15 The Commissioner has also determined the minimum long-term, short-term and other credit ratings it deems to be “high” for each category of investment. These “high” ratings allow investments to be classified as **specified investments**, where they are sterling denominated and of 365 days or less. The Commissioner’s approved limits for the “high” credit rating for deposit takers are as follows:

High Rated	Fitch	Moody’s	Standard & Poor’s
Short term (ability to repay short term debt)	F1+	P-1	A-1+
Long term (ability to repay long term debt)	AA-	Aa3	AA-
MMF Rating	AAAmf	AAA-mf	AAAm

- 6.16 To ensure consistency in monitoring credit ratings throughout 2022/23 the Commissioner will not use the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties, as the credit rating agency issuing the lowest rating could change throughout the year as agencies review the ratings that they have applied to countries, financial institutions and financial products. The ratings of all three agencies will be considered, with Fitch being used as a basis for inclusion on the lending list. In addition to this the Link Group creditworthiness service will be used to determine the duration that

deposits can be placed for. This service uses the ratings from all three agencies, but by using a scoring system, does not give undue consideration to just one agency's ratings.

- 6.17 The selection of counterparties with a high level of creditworthiness will be achieved by selection of institutions down to a minimum durational band within Link Group weekly credit list of worldwide potential counterparties. The maximum maturity periods and amounts to be placed in different types of investment instruments are detailed in Appendix 6.
- 6.18 UK Government nationalised/part nationalised banks will have a maximum limit of 25% or £20m of total investment, all other counterparties will not exceed a maximum limit equal to 20% of total investments or £20m. Unless there are major changes in the level of investment balances throughout the year this limit will be reviewed prior to the commencement of each financial year.
- 6.19 Where more than one counterpart, from a group, is included on the counterparty list the group in total will be controlled by the above limits with the maximum limit being that of the parent company. Within the group each counterparty/subsidiary will have individual limits based on their creditworthiness although the total placed with the subsidiaries will not exceed the limit of the parent company. Subsidiaries that do not satisfy the minimum credit criteria will not be included.
- 6.20 A number of counterparties are also approved by the CFO for direct dealing. These counterparties are included on the approved list and dealing will be within agreed limits. Direct dealing with individual counterparties must be approved by the CFO prior to investments being placed.
- 6.21 Significant levels of downgrades to Short- and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. However, as economies are beginning to reopen, there have been some instances of previous lowering of Outlooks being reversed. It should also be borne in mind that banks went into this pandemic with strong balance sheets. This is predominantly a result of regulatory changes imposed on banks following the Great Financial Crisis.

Nationalised/Part Nationalised Banks

- 6.22 Where the bank has not been fully nationalised but receives substantial support from the UK Government (greater than 40% ownership) the individual rating of the bank will not be taken into consideration and the relevant banks will be included on the Commissioner's lending list as prescribed by the Link Group creditworthiness list as detailed in 6.12.

Foreign Banks

- 6.23 We will continue to use UK banks irrespective of the UK sovereign rating, however non-UK banks domiciled in countries with a minimum sovereign rating of AA+ will be considered for inclusion on the approved list. They must also meet the high rated lending criteria and have operations based in London. Limits will be prescribed by the creditworthiness list and limited to 365 days or less. Each non-UK country will be limited to the maximum investment limit of £20m or 20% of the Commissioner's total investments. A list of those countries with a minimum sovereign rating of AA+ is set out in Appendix 7.

Local Authorities

6.24 The Commissioner invests with other Local Authorities on an ad hoc basis; each investment is considered on an individual basis, prior to funds being placed. Limits are detailed at Appendix 6.

Non-specified Investments

6.25 In addition to the above specified investments, the Commissioner has also fully considered the increased risk of **non-specified investments** and has set appropriate limits for non-high rated deposit takers. These are as follows:

Non High Rated	Fitch	Moody's	Standard & Poor's
Short term	FI	PI	AI
Long term	A-	A3	A-

Limits for non-high rated counterparties are detailed at Appendix 6.

The limit in this strategy has been increased from £7.5m to £10.0m on advice from treasury advisors Link Group. The rationale for looking to adjust the “non-high” limit is to ensure that the Commissioner has sufficient flexibility to invest and so not being forced into an investment as it is the only one available. Even with this raised limit, it does not mean that these limits have to be used and officers would look to use common sense such that if circumstances change markedly, as we saw temporarily in 2020, they can react by limiting investment amounts and duration as they see fit. Importantly, the Commissioner is not looking to bring in “new” lower rated counterparties than it has previously deemed creditworthy, merely provide some additional flexibility to invest with counterparties that they have been happy to do so in previous years. For similar reason the individual counterparty limit for money market funds has also been increased to £10m.

6.26 The Commissioner has also set appropriate limits for non-specified investments with “high” rated deposit takers and UK Local Authorities where investments can be out to a maximum of 3 years. The Commissioner’s approved limits for the “high” credit rating for deposit takers are set out at 6.15 above and investment limits are detailed at Appendix 6.

6.27 The credit ratings will be monitored as follows:

- All credit ratings are reviewed weekly. In addition, the Commissioner has access to Fitch, Moody’s and Standard and Poor’s credit ratings and is alerted to changes through its use of the Link Group creditworthiness service. On-going monitoring of ratings also takes place in response to ad-hoc e-mail alerts from Link Group.
- If counterparty’s or deposit scheme’s rating is downgraded with the result that it no longer meets the Commissioner’s minimum criteria, the further use of that counterparty/deposit scheme as a new deposit will be withdrawn immediately.
- If a counterparty is upgraded so that it fulfils the Commissioner’s criteria, its inclusion will be considered for approval by the CFO.

6.28 Sole reliance will not be placed on the use of this external service. In addition the Commissioner will also use market data and information on government support for banks and the credit ratings of government support.

Investment Balances / Liquidity of investments

- 6.29 The Commissioner deposits funds beyond 365 days to a maximum of three years. This will continue where the counterparty is deemed to be a low credit risk to ensure a good rate of return is maintained in the current market conditions. Deposits beyond 365 days will only be considered when there is minimal risk involved. With deposits of this nature there is an increased risk in terms of liquidity and interest rate fluctuations. To mitigate these risks a limit of £15m (20% of total investments) has been set and a prudential indicator has been calculated (See Appendix 4). Such sums will only be placed with counterparties who have the highest available credit rating or other local authorities.
- 6.30 Deposits for periods longer than 365 days are classed as **non-specified investments**.

Investments defined as capital expenditure

- 6.31 The acquisition of share capital or loan capital in any body corporate is defined as capital expenditure under Section 16(2) of the Local Government Act 2003. Such investments will have to be funded out of capital or revenue resources and will be classified as **‘non-specified investments’**.
- 6.32 A loan or grant by the Commissioner to another body for capital expenditure by that body is also deemed by regulation to be capital expenditure by the Commissioner. It is therefore important for the Commissioner to clearly identify if the loan was made for policy reasons or if it is an investment for treasury management purposes. The latter will be governed by the framework set by the Commissioner for ‘specified’ and ‘non-specified’ investments.

Internal Investment Strategy

- 6.33 The CFO will monitor the interest rate market and react appropriately to any changing circumstances.
- 6.34 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.
- 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.
- 6.35 The Commissioner takes the view that bank rate will rise to 1.25% in November 2022. Bank Rate forecasts for financial year ends (March) are therefore:
- 2021/22 1.25%
 - 2022/23 1.25%

- 2023/24 1.25%
- 2024/25 1.25%

6.36 The Commissioner will avoid locking into longer term deals while investment rates are down at historically low levels but rising. Long term deposits, beyond 365 days, will only be used where minimal risk is involved and the counterparties are considered to be supported by the UK Government.

Investment Risk Benchmark

6.37 The Commissioner will use an investment benchmark to assess the investment performance of its investment portfolio. Up to the 31 December 2021 it has been benchmarked against the 7 day LIBID. The CFO is appreciative that the provision of LIBOR and associated LIBID rates ceased at the end of 2021. Link group have advised that a suitable replacement investment benchmark would be SONIA (Sterling Overnight Index Average), which is the risk-free rate for sterling markets administered by the Bank of England. Accordingly the commissioner will use an investment benchmark to assess the investment performance of its investment portfolio with reference to the SONIA.

End of year investment report

6.38 By the end of September each year the Commissioner will receive a report on investment activity as part of its annual treasury report, following scrutiny of that report by the Joint Independent Audit Committee.

Policy on use of external service providers

- 6.39 The Commissioner uses Link Group as its external treasury management advisers.
- 6.40 The Commissioner recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.
- 6.41 The Commissioner recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Commissioner will ensure that the terms of appointment of any such service provider, and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

Scheme of Delegation

6.42 As required by the Guidance Notes for Local Authorities the Treasury Management Scheme of Delegation is detailed below:

Commissioner

- Set and approve treasury management policy and strategy prior to the start of each financial year.
- Approve prudential and treasury indicators and any subsequent amendments if required.

- Agree and approve annual treasury management budgets.
- Approve any proposed variations in treasury strategy or policy.
- Agree annual report.
- Monitor Prudential and Treasury Indicators.
- Receive and review monitoring reports including the annual report and act on recommendations.

Joint Independent Audit Committee

- Scrutinise the treasury management strategy, policies and practices and make recommendations to the Commissioner
- Receive, scrutinise and approve mid-year monitoring report and annual report.

Role of the Section 151 Officer (Chief Finance Officer)

As required by the Guidance Notes for Local Authorities the role of the Section 151 Officer in relation to treasury management is detailed below:

- Recommending the Code of Practice to be applied, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- Submitting treasury management policy reports.
- Submitting budgets and budget variations.
- Receiving and reviewing management information reports.
- Reviewing the performance of the treasury management function.
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- Ensuring the adequacy of internal audit, and liaising with external audit.
- Recommending the appointment of external service providers.

Interest Rate Forecasts 2022 to 202425

Appendix 3

PWLB rates set out in the table below have taken into account the 20 basis point certainty rate reduction.

Link Group Interest Rate View 8.02.22													(The Capital Economics forecasts were done 08.02.22)	
	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	
Bank Rate														
Link	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
Capital Economics	0.50	0.75	1.00	1.25	1.25	1.25	1.25	1.25	-	-	-	-	-	-
5 yr PWLB														
Link	2.20	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30
Capital Economics	2.00	2.10	2.10	2.20	2.20	2.30	2.40	2.40	-	-	-	-	-	-
10 yr PWLB														
Link	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40
Capital Economics	2.20	2.20	2.20	2.30	2.30	2.40	2.50	2.50	-	-	-	-	-	-
25 yr PWLB														
Link	2.40	2.50	2.50	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60
Capital Economics	2.40	2.40	2.50	2.60	2.60	2.70	2.80	2.90	-	-	-	-	-	-
50 yr PWLB														
Link	2.20	2.30	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40
Capital Economics	2.10	2.20	2.30	2.40	2.50	2.60	2.70	2.90	-	-	-	-	-	-

DRAFT Prudential Indicators – Treasury Management

The prudential indicators presented here are draft. They will be completed and approved alongside the MTFs and Capital Strategy for 2022/23 to 2025/26, by 31 March 2022.

Prudential Indicators

In line with the requirements of the CIPFA Prudential Code for Capital Finance, the various indicators that inform whether capital investment plans are affordable, prudent and sustainable, are set out below.

Authorised Limit for External Debt

There are two limits on external debt: the ‘Operational Boundary’ and the ‘Authorised Limit’. Both are consistent with the current commitments, existing plans and the proposals in the budget report for capital expenditure and financing, and with approved treasury management policy statement and practices.

Authorised Limit - this represents a limit beyond which external debt is prohibited. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

Operational Boundary - this is the limit beyond which external debt is not normally expected to exceed. In most cases this would be a similar figure to the Capital Financing Requirement (CFR), but may be lower or higher depending on the levels of actual debt.

The key difference between the two limits is that the Authorised Limit cannot be breached without prior approval of the Commissioner. It therefore includes more headroom to take account of eventualities such as delays in generating capital receipts, forward borrowing to take advantage of attractive interest rates, use of borrowing in place of operational leasing, “invest to save” projects, occasional short term borrowing to cover temporary revenue cash flow shortfalls, as well as an assessment of risks involved in managing cash flows. The Operational Boundary is a more realistic indicator of the likely position.

Authorised Limit for External Debt

	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
Borrowing	175,000	175,000	175,000	170,000
Other Long Term Liabilities	0	0	0	0
Total	175,000	175,000	175,000	170,000

Operational Boundary for External Debt

	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
Borrowing	155,000	155,000	155,000	150,000
Other Long Term Liabilities	0	0	0	0
Total	155,000	155,000	155,000	150,000

The latest forecast for external debt indicates that it will be within both the authorised borrowing limit and the operational boundary set to 2025/26. The maturity structure of debt is within the indicators set.

Upper and Lower Limits for the Maturity Structure of Borrowing

The upper and lower limits for the maturity structure of borrowing are calculated to provide a framework within which the Commissioner can manage the maturity of new and existing borrowing to ensure that debt repayments are affordable in coming years.

Maturity structure of borrowing – these gross limits are set to reduce the Commissioner’s exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits. The limits do however cover variable as well as fixed rate debt. The maturity structure of borrowing set out below applies to all borrowing by the Police and Crime Commissioner, both fixed and variable.

	Upper Limit	Lower Limit
Under 12 months	60%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	40%	0%
10 years and above	80%	0%

Upper Limit on Principal Amounts Invested Beyond 365 Days

The purpose of the upper limit on principal amounts invested beyond 365 days is for the Commissioner to contain the exposure to the possibility of loss that might arise as a result of having to seek early repayment or redemption of principal sums invested.

Upper limit on principal amounts invested beyond 365 days	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
Investments	15,000	15,000	15,000	15,000

Gross Debt and Capital Financing Requirement (CFR)

In order to ensure that over the medium term debt will only be for a capital purpose, the Police and Crime Commissioner should ensure that debt does not, except in the short term, exceed the total of capital financing in the previous year plus the estimates of any additional capital financing requirement for the current and next two financial years.

If in any of these years there is a reduction in the capital financing requirement, this reduction is ignored in estimating the cumulative increase in the capital financing requirement which is used for comparison with external debt.

This is a key indicator of prudence. Where the gross debt is greater than the capital financing requirement the reasons for this should be clearly stated in the annual treasury management strategy.

Gross Debt and CFR	2022/23	2023/24	2024/25	2025/26
	£000	£000	£000	£000
Forecast Borrowing as at 31 March	tbc	tbc	tbc	tbc
Capital Financing Requirement as at 31 March	118,156	121,436	127,615	128,077
Amount of borrowing (over) / under CFR	tbc	tbc	tbc	tbc

Forecast borrowing is within the CFR estimates for 2022/23 to 2025/26.

Affordability

The impact of the capital programme on the revenue budget is shown in the table below:

Affordability	2022/23	2023/24	2024/25	2025/26
	£000	£000	£000	£000
Revenue Budget	339,332	tbc	tbc	tbc
Capital Expenditure	31,128	18,164	20,208	13,461
Capital Financing Requirement as at 31 March	118,156	121,436	127,615	128,077
Interest Cost	2,990	tbc	tbc	tbc
Minimum Revenue Provision	10,824	10,771	11,428	12,999
Revenue Financing Costs	13,814	tbc	tbc	tbc
Ratio of financing cost to revenue stream %	4.07%	tbc	tbc	tbc

Minimum Revenue Provision (MRP) Statement 2022/23

The MRP charge for 2022/23 for capital expenditure incurred before 01 April 2008 (prior to the new regulations) or which has subsequently been financed by supported borrowing will be based on the previous regulatory method of Capital Financing Requirement at a minimum of 4% of the opening balance less prescribed adjustments.

For all unsupported borrowing, exercised under the Prudential Code, the MRP Policy is based on the Asset Life Method. The minimum revenue provision will be at equal annual instalments over the life of the asset. The first charge will not be made until the year after the asset becomes operational.

Specified Investments (All Sterling Denominated)

Investment type	Share/ Loan Capital	Repayable/ Redeemable within 12 months	Security / Minimum Credit Rating	Capital Expenditure	Circumstance of use	Maximum period
Term deposits with the UK Government (DMO) or with UK local authorities (i.e. local authorities as defined under Section 23 of the 2003 Act) with maturities up to 365 days.	No	Yes	High security although LA's not credit rated. <i>See section 6</i>	No	In-house	365 days
Term deposits / Certificates of Deposit with credit rated deposit takers (banks and building societies), including callable deposits with maturities up to 365 days.	No	Yes	Secure Varied minimum credit rating <i>See section 6</i>	No	In-house	365 days
Money Market Funds (CNAV & LVNAV (not VNAV)) These funds are instant access and therefore do not have a maturity date.	No	Yes	Secure AAA Money Market Fund rating with assets > £1bn	No	In-house	The investment period is subject to liquidity and cash flow requirements. It is assumed that funds are placed overnight and will be returned and reinvested the next working day (although no actual movement of cash may take place).

Non-Specified Investments (All Sterling Denominated)

Investment type	(A) Why use it (B) Associated risks	Share/ Loan Capital	Repayable/ Redeemable within 12 months	Security / Minimum credit rating	Capital Expenditure	Circumstance of use	Max % of overall investments	Maximum maturity of investment
Term deposits / Certificates of Deposit with rated deposit takers (banks and building societies) which do not meet the Commissioner's "high" credit rating	(A) To improve ability to place smaller amounts (B) Greater risk than "high" credit rating counterparties but advance warning by rating agency of potential problems. The Commissioner has fully considered this investment category and set appropriate investment and maturity limits in order to minimise risk.	No	Yes	Secure Varied minimum Credit rating <i>Minimum: Fitch Long term A- Short term FI</i>	No	In-house	75%	6 months (but set on an individual counterparty basis)
Term deposits with UK Government, UK Local Authorities or credit rated banks and building societies, with maturities over 1 year	A) To improve the ability to "lock in" at times of high interest rates to secure a higher return over a longer period should rates be forecast to fall. B) Lower liquidity and greater risk of adverse interest rate fluctuations. The Commissioner has fully considered this investment category and set appropriate investment and maturity limits in order to minimise risk.	No	No	Secure Varied minimum credit rating	No	In-house	20%	3 years

Maximum Maturity Periods and Amounts

Organisation	Criteria	Max Amount	Max Period	Not to Exceed Limit or %
High Rated (Specified Investments – High rated and up to 365 days see Appendix 5)	Minimum Fitch rating of F1+ short term and AA- long term. Consideration to be given to Moody's minimum rating of P-1 short term backed by Aa3 long term and S&P minimum rating of A-1+ short term and AA- long term.	£20m	3 years	25% (Government Backed) 20% (Non-Government Backed)
Foreign Banks	Must meet the minimum high rated criteria above and have a minimum sovereign rating of AA+	£20m country limit	365 days	20%
Non-High Rated	Minimum Fitch rating of F1 short term and A- long term. Consideration to be given to Moody's minimum rating of P-1 short term backed by A3 long term and S&P minimum rating of A-1 short term and A- long term.	£10m	6 months	20%
UK Local Authorities	(i.e. local authorities as defined under Section 23 of the 2003 Act) Each investment is considered on an individual basis	£10m	3 years	n/a
Money Market Funds	CNAV or LVNAV (not VNAV) AAA Money Market Fund rating with assets >£1bn	£10m per counter party	Overnight	£25m in total

Approved countries for investments

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

Link currently suggests a minimum rating of AA-

Based on lowest available rating

AAA

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

AA+

- Canada
- Finland
- U.S.A.

For information

AA-

- U.K.**

THIS LIST IS AS AT 09.02.22

Joint Independent Audit Committee	28 February 2022
Annual Governance Review - Assurance Framework – 2021/22	
Report of: Joint Chief Finance Officer	

1. PURPOSE

- 1.1 Each financial year a review of the effectiveness of the system of internal control is undertaken and Annual Governance Statements (AGS's) are prepared for both the Police and Crime Commissioner (PCC) and the Chief Constable (CC).
- 1.2 The following sets out the processes to be undertaken to review the systems of internal control and prepare the draft AGS's for presentation to the Joint Independent Audit Committee (JIAC) for review.

2. RECOMMENDATION

- 2.1 The Committee are asked to agree the approach and assurance framework for the production of an Annual Governance Statement for each of the PCC and CC for 2021/22.

3. BACKGROUND

- 3.1 The Accounts and Audit Regulations 2015 require that the PCC and CC each conduct a review of the effectiveness of the systems of internal control, and prepare individual Annual Governance Statements.
- 3.2 The review of evidence informing the production of the AGS's will be undertaken by the Joint Governance Group (JGG), who will prepare the statements covering 2021/22 for review and approval by the JIAC.
- 3.3 The draft AGS's will then be reviewed by the JIAC before approval by the PCC and CC. The statements will then accompany the Annual Statements of Account for each organisation.

4. ASSURANCE FRAMEWORK

- 4.1 The assurance framework is made up from a number of sources that provide assurance on governance arrangements, and controls, that are in place to achieve each organisations strategic objectives.
- 4.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued guidance based around a framework that sets out the steps by which assurance should be gathered to enable the production of an Annual Governance Statement for both the PCC and CC.

- 4.3 In preparation, it will be necessary to review evidence from the following sources of assurance that the systems of internal control are operating as planned:
- **The system of internal Audit**
 - Review of the effectiveness of Internal Audit
 - Review of the effectiveness of Joint Independent Audit Committee
 - Internal Audit Annual Report
 - **Senior Managers Assurance Statements**
 - **Primary and Thematic Assurance**
 - Governance arrangements
 - Financial Controls - An assessment of the role of the CFO in accordance with best practice
 - Views of the External Auditor
 - HMICFRS and other external inspectorates
 - The legal and regulatory framework
 - Risk management arrangements
 - Performance management and data quality
 - CIPFA Financial Management Code self-assessment
 - Other 'Thematic' sources of assurance, including:
 - Business Planning
 - Partnership arrangements and governance
 - Information and Communications Technology (ICT) Arrangements
 - Fraud, Corruption and Money Laundering
 - Wellbeing
- 4.4 In addition, any other sources of assurance which may be highlighted as a result of discussions with the new External Auditor.
- 5. SOURCES OF ASSURANCE**
- 5.1 The following sections outline how suitable assurance will be obtained from the above identified sources of assurance:
- 5.2 The system of internal audit**
- 5.2.1 The Internal Audit Service, provided under a support agreement with Gateshead Council, is responsible for ensuring that the key systems, both financial and non-financial, of both bodies are subject to regular audit as part of the risk based internal audit plan.

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5.2.2 In addition, a review of the effectiveness of internal audit is required under the Accounts and Audit Regulations 2015. This is defined by CIPFA as “a framework of assurance available to satisfy a local authority that the risks to its objectives, and the risks inherent in understanding its work, have been properly identified and are being managed by controls that are adequately designed and effective in operation”. This review will also include evaluating the effectiveness of the Joint Independent Audit Committee.

5.2.3 Assurance in this area will be provided through the overall independent opinion of the Internal Audit Manager based on the work undertaken by the Internal Audit Service during the year and reported to the Joint Independent Audit Committee in the Internal Audit Annual Report 2021/22.

5.3 Senior managers

5.3.1 All Heads of Department and Area Commanders for the Force and the Chief of Staff of the OPCC will complete a self-assessment assurance statement detailing the level of assurance they feel they can place on their key control and governance processes. The JIAC will receive a report giving the overall opinion of senior managers on the adequacy of arrangements they have in place.

5.4 Governance arrangements

5.4.1 The PCC and CC have responsibilities for governance within the Office of the Police & Crime Commissioner (OPCC) and the Force in their own right. This means that there will be two freestanding processes within the Police Service for ensuring good governance. In most respects the principles and implementation will be the same for the PCC and the CC. There may be however, areas specific to each corporation sole which will need to be reflected.

5.4.2 The PCC and CC have established a Joint Internal Governance Group (JGG) which meets on four times per year and whose work is fully aligned with that of the JIAC. The Group is resourced by individuals who have the appropriate knowledge, expertise and levels of seniority to consider all necessary and mandatory governance requirements on behalf of both corporate bodies.

5.4.3 The permanent members of this Group are:

- Joint Chief Finance Officer
- PCC Chief of Staff
- Deputy Chief Constable
- Head of Corporate Development
- Head of Finance
- Internal Audit Manager

5.4.4 This Group will:

- Consider the extent to which the organisations comply with the principles and elements of good governance set out in the framework
- Identify systems, processes and documentation that provide evidence of compliance.

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- Identify the individuals or mechanisms responsible for monitoring and reviewing the systems, processes and documentation
- Identify any governance issues that have not been addressed and consider how they should be addressed.
- Identify the individuals who would be responsible for undertaking any actions that are required.

5.5 Financial controls

5.5.1 Assurance will be sought from the Joint Chief Finance Officer (JCFO) to the PCC and CC, who is designated as the responsible officer for the administration of each body's financial affairs under section 151 of the Local Government Act 1972.

5.6 Views of the external auditor and other external inspectorates

5.6.1 The external auditor will issue an Annual Audit Letter to both the PCC and CC, providing a review of the value for money arrangements in each body and reporting any significant issues arising from the audits of their financial statements.

5.6.2 There are also a number of other external inspectorates, including HMICFRS, which report from time to time on management and governance arrangements within the Police Service.

5.7 HMICFRS and other external inspectorates

5.7.1 In addition to the HMICFRS and external inspectorate reports presented at each JIAC meeting, an annual review will be undertaken summarising the activities during 2021/22.

5.8 Legal and regulatory framework

5.8.1 Assurance will be sought from the PCC's Chief of Staff and the CC's Head of Legal, who have a legal duty within their own bodies to ensure the lawfulness and fairness of decision-making and ensure compliance with established policies, procedures, laws and regulations.

5.9 Risk management

5.9.1 The PCC and CC have established a joint approach to the consideration and management of risk, which ensures that both bodies have management arrangements in place. Updates on risk are provided to JIAC at each meeting and assurance in this area will be provided in the Corporate Risk Management Annual Report for 2021/22.

5.10 Performance management and Data Quality

5.10.1 The performance management framework forms part of the assurance of senior managers on the key controls operating in their areas. In addition, there is a framework for reporting corporate performance management information, including oversight by the PCC. The Head of Corporate Development will provide assurance in respect of this framework.

5.10.2 A review of the activities of the Information Management Unit will be undertaken and assurance sort of the overall management of data including and internal and external audits of the procedures and processes in place.

5.11 CIPFA Financial Management Code self-assessment

5.11.1 Mandatory from 2021/22; self-assessment based on a series of principles supported by specific standards which are considered necessary to provide a strong foundation to manage the short, medium and long-term finances of a public body, manage financial resilience to meet unforeseen demands on services and manage unexpected changes in financial circumstances.

5.12 Thematic Assurance

5.12.1 To supplement and enhance the specific functional assurance provided above, there are also a number of 'Thematic' areas from which assurance will be sort; on the internal control environment or governance arrangements for either body. These will be included in the evidence provided to support the Annual Governance conclusion:

a) Business Planning

The establishment, and adequacy, of business planning to inform strategic plans and the production of the annual 'Force Management Statement' (FMS). The FMS is a self-assessment that CC's prepare each year, covering: The demand the Force expects to face in the next four years; how the Force will change and improve its workforce and other assets to cope with that demand; how the Force will improve its efficiency to make sure the gap between future demand and future capability is as small as it can reasonably be; financial position of the Force to deliver its plans.

b) Partnership arrangements and governance

Assurance is also required in respect of any significant partnership arrangements, as they are key to the delivery of each body's objectives. Each arrangement will be assessed against guidance produced by the Audit Commission (Bridging the Accountability Gap, 2005)

c) Resourcing – People

Assurance will be sort to provide an overview of how people resources (Officers and Staff) are managed and deployed to meet the strategic aims of the Force. Through workforce plans; monitoring and the Strategic Resourcing Board.

d) Information and Communication Technology (ICT)

Assurance will be sort as to the adequacy and robustness of ICT systems, processes and controls. This will be via assurances from the Head of ICT.

e) Fraud, Corruption and Money Laundering

A review of any cases of Fraud, corruption or money laundering; as identified via the stated internal policies and procedures, to identify if any assurance risks exist.

f) Wellbeing

The activities of the 'Wellbeing and Leadership Board' will be reviewed to ensure compliance with internal policies and procedures and to ensure alignment with priorities.

6. CONSIDERATIONS

Freedom of Information	<i>Non-exempt</i>
Consultation	Yes
Resource	No
There are no additional financial considerations arising from this report.	
Equality	No
There are no equality implications arising from the content of this report.	
Legal	No
There are no legal considerations arising from the content of this report.	
Risk	No
There are no additional risk management implications directly arising from this report.	
Communication	Yes
To be reported to the PCC and CC in-line with the Accounts and Audit Regulations 2015	
Evaluation	No

JOINT INDEPENDENT AUDIT COMMITTEE

28 FEBRUARY 2022

INTERNAL AUDIT CHARTER, STRATEGY STATEMENT 2022 – 2025 AND ANNUAL AUDIT PLAN 2022/23

REPORT OF THE INTERNAL AUDIT MANAGER

1 Purpose of the Report

- 1.1 To inform the Committee of the Internal Audit Charter, the Internal Audit Strategy Statement 2022/23 – 2024/25 and the annual Audit Plan 2022/23 for the Police and Crime Commissioner and Chief Constable and seek its approval.

2 Background

- 2.1 The Internal Audit Service is to be provided under agreement with Gateshead Council. Internal Audit are required to objectively examine, evaluate and report upon the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.
- 2.2 The Joint Chief Finance Officer has delegated responsibility to maintain an adequate internal audit of both the Police and Crime Commissioner and Chief Constable's financial affairs as required by Section 151 of the Local Government Act 1972. The Accounts and Audit Regulations 2015 also require public bodies must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.
- 2.3 The Internal Audit Manager manages the provision of the Internal Audit Service and is responsible for ensuring resources are sufficient to meet the Audit Plan, which is developed based on a review and evaluation of all aspects of the internal control environment.
- 2.4 The main aim of the Internal Audit Service is to assist all levels of management in delivering the objectives of the Police and Crime Commissioner and Chief Constable through the assessment of exposure to risk and the continuous improvement of the control environment. The risk-based audit plan provides purpose and direction in the achievement of this aim. It is the responsibility of management to install and maintain effective internal control systems.
- 2.5 A report was brought to Committee in November 2021 outlining the emergent plan for comment. Following further consultation with officers

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the final plan is attached as an appendix to this report. There has been changes made to the emergent plan to reflect a review of the risks associated with the current IT environment. In addition, in 2023/24 a one off review has been added to the plan to consider the Force's response to the implementation of the pension scheme remedy.

3 Internal Audit Charter

- 3.1 The purpose, authority and responsibility of Internal Audit must be formally defined in an Internal Audit Charter, consistent with the definition of Internal Auditing outlined in Public Sector Internal Audit Standards (PSIAS).
- 3.2 These standards, based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF), are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.
- 3.3 A key element of compliance with PSIAS is the regular review by the Internal Audit Manager and approval by the Joint Independent Audit Committee of an Internal Audit Charter. The Internal Audit Charter was last presented to Committee in February 2021. The Charter is a formal document that defines Internal Audit's purpose, authority and responsibility and establishes its position within both the Office of the Police and Crime Commissioner (OPCC) and the Force, setting out the Internal Audit Manager's functional reporting relationships, authorises rights of access for Internal Audit staff and defines the scope of Internal Audit activity.
- 3.4 The Internal Audit Manager has carried out an annual review of the Internal Audit Charter and no changes have been made.
- 3.5 The reviewed Internal Audit Charter is attached at Appendix A for approval.

4 Internal Audit Strategy Statement 2022/23 – 2024/25 and Annual Plan 2022/23

- 4.1 The strategy of the Internal Audit Service is to deliver a risk-based audit plan in a professional and independent manner and to provide the Police and Crime Commissioner and Chief Constable with an opinion on the level of assurance they can place upon their internal control environment, and to make recommendations to improve it.
- 4.2 The audit strategy at 4.10 and 4.11 of Appendix B details the presentation of the audit plan for 2022/23 as a response to the ongoing COVID 19 situation.
- 4.3 Quarterly monitoring of progress against the plan will be reported to the Joint Independent Audit Committee with priorities reviewed on an ongoing basis to direct audit resources to the areas of highest risk.

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- 4.4 The Audit Strategy Statement 2022/23 – 2024/25 and the annual Audit Plan for 2022/23 are attached at Appendix B and C. Under Public Sector Internal Audit Standards (PSIAS), the Joint Independent Audit Committee should review the proposed plan prior to its approval.
- 4.5 The Strategy document has been prepared in accordance with PSIAS which outline that the Chief Audit Executive (Internal Audit Manager) must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organisation's goals, taking into account the organisation's risk management framework, input from senior management and the Committee. The plan should remain flexible in both content and timing to respond to changes in the organisation's business, risks, operations, programs, systems and controls.
- 4.6 The risk-based plan must take into account the requirement to produce an annual audit opinion on the assurance framework. It must be linked to a strategic statement of how the internal audit service will be delivered and developed in accordance with the Internal Audit Charter and how it links to the organisation's objectives and priorities outlined in the Police and Crime Plan.

5 Equal Opportunities implications

- 5.1 It is considered that there are no equal opportunities implications arising from the report.

6 Human Rights implications

- 6.1 It is considered that there are no human rights implications arising from the report.

7 Risk Management implications

- 7.1 There are no additional risk management implications arising directly from this report. The audit plan supports the adequate and appropriate use of resources.

8 Financial implications

- 8.1 There are no financial implications directly arising from this report

9 Recommendations

- 9.1 The Committee is asked to:
- Approve the Internal Audit Charter;
 - Agree the Internal Audit Strategy Statement 2022/23 – 2024/25;
 - Review the proposed annual plan of work for the Internal Audit Service for 2022/23; and

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- Agree to receive quarterly monitoring reports showing progress made against the plan.

**POLICE AND CRIME COMMISSIONER AND CHIEF CONSTABLE FOR
NORTHUMBRIA**

INTERNAL AUDIT CHARTER

1. Introduction

- 1.1 The Audit Manager is responsible for effectively managing the activity of the Internal Audit provider in accordance with this Charter, the definition of internal auditing, the Code of Ethics and UK Public Sector Internal Audit Standards (PSIAS) and is the formal document that defines Internal Audit's purpose, authority and responsibility. The Charter also establishes Internal Audit's position within the organisation, including access to records, personnel and physical property.

2. Statutory Basis

- 2.1 Internal Audit is statutory service in the context of the Accounts and Audit Regulations (England) 2015, which states that:

“A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”

- 2.2 The Public Sector Internal Audit Standards (PSIAS) and CIPFA's Local Government Application Note (LGAN), which came into effect in April 2013 constitute proper practices to satisfy the requirements for relevant bodies set out in the Accounts and Audit Regulations 2015.
- 2.3 Section 151 of the Local Government Act 1972 states that every local authority should make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has the responsibility for the administration of these affairs (The Chief Financial Officer (CFO)). CIPFA has defined proper administration in that it should include 'compliance with the statutory requirements for accounts and internal audit'.
- 2.4 The CIPFA Statement on the Role of the Chief Financial Officer states that the CFO must:

- Ensure an effective internal audit function is resourced and maintained;
- Ensure that the authority has put in place effective arrangements for internal audit of the control environment;
- Support internal audit arrangements; and

- Ensure the audit committee receives the necessary advice and information so that both functions can operate effectively.

2.5 This Internal Audit Charter recognises the mandatory nature of the PSIAS including the definition of Internal Auditing, the Mission of Internal Audit, the Code of Ethics and the Standards themselves.

3. Definition of Internal Audit

3.1 The Internal Audit provider for the Police and Crime Commissioner (PCC) and Chief Constable for Northumbria has adopted the mandatory definition of internal auditing as set out in the common set of PSIAS:

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

4. Mission of Internal Audit

4.1 The Mission of Internal Audit articulates what Internal Audit aspires to accomplish within an organisation. The Internal Audit Service has adopted the mission statement set out in the PSIAS:

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

5. Core Principles for the Professional Practice of Internal Auditing

5.1 The Core Principles, taken as a whole, articulate internal audit effectiveness. For an internal audit function to be considered effective in achieving its mission, all the following principles should be present and operating effectively:

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

6. Code of Ethics

6.1 The Code of Ethics, incorporated within PSIAS, is necessary and appropriate for the profession of internal auditors as it is founded on the trust placed in its objective assurance about risk management, control and governance. All internal auditors working for, or providing a service to, the PCC and Chief Constable must conform to the Code of Ethics as set out below. If internal auditors have membership of another professional body then they must also comply with the relevant requirements of that body.

6.2 The Code of Ethics is based upon four principles that are relevant to the profession and practice of internal auditing and set out the rules of conduct that describe behaviour norms expected of internal auditors to guide their ethical conduct:

- Integrity;
- Objectivity;
- Confidentiality; and
- Competency.

6.3 **Integrity:** The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement. All Internal Audit staff will:

- Perform their work with honesty, diligence and responsibility.
- Observe the law and make disclosures expected by the law and their profession.
- Not knowingly be a party to any illegal activity or engage in acts that are discreditable to the profession of internal auditing or the audited bodies.
- Respect and contribute to the legitimate and ethical objectives of the audited bodies.

6.4 **Objectivity:** Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. They will make a balanced assessment of all of the relevant circumstances and will not be unduly influenced by their own interests or the interests of others in forming judgements. All Internal Audit staff will:

- Not participate in any activity or relationship that may impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the audited bodies.
- Not accept anything that may impair or be presumed to impair their professional judgement.
- Disclose all material facts known to them that, if not disclosed, may distort the reporting of the activities under review.

- 6.5 **Confidentiality:** Internal auditors will respect the value and ownership of the information they receive and will not disclose information without appropriate authority unless there is a legal or professional obligation to do so. All Internal Audit staff will:
- Be prudent in the use and protection of information acquired in the course of their duties.
 - Not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the audited bodies.
- 6.6 **Competency:** Internal auditors will apply the knowledge, skills and experience needed in the performance of their duties. All Internal Audit staff will:
- Engage only in those services for which they have the necessary knowledge, skills and experience.
 - Perform their work in accordance with the International Standards for the Professional Practice of Internal Auditing.
 - Continually improve their proficiency, effectiveness and the quality of the service they deliver.

7. Principles of Public Life

- 7.1 Internal Audit staff will also have regard to Nolan's Seven Principles of Public Life in the course of their duties. The seven principles are:
- **Selflessness:** Holders of public office should act solely in terms of the public interest. They should not do so in order to gain financial or other benefits for themselves, their family or their friends.
 - **Integrity:** Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might seek to influence them in the performance of their official duties.
 - **Objectivity:** In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.
 - **Accountability:** Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.
 - **Openness:** Holders of public office should be as open as possible about all decisions and actions they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.
 - **Honesty:** Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.
 - **Leadership:** Holders of public office should promote and support these principles by leadership and example.

8. Purpose, Authority and Responsibilities

8.1 Purpose

8.1.1 Internal Audit is a managerial control primarily responsible for objectively examining, evaluating and reporting upon the adequacy of the internal control environment as a contribution to the proper economic, efficient and effective use of resources. Internal Audit is one of a number of assurance providers that contribute to the PCC and Chief Constable's assurance framework. The purpose of Internal Audit is to deliver a risk-based audit plan in a professional and independent manner to allow the Internal Audit Manager to provide both the PCC and Chief Constable with an opinion on the level of assurance they can place upon their internal control, risk management and governance arrangements and to make recommendations for continuous improvement in these areas. This opinion will be set out in the Internal Audit Annual Report to the Joint Independent Audit Committee and supports the PCC and Chief Constable's Annual Governance Statements which accompany the Annual Statements of Accounts.

8.1.2 To this end the Internal Audit provider is required to review, appraise and report upon:

- The soundness, adequacy and application of accounting, financial and other operational controls.
- The extent of compliance with established policies, plans and procedures, statute and regulations.
- The extent to which assets and interests are properly accounted for and safeguarded from losses of all kinds including fraud, bribery, corruption, other offences, waste, extravagance, inefficient administration, poor value for money or other cause.
- The suitability and reliability of financial and other operational information.
- The economy, efficiency and effectiveness with which resources are utilised.
- Whether operations are being carried out as planned and objectives and goals are being met.
- The investigation of instances of fraud, bribery, corruption and irregularities.

8.1.3 Other objectives include:

- Supporting the Joint Independent Audit Committee in fulfilling its governance responsibilities as detailed in the Committee's terms of reference.
- Providing quality services through the highest standards of professional practice, quality assurance systems and investment in staff.
- Be future focussed and to continually add value to the organisation.

8.2 Authority

- 8.2.1 Internal Audit is an assurance function required under the provisions of the Accounts and Audit Regulations 2015. Delegated responsibility to maintain an adequate and effective internal audit of the PCC and Chief Constable's accounting records and control systems rests with the Joint Chief Finance Officer, as set out in the Commissioner's Delegations to Officers.
- 8.2.2 The scope of Internal Audit provider activity allows for unrestricted coverage of each body's control environment, which includes all of its operations, resources, services and responsibilities in relation to other bodies. The only exception to this is in relation to covert assets. Assurance on the existence and deployment of covert assets will be provided to Internal Audit and onto the Joint Independent Audit Committee by the Assistant Chief Constable responsible for Crime.
- 8.2.3 In accordance with the definitions of PSIAS, the Internal Audit Manager is the OPCC and Force's Chief Audit Executive, the Joint Independent Audit Committee as the Board and Area Commanders/Heads of Department and above are designated as "senior management".
- 8.2.4 The Internal Audit Manager, in consultation with the Joint Chief Finance Officer and the Joint Independent Audit Committee, will have the freedom to determine the priorities for Internal Audit activity.
- 8.2.5 The Internal Audit Manager will carry out a systematic review and evaluation of all aspects of the internal control environment through consideration of the respective risk registers and consultation with senior managers and the external auditor. This enables the Internal Audit Manager to prepare a three-year risk-based plan, covering all areas of the Police Service and to provide purpose and direction in this process. This plan will be linked to a statement of how the Internal Audit service will be delivered and developed in accordance with this Charter and both the PCC and Chief Constable's overall objectives.
- 8.2.6 Subject to the restriction relating to covert assets noted in 8.2.2 above, Financial Regulations grant to Internal Audit, having been security cleared, the authority to:
- Enter at all reasonable times OPCC and the Force premises;
 - Have access to all assets, records, documents, correspondence, control systems and appropriate personnel, subject to appropriate security clearance;
 - Receive any information and explanation considered necessary concerning any matter under consideration;
 - Require any employee to account for cash, stores or any other OPCC or Force asset under their control; and
 - Access records belonging to contractors, when required. This shall be achieved by including an appropriate clause in all contracts.

8.2.7 Where required assurances based on the work of Internal Audit may be provided to respective external bodies. This will take the form of a written assurance from the Internal Audit Manager detailing the objectives of the internal audit activity undertaken and a conclusion on the assessment of the internal control environment.

8.2.8 The main determinant of the effectiveness of the Internal Audit provider is that it is seen to be independent. To ensure this, the Internal Audit provider will operate in a framework that allows direct reporting to the PCC, all Chief Officers and the Chair of the Joint Independent Audit Committee.

8.3 Responsibilities

8.3.1 The Internal Audit provider will perform all audit work in accordance with PSIAS and the prescribed local procedures as outlined within the Internal Audit Manual, giving due recognition to the mandatory basis of the PSIAS. Auditors will carry out their duties in compliance with the standards and the Code of Ethics detailed within them. In addition to the Annual Internal Audit Report the Internal Audit Manager will report progress against the annual audit plan to the Joint Independent Audit Committee on a quarterly basis. This will include details of any significant weaknesses identified in internal controls and the results of the Internal Audit Manager's Quality Assurance and Improvement Programme which assesses compliance with PSIAS.

8.3.2 The Internal Audit provider will have no responsibilities over the activities that it audits beyond the furnishing of recommendations and advice to management on associated risks and controls.

8.3.3 The existence of the Internal Audit provider does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered way. Management is expected to implement all agreed audit recommendations by the agreed implementation date. Each recommendation will be followed up at the agreed date to assess the extent to which this has happened.

8.3.4 Arrangements are in place with senior managers to inform Internal Audit of changes in organisational systems and procedures on an ongoing basis.

8.3.5 Every effort will be made to preserve objectivity by ensuring that all Internal Audit provider employees are free from any conflicts of interest and do not undertake any non-audit duties other than those for the demands of the service.

9. Resourcing of Internal Audit

- 9.1 Resourcing of Internal Audit will take into consideration the following:
- The PCC and Chief Constable's priorities;
 - The level of risk, taking into account such areas as materiality, complexity, potential for fraud and sensitivity;
 - Consultation with senior managers and the external auditor;
 - Changes in legislation;
 - The scope of planned external audit work; and
 - The implications of external inspection reports.
- 9.2 The staffing structure of the Internal Audit provider comprises of professional accountants, accounting technicians and trainee posts with a mix of specialisms to reflect the varied workload of the Service. Where the Internal Audit Manager considers there to be insufficient resources to deliver an effective audit plan this will be drawn to the attention of the Joint Chief Finance Officer and the Chair of the Joint Independent Audit Committee immediately.
- 9.3 At the request of the Joint Chief Finance Officer appropriate specialists from other services should be made available to participate in any audit or review requiring specialist knowledge.
- 9.4 The Internal Audit Manager will carry out a continuous review of the development and training needs of all audit personnel and will arrange in-service training delivered through both internal and external courses.
- 9.5 Internal Audit maintains its awareness of national and local issues through membership and subscription to professional bodies such as CIPFA's Better Governance Forum, Technical Information Service, Finance Advisory Network, the Institute of Internal Auditors (IIA) and through regular liaison with external audit.
- 9.6 The Internal Audit provider will keep abreast of best audit practice by adhering to CIPFA's and the IIA's best practice advisories and practice guides, where applicable, as well as networking with other internal audit service providers.
- 9.7 In this regard the Internal Audit provider considers trends and emerging issues that could impact on the organisation.

10. Fraud Related Work

- 10.1 Managing the risk of fraud, bribery and corruption is the responsibility of management and the Internal Audit provider does not have responsibility for the prevention and detection of these matters. Internal Auditors will however be alert to the risk and exposures that can allow fraud, bribery and corruption and will investigate such instances and any irregularities that are identified within the Service. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud, bribery and corruption will be detected.

10.2 The Internal Audit Manager has provision in the Audit Plan to allow for the investigation of fraud, bribery and corruption and Financial Regulations, the Counter Fraud and Corruption Policy and Statement on the Prevention of Bribery require them to be notified of all suspected or detected fraud, corruption or impropriety. The Internal Audit Manager will assess the potential impact of such cases on the internal control environment.

11. Consulting Services

11.1 Where resources and skills allow within the Audit Plan, the Internal Audit provider will provide independent and objective services, such as consultancy at the request of management. Consultancy work will be assessed by the Internal Audit Manager for its impact on the internal control environment and the potential added value in terms of the PCC and Chief Constable achieving their legitimate and ethical objectives and will be subject to the Audit Protocol on Consultancy Engagements.



The Internal Audit Strategy Statement

2022/23 – 2024/25

& Annual Plan 2022/23

1. Introduction

- 1.1 The Internal Audit Service for the Police and Crime Commissioner and Chief Constable plays an essential role in supporting each body to achieve its objectives and outcomes. The Annual Audit Plan for 2022/23 has been formulated from a review of the major risks that are faced over the next three years. The plan therefore focuses on areas where we can add the most value and provide assurance that risks are being properly managed.
- 1.2 Our objectives over the three years are to promote and champion sound governance and effective internal controls throughout both bodies and to provide objective assurance by ensuring key business controls are operating as planned and value for money is being achieved to support delivery of the Police and Crime Plan.
- 1.3 It is the responsibility of management to install and maintain effective internal control systems. The role of Internal Audit, as outlined in the Audit Charter, is to assist managers in the effective discharge of this responsibility and in so doing, deliver the objectives of the Police and Crime Commissioner, Chief Constable and any associated bodies.
- 1.4 Internal Audit is provided to the Police and Crime Commissioner and Chief Constable under an agreement with Gateshead Council.

2. Purpose

- 2.1 This document sets out Internal Audit's Strategy for 2022/23 – 2024/25 and Annual Audit Plan for the Police and Crime Commissioner and Chief Constable for the financial year 2022/23. The purpose of the Internal Audit Strategy and Annual Audit Plan is to:
- Meet the requirements of the Public Sector Internal Audit Standards (PSIAS) that requires the Chief Audit Executive to produce a risk based annual plan taking into account the requirement to give an independent annual opinion on the overall adequacy and effectiveness of each organisation's framework of governance, risk management and control;
 - Deliver an internal audit service that meets the requirements of the Accounts & Audit Regulations 2015;
 - Ensure effective audit coverage and a mechanism to provide independent and objective assurance in particular to the Joint Independent Audit Committee and Senior Managers;
 - Identify the key risks that could prevent each body from achieving its objectives and determine the corresponding level of audit resources required to assess mitigating controls;
 - Add value and support senior management in providing effective internal controls and identifying opportunities for improving value for money; and

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- Support lead staff in the areas of finance and legal in fulfilling their obligations as the Section 151 and Monitoring Officers respectively.

3. Key Outputs 2022/23

3.1 Internal Audit will deliver the following key responsibilities:

- To provide ongoing assurance to management on the control environments comprising systems of governance, risk management and internal control;
- To support expected standards of behaviour;
- To be responsive to transformational change and service demands;
- To work together with the external auditors to ensure reliance can be placed on our audit work where appropriate;
- To continue to develop our joint working relationships with other related regional and national groups and bodies;
- To embed the integration of internal audit work with governance and service improvement and produce a clearly co-ordinated risk-based approach to the audit of business systems across both organisations;
- To monitor and follow-up agreed management actions to audit recommendations within the agreed timescales;
- To deliver the statutory requirements of the Accounts and Audit Regulations 2015;
- To continue to develop and have a key role in corporate governance arrangements; and
- To provide support in respect of counter fraud and corruption investigations where required.

4. Key Issues & Annual Audit Plan for 2022/23

4.1 Having regard to the current risk profile the following main areas have been included in the Annual Plan for 2022/23:

Police and Crime Commissioner Audit Areas

4.2 This area will focus on the two audits of Grant Distribution and Treasury Management. The Grant Distribution audit will examine the programmes that focus the PCC's funding and activity priorities, derived from the Police and Crime Plan, which have been developed with partners and service users. The audit of Treasury Management will look at how all borrowing and investments are managed in line with the agreed strategy.

Chief Constable Audit Areas

4.3 These audits will focus upon the systems and procedures undertaken at establishments and departments across the Force and will also include some tailored work in respect of information technology.

Combined Audit Areas

4.4 These audits are primarily focused around major financial systems and governance.

General Allocations

- 4.5 Where audit reports have had a high priority finding or had an overall opinion of significant weakness they will be followed up by Internal Audit within six months of the final report being issued and time is provided within the plan for any such activity.
- 4.6 During the course of the year the Police and Crime Commissioner, Chief Constable or the Joint Independent Audit Committee can ask Internal Audit to carry out additional work on control systems which may not have been planned for. This time allocation is to provide some scope to do this. Internal Audit is also available to give ad hoc support and advice for staff and officers on internal control and governance issues. Activity in this area also includes preparation and delivery of reports for the Joint Independent Audit Committee.

2022/23 Annual Audit Plan

- 4.7 To allow an annual opinion on the effectiveness of the respective internal control environments to be delivered Internal Audit will review all major systems and areas of activity within a three-year period. The three-year risk based strategic plan is reviewed annually after considering:
- Organisational priorities;
 - A review of risk documentation;
 - Consultation with senior managers;
 - Changes in legislation;
 - The scope of planned external audit work;
 - The implications of any external inspection reports; and
 - Time elapsed since the previous audit.
- 4.8 Once this information has been analysed the perceived level of risk for each audit area is assessed based on thirteen areas taking into account such factors as materiality, operational impact, links to strategic risks, potential for fraud and sensitivity. Based on a score derived from these assessments, audits are categorised as high, medium or low priority which dictates where they will be audited within the three-year cycle. High priority areas are audited on an annual basis. However, there are some audits where the frequency is dictated by other criteria such as external reporting requirements in which case they may be conducted annually even though they are not categorised as high risk.
- 4.9 The Annual Audit Plan for 2022/23 has been developed on this basis and is set out at Appendix C. The plan sets out the broad areas for the basis of work during 2022/23 but remains flexible to respond to changing risks and priorities during the year. The level of audit resources required to deliver the plan is 2,170 hours (2,080 hours for 2021/22).
- 4.10 The plan has been structured to provide additional flexibility during the ongoing pandemic. The level of audit resources required to deliver the core plan is 1,580 hours (1,580 hours for 2021/22) which includes the high

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risk and IT audit areas, these audits will provide the minimum level of assurance required to inform the annual audit opinion.

- 4.11 In addition, the medium risk (non-IT) audits have been detailed for reference and will be included where possible depending on the any restrictions that may be put in place around the pandemic, after prioritising the high risk audit areas.

5. How the service will be provided

- 5.1 Internal Audit is delivered under agreement with Gateshead Council. This includes the use of specialist auditors from Newcastle Council for IT auditing. This arrangement will be kept under review on an annual basis.
- 5.2 In order to deliver the Annual Audit Plan at the required level of quality and professionalism, we strive to ensure the team have the necessary mix of skills and experience. All internal audit staff are either fully qualified CCAB Accountants and/or qualified Association of Accounting Technicians or undertaking professional studies.
- 5.3 Our professional judgement has been applied in assessing the level of resources required to deliver the Annual Audit Plan. The level of resource applied is a product of:
- The complexity of the areas to be reviewed;
 - Factors such as number of locations, number and frequency of transactions; and
 - Assurance that can be brought forward from previous audits and other internal and external reviews carried out.
- 5.4 Staff development needs are continually assessed to ensure we maintain the optimal level and mix of skills required to deliver a highly professional and added value internal audit service.

6. Our Performance Management

- 6.1 The standards for 'proper practice' in relation to internal audit are laid down in the Public Sector Internal Audit Standards and we will continually ensure compliance with these professional standards through a combination of internal and external reviews; with the outcomes reported to the Joint Independent Audit Committee. Examples of this include:
- Internal self-assessments by the Internal Audit Manager;
 - Customer satisfaction questionnaires;
 - Reliance placed on our work by external auditors, where applicable;
 - CIPFA benchmarking information; and
 - External assessment every five years by a recognised, qualified and independent assessor.
- 6.2 To achieve the planned coverage for 2022/23, deliver a high standard of customer care and demonstrate effectiveness of the Service, we have well

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established internal performance targets based on best professional practice. The following indicators will be reported to the Committee on a quarterly basis:

Performance Indicator	Target
Actual hours against planned hours	97.25%
Draft audit reports issued within 17 working days following the completion of audit fieldwork	100%
Number of audit recommendations implemented	100%
Customer satisfaction levels	95%

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Internal Audit Plan 2022/23 - 2024/25

Core Plan					
Risk	Frequency	Audit Area	2022/23	2023/24	2024/25
		Police & Crime Commissioner			
High	Annual	Treasury Management	80	80	80
High	Annual	Grant Distribution	50	50	50
		Chief Constable			
		Digital Policing Audits			
High	Annual	DP Security - Application & Data; Cyber; Infrastructure	60	60	60
High	Annual	DP Resilience (incl.Cloud Computing & Data Centre)	60	60	60
Medium	Biennial	DP Information Management	60		60
Medium	Biennial	ITIL Configuration and Change Management	60		60
Medium	Biennial	DP Governance and Risk Management	40		40
Medium	Biennial	Patch Management		40	
Medium	Biennial	Hardware Asset Management		60	
Medium	Biennial	Software Asset Management		60	
		Departmental Audits			
Annual	Annual	Police Charities Fund	40	40	40
		Theme Based Audits			
High	Annual	Property	120	120	120
High	Annual	Programme/Project Management	40	40	40
		Combined Areas			
		Financial Systems			
High	Annual	Creditors & Procurement	140	140	140
High	Annual	Payroll & Pensions	100	100	100
N/A	N/A	Review of Pension Scheme Remedy		90	
High	Annual	Main Accounting System	50	50	50
High	Annual	Budgetary Control	50	50	50
High	Annual	Employee Claims	60	60	60
		Other Combined Areas			
High	Annual	Governance	50	50	50
High	Annual	Information Governance & Data Security	80	80	80
High	Annual	Annual Governance Statement - Review of Managers' Assurance	100	100	100
		Other			
		Follow Up & Contingency	70	70	70
		General Advice, Consultancy & Systems Review	150	150	150
		Joint Independent Audit Committee - Preparation & Support	120	120	120
		Hours	1,580	1,670	1,580
Supporting Contingent Audits					
		Chief Constable			
		Departmental Audits			
Medium	Biennial	Asset Management		100	
Medium	Biennial	Fleet Management	70		70
Medium	Biennial	People Services & Development		100	
Medium	Biennial	Legal & Insurance Arrangements	90		90
Medium	Biennial	Operational Support & Firearms Licencing	80		80
		Combined Areas			
		Financial Systems			
Medium	Biennial	Debtors	70		70
		Other Combined Areas			
Medium	Biennial	Cash Advances & Income Arrangements	60		60
Medium	Biennial	Risk Management & Business Continuity Arrangements		90	
Medium	Biennial	Health & Safety	60		60
Medium	Biennial	Performance Management & Data Quality	60		60
Medium	Biennial	VAT		50	
Medium	Biennial	Complaints		100	
Medium	Biennial	Counter Fraud & Corruption Arrangements		60	
Medium	Biennial	Equality & Diversity	50		50
Medium	Biennial	Key Partnerships - NERSOU	50		50
		Hours	590	500	590
		Total Hours	2,170	2,170	2,170

Joint External Audit Plan

The Office of Police and Crime Commissioner for Northumbria
and Chief Constable for Northumbria

Year ended 31 March 2021

February 2022



Contents



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Key matters	3	The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Force/PCC or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.
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Key matters

Factors

Police sector developments

Throughout the 2020/21 financial year, the UK Government reaffirmed its commitment to delivering the 20,000 officers uplift programme. Whilst commitments to increase officer levels have been well received, challenges remain in ensuring that this investment is able to meet the changing demands on police time and the increasing expectations of the public they serve.

Due to the economic uncertainties brought about by the Covid-19 pandemic, the police sector continues to operate within the constraints of a one year funding settlement. Precept flexibility remains the key source of growth in funding to the sector, which has been utilised by Police and Crime Commissioners nationally.

Impact of Covid 19 pandemic

The outbreak of the coronavirus (Covid-19) pandemic had an impact on the normal operations of the Force. The Force and the police sector nationally has had to work differently at all levels to be able to enforce ever-changing Covid-19 regulations and deliver business as usual policing.

With short notice, the Chief Constable and PCC were able to implement remote working across the Force and the Office Police and Crime Commissioner. Both have utilised enabling technology to ensure that the organisations have been able to work flexibly to respond to the changing demand on their time. This included adapting to the lockdown measures in place to clear backlogs in operational workloads and changing operational focus as national regulations and laws changed throughout the year.

Financially, the Covid-19 pandemic has created cost pressures and short-term loss of fees and charges revenue, although policing has been impacted less than other public sector organisations. The majority of the group's income is grant funding, or raised through taxation, and so has remained largely unaffected. Costs have also been impacted by an increased need for PPE and overtime, although this has, to an extent, been offset by reductions in crime levels during the early part of the pandemic and through specific Covid-19 funding.

The true financial impact of the pandemic is likely to materialise over the medium-term as public finances are squeezed in the post-pandemic environment, and in particular should council tax and business rates collections fall as the economic impact of the pandemic continues to be realised.

The PCC and Force are now considering how to take forward the benefits from remote working necessitated by the pandemic. This includes further use of flexible working, effective use of office space and reviewing service delivery models to ensure that residents and local communities continue to receive cost effective, efficient quality policing.

Our response

- We will continue to provide you with sector updates via our Audit Committee updates.
- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in this Audit Plan, has been discussed with the Chief Finance Officer.
- We will consider your arrangements for managing the impact of the Covid-19 pandemic as part of our Value for Money work.

Key matters

Factors

Finances

2020/21 was a challenging year for all public sector bodies, with unprecedented levels of change, both in terms of demand, and at an operational level. The financial pressure placed on the Force as a result of the Covid-19 pandemic was significant. The Force held a Covid-19 Enforcement/Operational Reserve which included a planned transfer of £1.0m contingency from the general reserve in 2020/21, plus the underspend of £2.1m against the Chief Constable's revenue budget in 2020/21. The reserve was to be available to meet the costs of Covid-19 enforcement and operational policing in 2021/22.

These cost pressures were offset by an underspend for the year of £2.1m. This underspend was reported as being driven by the late receipt of £1.8m from central government for Covid-19 financial pressures and to maintain enforcement activity.

The future of police funding remains uncertain as funding arrangements that were meant to be in place by April 2020 have been delayed until at least 2022, however, the PCC plans to utilise earmarked reserves of £8.2m over the next three years in order to support investment in policing priorities.

The PCC set a balanced budget for 2021/22 which included a nil contribution to reserves, a council tax precept increase of 4.99% for a band D property, and the recruitment of an additional 60 police officers by March 2022 (in addition to the national uplift target of 181 new police officers). The latest MTFS reports that the target of 185 officers by March 2021 was successfully delivered.

The capital programme was reworked for the 2021/22 MTFS, to take account of the planned uplift in police officer numbers, and the impact of Covid-19. The capital programme as it stood included spend of £17.7m in 2021/22, and a further £56m by 2024/25.

Police and Crime Plan

Following her election to the position of PCC in 2019, Kim McGuinness was re-elected in 2021. The PCC's Police and Crime Plan 2021-2025 was published in early 2021 setting out six key priorities for the Force going forward. The financial year subject to audit formed part of the period of the previous Police and Crime Plan 2017 to 2021.

Our response

- We will consider your arrangements for managing and reporting your financial resources and assessing your financial resilience as part of our audit in completing our Value for Money work.
- We will consider your arrangements for delivery of the Police and Crime Plan, and the setting of the new Plan as part of our Value for Money work.

Key matters

Factors

Accounting and auditing developments

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money (VFM). There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

In the period December 2018 to January 2020 the Financial Reporting Council issued a number of updated International Auditing Standards (ISAs (UK)) which are effective for audits of financial statements for periods beginning on or after 15 December 2019. ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures includes significant enhancements in respect of the audit risk assessment process for accounting estimates. As part of this process auditors also need to obtain an understanding of the effectiveness of the role of those charged with governance relating to accounting estimates adopted by management, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Although the implementation of IFRS 16 has been delayed, audited bodies still need to include disclosures in their 2020/21 statements to comply with the requirements of IAS 8. As a minimum, we would expect the PCC and Chief Constable to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases. If the impact of IFRS 16 is not known or reasonably estimable, the accounts should state this.

Our response

- We will provide you with sector updates via our Audit Committee updates.
- We have set out further information on our approach to Value for Money on pages 15 and 16.
- We will carry out enhanced procedures in relation to estimates as required by the standards, and report our findings to you in our Audit Findings Report.

Introduction and headlines

Purpose

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

Respective responsibilities

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

Scope of our audits

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

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

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

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

Group Audit

The PCC and Chief Constable are required to prepare group financial statements that consolidate the financial information of the PCC and Chief Constable.

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- The risk that the valuation of land and buildings in the accounts is materially misstated.
- The risk that the valuation of the net pension fund liability in the accounts is materially misstated.
- The risk of management override of controls.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £6,600k (PY £6,280k) for the group, the PCC and the Chief Constable, which equates to just under 2% of the PCC's gross expenditure for the year under audit. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £330k (PY £188k).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has not identified any risks of significant weakness, but we have identified the following areas of focus:

- Setting the Medium Term Financial Plan and capital strategy and achieving financial sustainability, including the PCC's capital programme and in particular IT and digital transformation
- Progress against recommendations from the 2018/19 HMICFRS report
- Arrangements for delivery of the existing Police and Crime Plan and for the setting of the new Plan
- Changes in response to the Covid-19 pandemic

Audit logistics

Our planning work has taken place in February and our final work will take place in March and April. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report. More details of our team and timetable can be found on page 17.

Our fee for the audit will be £43,529 for the PCC and £20,938 for the Chief Constable, subject to management providing a high quality and materially accurate set of accounts and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Group audit scope and risk assessment

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

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
Police and Crime Commissioner for Northumbria	Yes	Audit of the financial information of the component using component materiality	<ul style="list-style-type: none"> management override of internal controls valuation of land and buildings 	Full scope audit performed by Grant Thornton UK LLP
Chief Constable for Northumbria	Yes	Audit of the financial information of the component using component materiality	<ul style="list-style-type: none"> management override of internal controls valuation of net pension fund liability 	Full scope audit performed by Grant Thornton UK LLP

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

Significant risks identified

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

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
ISA240 revenue and PN 10 expenditure risks	Chief Constable, PCC and Group	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to improper recognition. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement of revenue due to fraud.</p> <p>Under Practice Note 10, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period). As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk of material misstatements due to fraud related to revenue recognition.</p> <p>Having considered the risk factors set out in ISA240, PN 10 and the nature of the revenue and expenditure streams of the PCC and the Chief Constable, we have determined that the risk of fraud arising from revenue and expenditure recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue and expenditure recognition; • opportunities to manipulate revenue and expenditure recognition are very limited; • all revenue received by the Chief Constable comes from the PCC; and • the culture and ethical frameworks of public sector bodies, including the Chief Constable and Police and Crime Commissioner for Northumbria, mean that all forms of fraud are seen as unacceptable. <p>Therefore we do not consider this to be a significant risk for the Chief Constable, PCC or Group.</p> <p>We will continue to review and test, on a sample basis, material revenue and expenditure transactions, ensuring that it remains appropriate to rebut the presumed risk of revenue and expenditure recognition.</p>	
Management over-ride of controls	Chief Constable, PCC and Group	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>The PCC and Chief Constable face external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	PCC and Group	<p>The PCC revalue their land and buildings on a rolling three-yearly basis.</p> <p>This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£82.6 million as at 31 March 2021 per the draft balance sheet) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Additionally, management will need to ensure the carrying value in the PCC and Group financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluate the competence, capabilities and objectivity of the valuation expert; • write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met; • challenge the information and assumptions used by the valuer to assess the completeness and consistency with our understanding; • test revaluations made during the year to see if they had been input correctly into the PCC's asset register; and • evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different from current value at year end.
Valuation of the pension fund net liability	Chief Constable and Group	<p>The group's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£4,589 million in the group's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the group's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Document our understanding of the processes and controls put in place by management to ensure that the Chief Constable's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management experts (their actuaries) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuaries who carried out the Chief Constable's pension fund valuations; • assess the accuracy and completeness of the information provided by the Chief Constable to the actuaries to estimate the liabilities; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial reports from the actuaries; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtain assurances from the auditor of Tyne and Wear Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

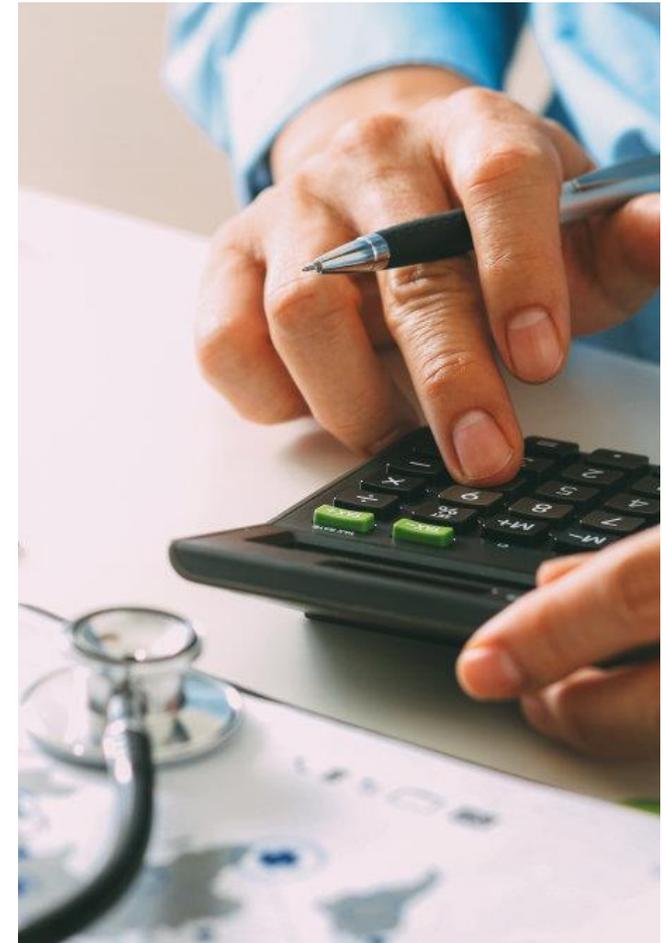
Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do the PCC and Chief Constable:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the PCC and Chief Constable we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings (including investment properties)
- Depreciation and useful economic lives of assets
- Valuation of police officers pension liability
- Valuation of the local government pension liability
- Accumulated absences accrual
- Fair value estimates and measurement of financial instruments

The PCC and Chief Constable's Information systems

In respect of the PCC and Chief Constable's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the PCC and Chief Constable uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the PCC and Chief Constable (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.

AGENDA ITEM 10



Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

Planning enquiries

As part of our planning risk assessment procedures we have included inquiries within our management letters shared with the PCC and Chief Constable. We would appreciate a prompt response to these inquiries in due course.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540-Revised-December-2018-final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540-Revised-December-2018-final.pdf)

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Reports and Annual Governance Statements and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the PCC and Chief Constable.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statements are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
 - issuing a report in the public interest or written recommendations under section 24 of the Local Audit and Accountability Act 2014 (the Act).
 - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
 - issuing an advisory notice under section 29 of the Act
- We certify completion of our audits.

Other material balances and transactions

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

Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the Group, PCC and Chief Constable's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report.

Materiality

The concept of materiality

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

Materiality for planning purposes

We have determined financial statement materialities based on a proportion of the gross expenditure of the group, the PCC and the Chief Constable for the financial year. For our audit testing purposes we apply the lowest of these materialities, which is £6,600k (PY £6,280k), which equates to just under 2% of the PCC's year gross expenditure for the year.

We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £26k for Senior officer remuneration.

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

Matters we will report to the Joint Independent Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the PCC and Chief Constable any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance.

ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group, the PCC and the Chief Constable, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £330k (PY £188k).

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

N.B. 'PY' refers to the comparable Prior Year 2019/20 figure

2020/21 year gross expenditure

£381.1m Group

(PY: £353m)

£331.1m PCC

(PY: £310.9m)

£376.3m CC

(PY: £349.3m)



■ Gross expenditure

■ Materiality

Materiality

£6,600k

Financial statements materiality to be used for the purposes of our audit
(PY: £6,280k)

£330k

Misstatements reported to the PCC and Chief Constable
(PY: £188k)

Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary qualified / unqualified approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information



Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Key areas of focus

The Police operating environment has been impacted by the pandemic. The future funding regime remains uncertain and this lack of certainty will impact on the PCC's and Force's ability to undertake long term planning.

Our risk assessment procedures regarding the PCC's and Chief Constable's arrangements to secure value for money have not identified any risks of significant weaknesses in arrangements.

We have identified the following areas of focus for our work for both the PCC and the Chief Constable, but the scope may increase as further work is performed.

- Setting the Medium Term Financial Plan and capital strategy and achieving financial sustainability, including the PCC's capital programme and in particular IT and digital transformation
- Progress against recommendations from the 2018/19 HMICFRS report
- Arrangements for delivery of the existing Police and Crime Plan and for the setting of the new Plan
- Changes in response to the Covid-19 pandemic

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

Audit logistics and team

Planning and risk assessment

Joint Independent Audit Committee
February 2022

Audit Plan

Year end audit
March-April 2022

Joint Independent Audit Committee
April 2022

Audit Findings Report

Audit opinion

Auditors Annual Report
(within 3 months of opinion)



Laurelin Griffiths, Key Audit Partner

Laurelin will be the main point of contact for the PCC, Chief Constable and Committee members. She will share his wealth of knowledge and experience across the sector providing challenge and sharing good practice. Laurelin will ensure our audit is tailored specifically to you, and he is responsible for the overall quality of our audit work. Laurelin will also sign your audit opinions.



Aaron Gouldman, Audit Manager

Aaron will work with senior members of the finance team ensuring testing is delivered and any accounting issues are addressed on a timely basis. Aaron will be responsible for the delivery of our work on your arrangements in place to secure value for money, will attend Joint Independent Audit Committee and liaison meetings with Laurelin, undertake reviews of the team's work, and ensure that our reports are clear, concise and understandable

Audited body responsibilities

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

Our requirements

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

- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- provide debtor and creditor listings that are the balances outstanding at the year end
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- The PCC and Chief Constable's experts provide clarity and detail over their work to enable auditors to challenge the accounting and valuation judgements used.
- respond promptly and adequately to audit queries.

Audit fees

PSAA awarded a contract of audit for the PCC for Northumbria and the Chief Constable for Northumbria to begin with effect from 2020/21. The scale fee in the contract was £28,529 for the PCC audit and £14,438 for the Chief Constable. Since the time that the scale fees were set, there have been a number of developments, particularly in relation to the revised Code and ISAs which are relevant for the 2020/21 audit.

The 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years. Our estimate is that for your audits, this will result in an increased fee of £9,000. This is in line with increases we have proposed at all our local audits.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISAs issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Our proposed work and fee for 2020/21, as set out below, is detailed overleaf and will be agreed with the Chief Finance Officer.

	PSAA Scale Fee 2020/21	Proposed actual fee 2020/21
PCC Audit	£28,529	£43,529
Chief Constable audit	£14,438	£20,938
Total audit fees (excluding VAT)	£42,967	£64,467

Assumptions

In setting the proposed fees, we have assumed that the Force/PCC will:

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

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

	PCC	Chief Constable
2020/21 scale fee published by PSAA	£28,529	£14,438
<i>Changes due to wider audit market</i>		
Raising the bar/regulatory factors	£1,500	£750
Enhanced audit procedures for Property, Plant and Equipment	£2,500	-
Enhanced audit procedures for Pensions	-	£1,750
<i>New work requirements for 2020/21</i>		
Additional work on Value for Money (VfM) under new NAO Code	£7,000	£2,000
Increased audit requirements of revised ISAs	£4,000	£2,000
Total proposed 2020/21 audit fees (excluding VAT)	£43,529	£20,938

Independence and non-audit services

Auditor independence

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

We confirm that, other than the matter noted in the section below, there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the PCC and Chief Constable.

Other services

Grant Thornton UK LLP provided a Tax and VAT Helpline service to the PCC during the 2020/21 and 2021/22 financial years. This Helpline was provided to answer non-complex queries on tax and VAT treatments. The Helpline was last used in June 2021, prior to our appointment as the group's external auditors on 27 October 2021. The service ceased on our appointment. The Helpline was provided by a separate team of tax specialists within Grant Thornton UK LLP, who will have no involvement in the external audit process.

Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

Service	Fees £	Threats	Safeguards
Audit related			
None identified			
Non-audit related			
Tax and VAT Helpline (April 2020 – October 2021)	1,200	Self-Interest Familiarity	The level of recurring fees taken on their own is not considered a significant threat to independence as the fee for this work is £1,200 in comparison to the confirmed scale fee for the audit of £42,967 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. The service was provided by a separate team of tax specialists within Grant Thornton UK LLP, who will have no involvement in the external audit process. These factors mitigate the perceived threat to an acceptable level.

Appendix 1: Revised Auditor Standards and application guidance

FRC revisions to Auditor Standards and associated application guidance

The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	
ISA (UK) 230 – Audit Documentation	January 2020	
ISA (UK) 240 – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	
ISA (UK) 250 Section B – The Auditor’s Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	
ISA (UK) 500 – Audit Evidence	January 2020	
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	
ISA (UK) 570 – Going Concern	September 2019	
ISA (UK) 580 – Written Representations	January 2020	
ISA (UK) 600 – Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	
ISA (UK) 620 – Using the Work of an Auditor’s Expert	November 2019	
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor’s Report	January 2020	
ISA (UK) 720 – The Auditor’s Responsibilities Relating to Other Information	November 2019	
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	



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