AUDIT COMMITTEE

This meeting will be recorded and the sound recording subsequently made available via the Council's website: charnwood.gov.uk/pages/committees

Please also note that under the Openness of Local Government Bodies Regulations 2014 that other people may film, record, tweet or blog from this meeting. The use of any images or sound recordings is not under the Council's control.

To: Councillors Boldrin, S. Bradshaw, A. Gray, Hadji-Nikolaou, Parsons (Vice-Chair), Snartt and Nellist (Chair) (For attention)

All other members of the Council
(For information)

You are requested to attend the meeting of the Audit Committee to be held in Committee Room 1, at the Council Offices, Southfields, Loughborough on Tuesday, 31st January 2023 at 6.00 pm for the following business.

Chief Executive

Southfields
Loughborough

23rd January 2023

AGENDA

1. APOLOGIES

2. MINUTES FROM THE PREVIOUS MEETINGS 4 - 26

The Committee is asked to confirm as a correct record the minutes of the meetings of the Committee held on 8th November 2022 and 22nd November 2022.

3. DISCLOSURES OF PECUNIARY INTERESTS, AND OTHER REGISTRABLE AND NON-REGISTRABLE INTERESTS

For information, disclosable pecuniary interests and registrable interests relate to entries that are included, or should be included, on a councillor's register of interests. Non-registrable interests relate to any other matters.

4. QUESTIONS UNDER OTHER COMMITTEE PROCEDURES 12.8

No questions were submitted.

A report of the External Auditors.

A report of the Director of Finance, Governance and Contracts.

A report of the Director of Finance, Governance and Contracts.

A report of the Head of Transformation, Strategy and Performance.

A report of the Director of Finance, Governance and Contracts.

A report of the Director of Finance, Governance and Contracts.

11. EXEMPT INFORMATION

It is recommended that members of the public be excluded from the meeting during the consideration of the following item on the grounds that it will involve the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule12A to the Local Government Act 1972 and it is considered that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

12. INVESTMENT PERFORMANCE REPORT - Q4 2022/23

An exempt report of the Strategic Director for Commercial Development, Assets and Leisure, circulated to members of Committee. **To Follow.**

AUDIT COMMITTEE
8TH NOVEMBER 2022

PRESENT: The Chair (Ms Jane Nellist)
The Vice Chair (Councillor Parsons)
Councillors Baines, S. Bradshaw, A. Gray, Hadji-Nikolaou and Snartt

Director of Finance, Governance and Contracts
Director of Housing and Wellbeing
Head of Governance and Human Resources
Head of Financial Services
Head of Transformation, Strategy and Performance
Audit Manager
Democratic Services Officer (EB)

APOLOGIES: Councillor Boldrin

The Chair stated that the meeting would be recorded and the sound recording subsequently made available via the Council's website. She also advised that, under the Openness of Local Government Bodies Regulations 2014, other people may film, record, tweet or blog from this meeting, and the use of any such images or sound recordings was not under the Council's control.

16. MINUTES FROM THE PREVIOUS MEETING

The minutes of the meeting of the Committee held on 12th July 2022 were confirmed as a correct record and signed.

17. DISCLOSURES OF PECUNIARY INTERESTS, AND OTHER REGISTRABLE AND NON-REGISTRABLE INTERESTS

No disclosures were made.

18. QUESTIONS UNDER OTHER COMMITTEE PROCEDURES 12.8

No questions had been submitted.

19. COUNCIL'S USE OF REGULATION OF INVESTIGATORY POWERS ACT (RIPA)

A report of the Director of Finance, Governance and Contracts was submitted providing the Committee with a summary of the Council's use of RIPA powers. (Item 5 on the agenda filed with these minutes).

The Head of Governance and Human Resources attended the meeting to assist the Committee with the consideration of this item.

In response to a query over whether the Council should be making more use of RIPA powers, the Head of Governance and Human Resources informed the Committee that the use of RIPA powers needed to concern an offence that would result in a custodial sentence of six months or more and such cases were few and far between.

RESOLVED that the Committee note that there has been no use of RIPA powers by the Council for the period from 1 July 2022 to 30 September 2022.

Reason

To enable the Committee to comply with the request from Cabinet that the Audit Committee assumes responsibility for receiving a quarterly report on the use of RIPA, and to report to Cabinet any concerns arising from those reports that may indicate that the use of RIPA is not consistent with the Policy or that the Policy may not be fit for purpose.

20. TREASURY MANAGEMENT UPDATE - MID-YEAR REVIEW FOR THE SIX MONTHS APRIL-SEPTEMBER 2022

The Head of Financial Services submitted a report reviewing the Treasury Management Strategy and the Annual Investment Strategy, plus the various Prudential Borrowing and Treasury Indicators for the first six months of 2022/23. (Item 6 on the agenda filed with these minutes).

The Director of Finance, Governance and Contracts attended the meeting remotely to assist with the consideration of this item.

The Director of Housing and Wellbeing attended the meeting remotely to assist with the consideration of this item.

The Head of Financial Services attended the meeting remotely to assist the Committee with the consideration of this item and informed them as follows:

- The report would go to Cabinet on 17th November and Council on 23rd January.
- The General Fund budget was set at £41m which was a high figure. This included £28m of the Enterprise Zone and Regeneration budget which was a place marker in the plan and as such the report was not completely monitoring against this number.
- The spend was very low at £2m which left an underspend of £11million.
- The budget figure included the slippage of the last Capital Plan.
- Of the approximately £12m in the Housing Revenue Account (HRA) budget, approximately £700k had been spent. This showed a large underspend.
- Regarding the Capital Plan, new contracts were being procured and put in place.
- Underspends from the HRA would go back into the HRA Financing Fund.
- The current Capital Programme was fully funded. There was internal borrowing which had held up and continued to support capital borrowing.
- The internal Investment Balance was £54m. The Council had been able to invest this money and obtain a good rate of return.
- The budget had outperformed at the half-year stage.

- There had been a net return of 1.4% on the External property Funds of £5m.
- The Total interest earned was £402k. This was up on the budget and Treasury Management interest rates going forward into the 2023/24 as interest rates were favourable.

Summary of Discussion:

- Regarding the HRA underspend, a review was carried out at the end of the financial year and advice was sought from the director of service. Money not spent could be moved forward, however, it was preferable to perform on budgets rather than move them forward.
- The Director of Housing and Wellbeing added that in terms of delivery on the HRA budget, a contract had been entered into with J. Tomlinson on Kitchens and Bathrooms. The full programme was not deliverable in a single quarter. It was necessary to set an achievable amount of work for the contractor over the course of the year.
- The Director of Finance, Governance and Contracts stated that whilst inflation was a concern, the increase in interest rates was good news for the Council due to the amount of cash the Council had. However whilst revenues would increase, costs would also increase. Such increasing costs included payroll with the 2022/23 pay increase and the Environmental Services Contract which had increased based on the RPI index. He added that whilst increasing costs would initially be mitigated by rising interest rates, the rise would eventually taper off resulting in a reduction in revenue. It was not yet known what government funding the Council would receive.
- In terms of priorities in the event of potential cuts to services, an 'Options for Change' exercise had been completed and as such it was known which services were mandatory and which were discretionary. Decisions would be difficult, however, there were reserves as a contingency.
- Modelling was looked at in terms of cashflow and opportunities were sought to chase yields. The importance of satisfying debts was highlighted as Council Tax also went to services such as the Police and Fire Service.
- Regarding the investment portfolio, there was a strategy that set out what was done, what the limits were and how much could be put into certain categories. A list provided a snapshot of a point in time, much of this was very short term. The Stirling Overnight Indexation Rate (SONIA) trailed the base rate. SONIA was the target and historically the Council had achieved above this rate. Individual investments were placed well against SONIA. The importance of investments was increasing and more focus was needed on this area.
- Link Asset Services had provided training for the Audit team. A risk model had been provided which the Council followed. The Treasury Management Strategy was set each year and guided he Council. Changes could be made, but it was a format that was monitored against and Link Asset Services provided reports on whether the Council were within monitoring ranges. The Treasury Management Officer monitored this week-on-week and daily updates were received if cash was needed from a counterparty to invest elsewhere. There were relatively limited areas of investments that were used and security was prioritised in terms of placement of funds. Link Asset Services were worked with closely on this.

- Regarding the counterparty portfolio the Council had good investments. In terms of investing outside the UK Link Asset Services had suggested considering investing in Germany. It was not yet known if better rates could be offered from Germany.
- The Council were fortunate to have large balances, for example, in the HRA fund. The spend had been fairly slow as money from areas such as Section 106 and Precepts were not yet spent.
- Rates were being outperformed without taking big risks. The Treasury Management Strategy for next year was being considered and more advice would be given from Link Asset Services.
- The Council had a Commercial Property Portfolio of £25m the generated gross rents of approximately £1.2m per year. Reserves were built up as a contingency against uncertainties regarding lease events. Due to the prudential code, property could not be bought if the Council were going to borrow and assets could not be bought purely for yield. Assets within the borough where there was a regeneration aspect were considered reasonable. Treasury Balances were considered in terms of how best to maximise the return in terms of security, liquidity and yield. With substantial ongoing commitments such as payroll and payments to Parish Councils it was important to ensure there was sufficient liquidity. Inter-authority lending was a route that could be explored.
- In terms of the ratio between what was authorised to be spent and what was actually spent, there was nothing in the Capital Plan on the Commercial Property Portfolio. Money that had been borrowed was earmarked. In the Capital Plan there was £28m for two schemes. Firstly, the Enterprise Zone, whereby a grant was made to the Leicester and Leicestershire Local Enterprise Partnership (LLEP) who would then make a grant to the site sponsor. This money was then recovered as if it were a loan by not having to pay business rates to the LLEP. £5m more would be asked for Enterprise Zone funding in the coming weeks. Secondly, there was a £15m placemarker against regeneration opportunities and it was necessary to decide how to spend this. It was suggested that this could be used to acquire sites on an opportunistic basis around Loughborough as properties became available and if the price was attractive and the purchase appropriate. This would be financed out of borrowing rather than reserves. Due to high interest rates, the Council could finance less than they previously did. It was necessary for the Council to think about whether they needed to be more proactive with investments.
- In terms of how the Council compared to other councils in terms of investment performance, the Council had previously belonged to a benchmarking group and it was suggested that the Treasury Management Officer be asked to consider this again. It was further suggested that CIPFA may have information on whether or not it was possible to benchmark against similar size authorities. The Director of Finance, Governance and Contracts added that cash balances may be different in different councils and as such it was better to compare authorities with similar cash balances rather than similar size. He suggested that SONIA was a good indicator on this and Link Asset Services could also be consulted. The Chair added that the external auditors could also be consulted on this.
- There had been no political or executive decision on a policy to deliberately underspend on the Capital Programme or the HRA in order to accrue more

interest. The HRA was due some of the interest earned and there was a Capital Plan which was spent against.

- Changes in contracts and issues in recruiting personnel had been an issue.
- The MRP was increasing over 40 years on an annuity life basis. Rents would increase over time. The amount of repayments would stay constant and more capital would be paid throughout the year.
- In terms of risk surrounding underspend, the money received from DFGs had been an allocation to the Council. More resources were being put into place in the Housing Team dedicated to this area. In terms of the capital spend the underspend was something that the Senior Leadership Team (SLT) Capital Board were aware of as an issue and could look to address going forward. DFGs and the spend profile were regularly discussed by the group. If money was not spent in DFGs it could only be spent for specific purposes and needed to be stringently audited. The Director for Housing and Wellbeing added that there was benchmarking information available around DFGs with some variances across districts in Leicestershire. Charnwood Borough Council appeared to be within the broad parameters in comparison with other districts. Northwest Leicestershire District Council and Melton Borough Council had spent less than Charnwood Borough Council and Blaby District Council had spent more. There was a mixed picture across the boroughs.

  The Chair suggested that the Audit Manager add benchmarking information as part of the Audit Programme.

  The Director of Finance, Governance and Contracts added that it was important to monitor spending and that if something was suggested to be added to the Capital Plan it would need to go through Cabinet and Council.

  The Chair suggested the issue of underspend on the Capital Programme be considered by the Scrutiny Commission.

  The Director of Finance, Governance and Contracts added that money was put into the budget for this year so it was available if needed. If it was not needed it went into the budget for next year and created an underspend in the current year. It was recognised that historically there had been project management issues and changes in personnel.
- Link Asset Services were paid to monitor the individual counterparties that the Council used. They monitored credit ratings and gave a level of risk on investments on a weekly basis.
- The issue of rising interest rates and the current economic situation would be reflected in the Capital Strategy. Interest rates could also be noted in the investment portfolio in future reports.
- With regard to issues surrounding inflation and investment yields it was unknow as to whether action needed to be taken. More would be known then the Autumn statement was received. A ‘holding budget’ was being created to cover up to the next financial year, after which it was hoped to make plans based on more certainty. More information would come through the Budget Scrutiny Panel.

RESOLVED that the Committee note the mid-year review of the Treasury Management Strategy Statement, Prudential Borrowing and Treasury Indicators plus the Annual Investment Strategy.

Reason

To ensure that the Council's governance and management procedures for Treasury Management reflect best practice and comply with the Revised CIPFA Treasury Management in the Public Services Code of Practice, Guidance Notes and Treasury Management Policy Statement, that funding of capital expenditure is taken within the totality of the Council's financial position, and that borrowing and Investment is only carried out with proper regard to the Prudential Code for Capital Finance in Local Authorities.

21. INTERNAL AUDIT PROGRESS REPORT Q2 2022-23

A Report of the Director of Finance, Governance and Contracts was submitted summarising the progress against the 2022/23 Audit Plan, outlining key findings from final reports and any outstanding recommendations. (Item 7 on the agenda filed with these minutes).

The Director of Housing and Wellbeing attended the meeting remotely to assist the Committee with the consideration of this item.

The Audit Manager attended the meeting remotely to assist the Committee with the consideration of this item and informed them as follows:

- There had been good progress in the second quarter of the financial year and two final reports had been issued.
- Housing repairs had limited assurance.
- DFG and Defra grants had been reviewed and signed off.
- Benefits subsidy work had been completed.
- The 2022/23 plan was progressing well and key financial audits were in progress.
- No recommendations were overdue.
- Only minor amendments had been made to the Internal Audit Charter. These concerned changes in job titles.

The Committee were advised in response to questions that:

- Housing repairs processes were driven through the system. Procedures were in place but needed updating. The system was linear and when a repair was logged it went into the system and was categorised and allocated. The Repairs and Investments Manager had had been asked to update the system, however this would be on a long timescale due to existing commitments.
- Some items from the 2017 audit were still present. Repairs completed were tracked and performance was reported on. Repairs not completed were being considered in more depth. Some issues, such as procurement of windows, were known and being worked on.

- Previously when repairs audits had been carried out they had been minimal, this one was more detailed as it looked at the whole process rather than solely the financial side. As such there would be more recommendations.
- The housing repairs team had a significant part of the budget (£1.9m) and issues on assurance had been identified, however, this did not mean that action was not being taken.
- Risks around financial loss were associated with disrepair claims. There were also risks surrounding duplicate payments to contractors. It was recognised that some issues did not have a material financial loss. Costs were benchmarked so there were measures of efficiency and checks.
- Regarding the schedule of rates being incorrect it was noted that this was an issue with the system rather than something with financial implications to the Council.
- The Director of Housing and Wellbeing noted that he recognised that there were improvements to make and that they would be made. He also noted that whilst there was potential for material loss, this had not been identified during this audit report, although there were losses present in respect of disrepair claims.
- Controls across the whole area were looked at and the audits were split across quarters so that they could be considered in more depth. The next audit would include responsive repairs and voids. If controls were not in place then financial losses were possible. As such the team were ensuring that controls were in place.
- Any losses identified would be included in the audit report which the committee receives a copy of.
- Audit testing was done on a sample and it was highlighted where there were control issues identified, recommendations were made accordingly. Disrepair claims had been looked at and issues identified in this area would be included in the next Responsive Repairs report.
- Recommendations from October 2022 had been implemented.
- Key financial systems were noted in the report as actual days being half a day this was due to the audits only just being in the planning stage. Key audits were not planned to be carried out until the third quarter of the financial year. The National Fraud Initiative, which is carried out every two years was noted as one actual day as the information upload had only just been completed (Q3) and the data matching wasn't due until later in the year, this will then be when the actual days would increase.
- There was one recommendation against the open spaces contract and against the responsive repairs audit. Where recommendations were marked as not applicable this was because it was certifications work and not an audit. Where there were no recommendations on an audit it was because the audit had not yet been completed.
- The audit had a formal process. The draft stage showed where information was being pulled together and recommendations were not made until this process had finished.
- The appendix would show the stages of the audit in the next report.
- Client satisfaction information was sent to the relevant manager after completion. Responses could not be enforced on satisfaction surveys. There

was a desire to assess performance and effectiveness. The Chair clarified that an in-depth assessment of audit services was done on a rolling programme.

- The scope of the Capital Programme audit had not yet been agreed. It had been pushed back to the third quarter of the financial year due to other work commitments. As soon as it was agreed it would be shared with the Committee.
- A flow chart of who was who within the audit team in terms of reporting lines would be distributed to the Committee.
- The Audit Manager was the Chief Audit Executive.

The Chair noted with reference to Paragraph 11.1 that CIMA was part of CCAB and it should be CGMA if it were to be referred to so CIMA could be deleted. The Chair also suggested it would be good to mention IIA.

The Vice-Chair noted that he was not reassured that there was no chance of material loss.

RESOLVED that the Committee note the report.

Reason

To ensure the Committee is kept informed of progress against the Internal Audit plan and work of Internal Audit.

22. RISK MANAGEMENT (RISK REGISTER) UPDATE

A report of the Head of Transformation, Strategy and Performance was submitted providing the Committee with details of the Strategic Risk Register produced for the period to 2022/23. (Item 8 on the agenda filed with these minutes).

Head of Transformation, Strategy and Performance attended the meeting to assist the Committee with the consideration of this item and informed them as follows:

- The register was managed by officers in SLT and the Corporate Leadership Team (CLT). The group had met on 21st September and this report reflected changes made at that meeting.
- As had been requested at the last meeting of the Audit Committee, the current report outlined where changes had been made so that changes were easy to identify.
- Strategic Risk 3 – Financial Resources had increased its score as it was recognised that the financial situation was volatile. Particular risks had been identified concerning revenue from the Town Hall and Car Parks.
- Strategic Risk 7 – Data Security had decreased due to more robust treatments and controls. Additionally, the post of Data Protection Officer had now been filled.
- Regarding Strategic Risk 11, there was a new risk regarding housing demand. It was recognised that there was a demand on properties for a number of reasons including surrounding refugees and asylum seekers (including those resulting from the war in Ukraine). The situation would be monitored.

- Risks were being monitored through the Pentana program which showed the direction of travel of risks.

The Committee were advised in response to questions that:

- Following a query on SR 7 appearing to change from 6 to 6. The Head of Transformation, Strategy and Performance stated that she would check this and clarify.
- The risk of cyber-attacks had been discussed by the risk management group. The Council had cybersecurity insurance and awareness of the issue was being raised. The risk of cyber-attacks on elections was not discussed specifically and it was not seen as a major risk. Such a risk to elections would more likely come via influences in social media. The risk of criminal attacks (e.g. via ransomware) was recognised.
- The report was annotated and updated after each meeting. The direction of travel of risks did not appear to change significantly.
- The Head of Transformation, Strategy and Performance would make the action plan for re-let of HRA property available to the Committee.

RESOLVED that the Committee note the report.

Reason

To ensure the Committee is kept informed of progress against the Strategic Risks. Noting that should they occur they would cause the Council to be unable to operate and/or provide key services leading to a significant effect on public wellbeing.

23. WORK PROGRAMME

A report of the Head of Strategic Support was submitted to enable the Committee to consider its work programme. (Item 9 on the agenda filed with these minutes).

It was noted that a national procurement for external auditors had taken place and that Azets would become the new external auditors once Mazars had completed their work.

RESOLVED

1. that the Committee proceeds on the basis of the work programme attached to the agenda.
2. that the issue of Capital Programme performance and underspend be considered by the Scrutiny Committee.

NOTES:

1. The following officers listed as present attended this meeting virtually: Director of Housing and Wellbeing, Head of Financial Services, Head of Governance and HR, Audit Manager. The remaining officers listed as present attended in person.

2. No reference may be made to these minutes at the next Full Council Meeting unless notice to that effect is given to the Democratic Services Manager by five members of the Council by noon on the fifth working day following publication of these minutes.

3. These minutes are subject to confirmation as a correct record at the next meeting of the Audit Committee.

AUDIT COMMITTEE
22ND NOVEMBER 2022

PRESENT: The Chair (Ms Jane Nellist)
The Vice Chair (Councillor Parsons)
Councillors A. Gray, Hadji-Nikolaou, Snartt and Parton

Director of Finance, Governance and Contracts
Head of Governance and Human Resources
Head of Financial Services
Audit Manager
Democratic Services Officer (EB)

APOLOGIES: Councillor Boldrin and S. Bradshaw

The Chair stated that the meeting would be recorded and the sound recording subsequently made available via the Council's website. She also advised that, under the Openness of Local Government Bodies Regulations 2014, other people may film, record, tweet or blog from this meeting, and the use of any such images or sound recordings was not under the Council's control.

24. DISCLOSURES OF PECUNIARY INTERESTS, AND OTHER REGISTRABLE AND NON-REGISTRABLE INTERESTS

No disclosures were made.

25. QUESTIONS UNDER OTHER COMMITTEE PROCEDURES 12.8

No questions had been submitted.

26. EXTERNAL AUDIT - AUDIT COMPLETION REPORT - CHARNWOOD BOROUGH COUNCIL - YEAR ENDED 31 MARCH 2022

A report of the external auditor was submitted summarising the audit conclusions during the external auditor's audit of the Council's financial statements for the year ended 31 March 2022. (Item 4 on the agenda filed with these minutes).

Mark Surridge representing the external auditors (Mazars), the Director of Finance, Governance and Contracts, the Head of Governance and Human Resources and the Head of Financial Services, attended the meeting to assist with the consideration of the item.

The Committee was advised that:

- Within the audit there were four areas of responsibility:
  - Wider Powers: There had not been any reasons for to enact wider powers under the Local Audit and Accountability Act 2014.

- Whole of Government Accounts (WGA): The external auditors had not yet received group instructions from the National Audit Office (NAO) in respect of their work on the Council's WGA submission. They were unable to commence our work in this area until such instructions had been received.
    - Value for Money: A risk-based approach was to be carried out. The majority of the work had been completed. No significant weaknesses were anticipated.
    - Audit Opinion: The external auditors anticipated issuing an unqualified opinion, this was seen as desirable.
- Regarding the status of the audit, it was not uncommon that there would be matters that were ongoing. Aspects that were outstanding meant that the external auditors were unable to conclude their opinion by the 30th November reporting deadline.
- The net pension liability had been flagged as amber and the work completed on this had been reflected in the report. The assurance letter from the pension fund auditor had not yet been received and as such uncertainty remained.
- The final parts of the asset evaluations were being worked through. There would be no impact on council tax and the general fund in cash terms, but it would require an adjustment to the accounts.
- With regards to the revaluation of land and buildings, the figures were dependent on judgements and estimates and significant work was done on this. A calculation exercise to quantify impact was being awaited and it was thought that there would be no impact on cash as an authority.
- In regard to the extent of audit findings, the Council compared favourably to other authorities.

The Committee were advised in response to questions that:

- Regarding adjusted misstatements, it would be reported where numbers had changed and must change. The external auditors had not yet identified anything that required the numbers to change. One piece around assets would change but would not be in the report until quantified and there would be a follow-up letter on this.
- An error of £4k had been identified through the testing methodology which resulted in the larger extrapolated error projection (not every transaction was tested). The external auditors were required to report this despite being considered immaterial and the fact that it had not changed did not prevent them offering an opinion.
- A random sample was used so the same items might not be found next year. The accounting method could continue without impacting the judgement on accounts.
- There were no penalties for missed deadlines and the external auditors would not sign off on something they were not satisfied with. The Council were required to publish audited accounts by 30th November, however the external auditors would not issue an opinion if they were not ready to do so.

- The letter from the pension fund auditor had not been received and this was the case for all Leicestershire districts. This did not give concern for how the Council was run.
- Significant matters were issues that impacted the work on financial statements. The Capital Programme would inform which capital additions had come through and would inform work on payments and the work on asset valuations. It was necessary to ensure that this was reflected on the valuation approach.
- Internal control recommendations would be in the external auditors' follow-up where the closure of these would be reported on.
- Charnwood Borough Council was a member of the Leicestershire pension fund administered by Leicestershire County Council who produced their own financial statements that were subject to audit (by Grant Thornton). Charnwood Borough Council essentially had a share of these assets and liabilities. In terms of the pension figures in the Charnwood Borough Council accounts, Leicestershire County Council asked whether a detailed valuation was required in a certain point of time. Charnwood Borough Council then had a second valuation to get assurance. The Council had done all it could to get the most up-to-date figures in its accounts.
- The pension fund and the actuary that supported the pension fund were subject to audit and the auditors were asked to carry out specific procedures and tests to ensure that the resulting data was reliable. This data had historically been reliable, but this year's data would not be known until the letter was received. Neither the Council nor the pension fund could influence the auditor.
- Whole of Government Accounts - it was expected that the NAO would publish their instructions soon. They had not been published last year due to issues surrounding the Covid-19 pandemic. A decision on whether additional testing was required had yet to be received.
- There had been challenges with staffing across the entire accounting industry.

Councillor Snartt thanked all involved with the report.

RESOLVED that the Committee noted the report.

Reason

To acknowledge the Committee's consideration of this item.

27. ANNUAL GOVERNANCE STATEMENT 2021/22 AND REVIEW OF THE CODE OF CORPORATE GOVERNANCE

A report of the Head of Governance and Human Resources was submitted presenting the Annual Governance Statement (AGS) 2021/22 for approval and reporting the results of the annual review of the Council's Code of Corporate Governance. (Item 5 on the agenda filed with these minutes).

The Committee was advised that:

- The report was a significant source of assurance.
- It was difficult to compare the report with those of other authorities as they appeared in many different formats with some more detailed than others.
- The Chartered Institute of Public Finance & Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) issued joint updated guidance on how the report should be presented and the Head of Governance and HR had produced a meaningful but brief communication accordingly.
- A table of key responsibilities had been added to the report.
- Information on arrangements for dealing with Freedom of Information requests had been added to the report.
- A specific reference to fraud with regards to a supplement on whistleblowing, corruption and misuse of power had not been included. This could be added following the meeting.

The Committee were advised in response to questions that:

- The Code of Conduct for officers was in the constitution. It was mainly an internal disciplinary procedure whereas the Code of Conduct for elected members was more public.
- There was a typographical error in the report. Where it was stated that “There is a process in place to deal with complaints that members many have breached the Code of Conduct”, ‘many’ should read ‘may’.
- A reference to officers could be included in the report with regards to the Code of Conduct.
- The Code of Corporate Governance was distinct from the Annual Governance Statement.

The updated Code of Corporate Governance reflecting the amendments made above and in the resolution is attached to these minutes and would be uploaded to the Council website.

RESOLVED

1. that the Annual Governance Statement be approved with an amendment to include a specific reference to fraud with regard to whistleblowing on corruption and misuse of power and the inclusion of a reference to officers with regards to the Code of Conduct.

2. that the updated Code of Corporate Governance be approved.

<u>Reasons</u>

1. So that the Annual Governance Statement can be finalised and signed by the Leader of the Council and the Chief Executive in accordance with the required timescales.

2. To ensure that the Code of Corporate Governance is kept up to date and complies with best practice.

28. STATEMENT OF ACCOUNTS 2021/22

A report of the Head of Financial Services was submitted for the Committee Council's Statement of Accounts 2021/22 for approval for publication. (Item 6 on the agenda filed with these minutes).

The Director of Finance, Governance and Contracts, the Head of Financial Services, the Head of Governance and HR and the External Auditor attended the meeting to assist the committee with the discussion of this item.

The Committee were advised that:

- The report highlighted major changes to the way accounts were compiled.
- It had been recommended by the external auditors that it was necessary to demonstrate that the council had an independent check on floor areas within the properties on portfolio. As internal records could not be relied upon, Reading's had been appointed as independent valuers to carry out values of 20 properties in order to compare them independently to property records. On receipt of the information, it was noticed that in one particular property (Brown's Lane Leisure Centre) floor space had decreased in a material way. Possible explanations for this were that it could have included a car park or that the downstairs could have been bigger than the upstairs. Further work was undertaken through the land registry, and it was ascertained that their records were correct and not the property records. As such, the new floor areas were fed into the asset system.
- Work for 2020/21 had been undertaken and had been highlighted in the report.
- The final piece of work with the finance team was to restate the 2020/21 accounts. As such an exercise was being undertaken to provide the external auditors with further working papers. When this was finalised the 2020/21 accounts would be correctly adjusted. As such the committee could be assured that the financial system was up to date.
- It was not anticipated that there would be any further adjustments to accounts.

The Chair remarked that it was good to see that the comments from the previous Audit Accounts Committee had been taken into account.

The Committee were advised in response to questions that:

- In terms of the commercialisation reserve, commercial properties had been purchased and as part of this the Council were aware that there were renewal dates for rental properties. Therefore, if a tenancy was not renewed then a reserve was needed to cover this potential loss. In the last financial year the Council had increased this reserve in line with the planned amount.
- The Section 106 monies were not a one-off. It was necessary to check whether this had grown significantly from the previous year.
- With regards to concerns raised about the budget for Planning and Regeneration potentially being confused with Loughborough Town Deal money, the Head of Financial Services clarified that these monies were under the Planning and Regeneration heading because the officer appointed to manage

the Town Deal was in the Planning and Regeneration department. The Town Deal funds were audited through the external auditors and split into Council Capital Plans schemes which were ringfenced and monies purely for the Town Deal Board. These could be separated out in the next report.

- The financial and economic situation was constantly changing. The upcoming budget report would provide more information as would the Medium-Term Financial Strategy (MTFS). The government settlement was not yet known.
- The highlighted areas of the report were the figures amended to reflect the valuation exercise. It was necessary to re-state the 2021 column to provide a comparable figure. Therefore, these figures would change. This was a non-cash adjustment to reflect the changes in value of assets. The revaluation movements came from an independent exercise.
- In terms of big changes in the valuations of assets and pensions, the view was taken that valuations were adjusting accordingly to the data available at the time. Asset valuation could change significantly so it was difficult to calculate.
- Regarding business rates appeals adjustments, each year a view was taken to assess the situation with appeals. There were two lists of appeals. Businesses had lost the ability to appeal against the 2010 revaluation. The Council were beginning to understand more on the 2017 revaluation and the Council had been able to refine their estimate.
- Regarding long-term debtors, specifically regarding Bedford Square, it was explained that there was an amount that the Council had to pay to the highways authority to guarantee works. This was done through a bond with Leicestershire County Council in order to cover any issues with construction. If there were no issues with construction then the Council would get this money back in due course.
- Regarding revenue contribution to capital costs, the Director of Finance, Governance and Contracts explained that revenue was not allocated specifically. If a project needed to be financed then some of the budget came from revenue and some from capital. It was not possible to attribute directly whether it was funded through a revenue contribution. The Head of Finance added that she could provide a breakdown of support costs in terms of how much funding each project cost.
- The Town Deal Money was not included in the Gross Controllable Income figure attributed to the Head of Planning and Regeneration. The Head of Finance would check whether Town Deal Money had gone in and out of Gross Controllable Income account attributed to the Head of Planning and Regeneration.
- The strategic reorganisation of the Council would provide a presentational challenge for future financial statements in terms of comparisons of figures as it would affect budget areas. Future reports could show six months of the old structure and six months of the new structure.
- The restatement was being worked on and all of it needed to be signed off after the accounts were signed, however the pension fund audit was not within the Council's gift.
- The external auditor recommended that the Committee approve the statement of accounts subject to amendments that would be delegated to the Chair of the Audit Committee and The Director of Finance, Governance and Contracts.

- The external auditor further noted that they would audit anything that came through and issue the Council with an audit completion letter. It was noted that nothing would impact the general fund.
- There had been no adjustments to capital grants. The reversal of capital grants and contributions was a timing adjustment rather than a financial one, complying with statute. It was an accounting principle rather than an audit adjustment.

RESOLVED

1. That the Statement of Accounts for the year ended 31st March 2022 (attached at Appendix A) be approved and that the Chair (as presiding person) be authorised to sign the accounts on behalf of the Audit Committee subject to any adjustments that may be identified by external auditors as they finalise their work, in consultation with the Section 151 Officer, and to be notified to other members of the Committee.

2. That the Letter of Representation, as per Appendix B, be approved for signature by the Chief Financial Officer.

<u>Reasons</u>

1 and 2 - To comply with the Accounts and Audit (England) Regulations 2015.

<u>NOTES:</u>

1. The Audit Manager attended the meeting virtually.

2. No reference may be made to these minutes at the next Full Council meeting unless notice to that effect is given to the Democratic Services Manager by five members of the Council by noon on the fifth working day following publication of these minutes.

3. These minutes are subject to confirmation as a correct record at the next meeting of the Audit Committee.

CHARNWOOOD BOROUGH COUNCIL – CODE OF CORPORATE GOVERNANCE

Charnwood Borough Council is fully committed to the principles of good governance, as set out in the 'delivering good governance in Local Government Framework 2016 Edition' (the Framework) produced by CIPFA and SOLACE.

The Council has adopted the core principles and sub-principles as set out in the Framework and which are set out below, together with a summary of how the Council's governance framework seeks to support and achieve them.

The Committee is responsible for overseeing the Council's governance framework and arrangements, including reviewing this Code on an annual basis to ensure it remains relevant, up to date, and in line with best practice.

CORE PRINCIPLES (SHOWN IN BOLD)	SUB-PRINCIPLES (SHOWN IN BOLD), AND HOW CHARNWOOD BOROUGH COUNCIL ACHIEVES THEM WITHIN ITS GOVERNANCE FRAMEWORK
A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law Charnwood Borough Council is accountable not only for how much we spend, but also for how we use the resources under our stewardship. This includes accountability for outputs, both positive and negative, and for the outcomes we have achieved. In addition, we have an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies. It is essential that, as a whole, we can demonstrate the appropriateness of all our actions across all activities and have mechanisms in place to encourage and enforce adherence to ethical values and to respect the rule of law.	**Behaving with integrity** • Codes of Conduct are in place for Members and for Officers • The Member Code of Conduct was approved by full Council, and incorporates the Nolan Principles • There is a Member Conduct Committee which has oversight of the Member Code of Conduct, and which is responsible for ensuring that members behave with integrity • The Member Code of Conduct specifies the requirements for members who have interests in matters under consideration to disclose them and to act appropriately to minimise potential conflicts of interest **Demonstrating strong commitment to ethical values** • There is a process in place to deal with complaints that members many have breached the Code of Conduct, and arrangements for breaches of the Officer Code • There is an agreed and publicised process for people to raise concerns in confidence about fraud, ethics and other issues (whistle-blowing policy) **Respecting the rule of law** • All recommendations for decisions by members are subject to legal consideration and clearance to ensure that they are lawful and procedurally correct • Suitable statutory officer arrangements are in place (head of paid service, monitoring officer, and s151 officer), together with deputies where required

	• The monitoring officer reports any illegal actions or findings of maladministration to members in accordance with statutory requirements • 'Whistle-blowing' arrangements are in place for anyone who wishes to report concerns about corruption, misuse of power, or other serious concerns
B. Ensuring openness and comprehensive stakeholder engagement Local government is run for the public good, and therefore Charnwood Borough Council ensures openness in our activities. Clear, trusted channels of communication and consultation are used to engage effectively with all groups of stakeholders, such as individual citizens and service users, as well as institutional stakeholders.	**Openness** • The Council has adopted a Communications Strategy • Reports to members with recommendations for decisions are supported by comprehensive publicly available reports and background papers, unless there is a justifiable reason why any information should be treated as exempt (ie. kept confidential) • Meetings at which members debate and make decisions are open to the public, unless there is a justifiable reason why the information being considered should be treated as exempt (ie. members of the public and press excluded) **Engaging comprehensively with institutional stakeholders** • The Council has identified its key partners and has a strategy in place to ensure that we work with them effectively where required to deliver services **Engaging comprehensively with individual citizens and service effectively** • The Council's Communications Strategy sets out when and how we will consult with citizens and service users • Consultation methods are targeted at specific groups where required, and are undertaken using a wide range of access channels
C. Defining outcomes in terms of sustainable economic, social and environmental benefits The long-term nature and impact of many of Charnwood Borough Council's responsibilities mean that it should define and plan outcomes and that these should be sustainable. Decisions should further the Council's purpose, contribute to intended benefits and outcomes, and remain within the	**Defining outcomes** • The Council has a four year Corporate Strategy setting out its vision and intended outcomes for the Borough • Each year the Council approved an annual Corporate Delivery Plan setting out in detail how the vision within the Corporate Plan will be delivered, including objectives and relevant performance indicators • Each year the Council updates its medium term financial strategy, which is designed as a financial planning tool to ensure that the outcomes within the Corporate Strategy and Delivery Plan can be delivered within the resources that will be available

limits of authority and resources. Input from all groups of stakeholders, including citizens, service users, and institutional stakeholders, is vital to the success of this process and in balancing competing demands when determining priorities for the finite resources available.	• The Council operates a strategic risk register which identifies the high level strategic risks that could impact on the ability of the Council to deliver its key services and outcomes **Sustainable economic, social and environmental benefits** • The Council considers economic, social and environmental impacts when making decisions, including undertaking and publishing equality impact assessments to ensure that fair access to services is achieved
D. Determining the interventions necessary to optimise the achievement of the intended outcomes Charnwood Borough Council achieves its intended outcomes by providing a mixture of legal, regulatory, and practical interventions (courses of action). Determining the right mix of these courses of action is a critically important strategic choice that the Council has to make to ensure intended outcomes are achieved. We have robust decision-making mechanisms to ensure that our defined outcomes can be achieved in a way that provides the best trade-off between the various types of resource inputs while still enabling effective and efficient operations. Decisions made are reviewed frequently to ensure that achievement of outcomes is optimised.	**Determining interventions** • Councillors making decisions receive detailed reports from officers with recommendations which are supported by an objective and rigorous analysis of options, including the financial and resource implications and the associated risks • Where appropriate consultation is undertaken with citizens and stakeholders, and their feedback is taken into account when making decisions **Planning interventions** • The Council has a schedule setting out the periods covered by all its key strategies and policies and the dates on which they are due to be reviewed and updated • Where appropriate, during the development and updating of policies and strategies key performance indicators and risks are identified • The medium term financial strategy is reviewed and updated annually to ensure that realistic estimates are available for a sustainable funding strategy **Optimising achievement of intended outcomes** • The medium term financial strategy integrates and balances service priorities, affordability and other resource constraints
E. Developing the Council's capacity, including the capability of its leadership and the individuals within it. Charnwood Borough Council needs appropriate structures and leadership, as well	**Developing the Council's capacity** • Heads of Service are responsible for reviewing operations, performance and use of assets within their service areas on an ongoing basis to ensure their continuing effectiveness

as people with the right skills, appropriate qualifications and mindset, to operate efficiently and effectively and achieve intended outcomes within the specified periods. The Council must ensure that it has both the capacity to fulfil its own mandate and to make certain that there are policies in place to guarantee that its management ha the operational capacity for the organisation as a whole. Because both individuals and the environment in which the Council operates will change over time, there will be a continuous need to develop our capacity as well as the skills and experience of individual staff members. Leadership in local government is strengthened by participation of people with many different types of backgrounds, reflecting the structure and diversity of communities.	• The Council's Scrutiny Committees have responsibility for reviewing the Council's services through tools such as benchmarking in order to ensure that outcomes are being achieved efficiently and effectively • The Council has a People Strategy which is designed to ensure its workforce is developed and maintained to face the current and future needs of the Council **Developing the capability of the Council's leadership and other individuals** • The Constitution sets out the decisions that are delegated to officers and those which are reserved for collective decision making by the relevant committee • The Leader and the Chief Executive have a clear and shared understanding of their respective leadership roles and responsibilities • Officers have regular personal reviews which include an assessment of their ongoing training and development needs, and there is also a corporate training programme to ensure that corporate development needs are identified and delivered • There is a Member Development Member Reference Group of Councillors who oversee the member development programme, which provides regular training and development opportunities for all Councillors • The Council has achieved the East Midlands Member Development Charter, demonstrating its commitment to the importance of training and development for its Councillors • Officers have access to a free and confidential counselling service
F. Managing risks and performance through robust internal control and strong public financial management Local government needs to ensure that the organisations and governance structures that it oversees have implemented, and can sustain, an effective performance management system that facilitates effective and efficient delivery of planned services. Risk management and internal control are important and integral parts of a performance	**Managing risk** • There is a risk assessment framework for all decisions taken by Councillors and by officers under delegated authority, and any risks identified and recorded, assessed and mitigating actions are set out where appropriate • The Council has a two tier risk management system, consisting of a high level strategic risk register which is approved annually by Cabinet and monitored by the Audit Committee, and operational risk registers which are included within service team plans **Managing performance** • Scrutiny Committees have responsibility for overseeing the Council's performance in delivering its agreed outcomes and targets for key per performance indicators, and for

management system and are crucial to the achievement of outcomes. Risk should be considered and addressed as part of all decision making activities. A strong system of financial management is essential for the implementation of policies and the achievement of intended outcomes, as it will enforce financial discipline, strategic allocation of resources, efficient service delivery and accountability. It is also essential that a culture and structure for scrutiny are in place as a key part of accountable decision making, policy making and review. A positive working culture that accepts, promotes and encourages constructive challenge is critical to successful scrutiny and successful service delivery. Importantly, this culture does not happen automatically, it requires repeated public commitment from those in authority.	scrutinising policies and strategies as they are developed and before they are subject to decisions to implement them • The Scrutiny Commission has responsibility for pre-decision scrutiny of Cabinet reports • Quarterly performance reports monitoring delivery of the annual Business Plan are produced and are considered by the Senior Leadership Team and by the Finance & Performance Scrutiny Committee **Robust internal control** • The Audit Committee has responsibility for regularly reviewing and monitoring the Strategic Risk Register, overseeing the work of external and internal audit, and for reviewing the adequacy of the internal control system • The Audit Committee is independent of Cabinet, and is chaired by an independent person who is not an elected Councillor • The Council has an internal audit team which is staffed by suitably qualified and experienced officers, and which conducts a regular review of risks and internal controls within an annual audit plan **Managing data** • The Council has designated the Director of Finance, Governance & Contracts as its Information Security Manager, ensuring that responsibility for the management of data and information security rests at senior management level • The Council has appointed a Data Protection and Information Security Officer • Information and data protection security breaches and incidents are monitored on a quarterly basis by the Corporate Leadership Team **Strong public financial management** • All decisions taken by Councillors and by officers under delegated powers are subject to financial review and clearance, with the financial implications of the decisions being recorded • There is a robust system of monitoring and reporting of both revenue and capital budgets and plans, including consideration by the Council's scrutiny function

G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability Accountability is about ensuring that those making decisions and delivering services are answerable for them. Effective accountability is concerned not only with reporting on actions completed, but also ensuring that stakeholders are able to understand and respond as the Council plans and carries out its activities in a transparent manner. Both external and internal audit contribute to effective accountability.	**Implementing good practice in transparency** • Reports are made available to the public and other stakeholders via the Council's website, unless they are classed as exempt • The Council has a dedicated page on its website where open data and all information required under the local government data transparency code is readily available **Implementing good practices in reporting** • The Council publishes an overall Annual Report each year setting out progress against achieving objectives and key performance measures • The Council also produces and makes available a number of other reports on an annual basis, including the statement of accounts and the annual governance statement, and an report on the work and achievements of the scrutiny function **Assurance and effective accountability** • The Audit Committee has responsibility for ensuring the any recommendations for corrective action made by external audit are acted on, and also for monitoring the implementation of recommendations made by internal audit • The Council welcomes external challenge and reviews, and has achieved several external accreditations including 'Customer Service Excellence' and 'Investors in People'

Version History
Compiled: August 2017
Updated: July 2019 (to reflect changes in the Scrutiny structure and the revised risk management framework)
Updated: November 2021 (to reflect changes in the Scrutiny structure and job titles)
Updated: November 2022 (to reflect changes in job titles following a senior leadership review and amendments requested by the Audit Committee)

mazars

Mazars LLP
2 Chamberlain Square
Birmingham
B3 3AX

Audit Committee
Charnwood Borough Council
Southfield Road
Loughborough
Leicestershire
LE11 2TX

Direct Dial +44 (0)7875 974291
Email mark.surridge@mazars.co.uk

13 January 2023

Dear Committee Member

Charnwood Borough Council Audit Completion Report 2021/22 – update

Following on from the Committee's 22 November 2022 meeting I am writing to update, in the table below, the Committee members of those matters that were reported within the Charnwood Borough Council Audit Completion Report dated November 2022. We have included at Appendix 1 other reporting matters in addition to those set out in our original Audit Completion Report to the Committee. This report confirms there are no significant weakness to report at this stage in relation to the Council's VFM arrangements and our VFM commentary will be included in the separate Auditor's Annual Report later in the year.

Matter included in our Audit Completion Report	Update/Conclusion reached
Pensions	The audit work is now complete, but not without challenges arising from delays caused by third party assurance letters. On 24 November we received the assurance report provided to us by the auditor of the pension fund, and only then were we able to perform the necessary audit work on the findings. As set out in Appendix 1 to this letter, the impact of this, plus other residual work led to an unadjusted immaterial misstatement to the financial statements.
Land, Buildings and Investment Property valuations	The audit work is now complete. We have summarised at Appendix 1 to this letter a matter arising from the work, an adjusted audit misstatement and a prior period adjustment.
Review of residual audit evidence	The audit work is now complete, and other than the additional points included in Appendix 1 there are no specific matters that we are required to report.
Whole of Government Accounts (WGA)	The National Audit Office (NAO) has still not confirmed its requirements and as indicated in our Audit Completion Report, the Audit Certificate has not yet been issued for 2021/22.
Audit Quality Control and Completion Procedures	This process is complete and other than the additional points included in Appendix 1 there are no specific matters that we are required to report.

The Auditor's Annual Report, including the Value for Money Commentary

We provided the Committee in our Audit Completion Report with a summary of our responsibilities in relation to Value for Money. We expect to submit our Annual Auditor's Report to the Committee's within three months of signing the audit report. There are no additional matters in respect of the Council's arrangements for securing value for money that I need to bring to your attention in this letter.

Audit Certificate

I can confirm that we have not yet issued the 2021/22 Audit Certificate for the reasons set out in our Audit Completion Report (ie the NAO's delay in confirming its WGA requirements for 2020/21 and 2021/22 and the timing of the Annual Auditor's Report). We expect to issue the certificate once these matters are concluded.

Yours sincerely

Mark Surridge
Key Audit Partner
For and on behalf of Mazars LLP

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Appendix 1

Unadjusted Audit Misstatements

Management decided not to adjust the Statement of Accounts for these items on the grounds of materiality, which was confirmed in the Letter of Management Representation we received before we gave our Audit Opinion:

Details of unadjusted items	Accounting entries	Assets £000	Liabilities £000	Unusable Reserves £000	Useable Reserves £000	Income statement £000
We received a report from the pension fund auditor on 24 November 2022 reporting a significant understatement in pension fund assets which was not provided to the actuary. The adjustment represents the Council's estimated share of that understatement in asset values.	Debit: Net pension liability		465			
	Credit: Pension fund reserve			(465)		
		-	**465**	**(465)**	**-**	**-**

Adjusted Audit Misstatements

During the audit we requested some presentation adjustments to the financial statements. In addition, the following adjustments have been made by Officers:

Details of adjustment	Accounting entries	Assets £000	Liabilities £000	Unusable Reserves £000	Useable Reserves £000	Income statement £000
The Council dwellings valuation per draft accounts (balance sheet) does not agree to the Valuers Report. We identified a variance £7,266k as a result of error on council dwellings (HRA) asset register.	Debit: council dwellings	7,266				
	Credit: Unusable reserves			(7,266)		
		7,266	**-**	**(7,266)**	**-**	**-**

Adjusted Prior Period Audit Misstatements

It was identified that the floor areas records held by the authority were incorrect. An independent valuer then remeasured the floor areas, where the differences in the floor areas is more than 20sqm the valuations was performed on the basis of new floor areas, keeping other assumptions constant. This has led to an adjustment of £3,983k. This has affected both the current years financial statements and led to a prior period adjustment – we have noted below the changes that have occurred in the statement of accounts from the draft version to the final set. Due to the nature of the changes it has hit a number of the notes in the accounts so we have just highlighted the changes in the Balance Sheet below.

2020/21			Balance sheet area	2021/22		
Previous figure £000	**Updated figure £000**	**Change £000**		**Previous figure £000**	**Updated figure £000**	**Change £000**
57,164	53,181	(3,983)	Other Land and Buildings	62,406	58,423	(3,983)
(206,286)	(202,303)	3,983	Unusable reserves	(262,750)	(266,034)	(3,284)

The 2021/22 unusable reserves figure has changed by (£3,284k) as opposed to £3,983k due to the above £7,266k adjustment also impacting on unusable reserves.

Internal control point

Description of deficiency We have also noted that the Council do not follow the IFRS9 expected credit loss model in calculating bad debt and instead apply a percentage based on risk. We have confirmed that this would not lead to a material misstatement however the Council are not currently operating in line with the applicable regulations.
Potential effects Increased risk of incorrect bad debt provision recorded within the accounts and the Council has underestimated their liability.
Recommendation The Council should update the provision calculation method so that it falls in line with IFRS9 expected credit loss model.

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Appendix 2 – Final Form of Opinion

Independent auditor's report to the members of Charnwood Borough Council

Report on the audit of the financial statements

Opinion on the financial statements

We have audited the financial statements of Charnwood Borough Council ("the Council) for the year ended 31 March 2022, which comprise the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Movement in Reserves Statement, the Cash Flow Statement, HRA Income and Expenditure Statement and Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22. In our opinion, the financial statements:

- give a true and fair view of the financial position of the Council as at 31st March 2022 and of its expenditure and income for the year then ended; and

- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Strategic Director of Environmental and Corporate Services and S.151 Officer's, as the Chief Financial Officer, use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Council's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Strategic Director of Environmental and Corporate Services and S.151 Officer's as the Chief Financial Officer with respect to going concern are described in the relevant sections of this report.

Other information

The Strategic Director of Environmental and Corporate Services and S.151 Officer (the Chief Financial Officer) is responsible for the other information. The other information comprises the Annual Governance Statement and information included in the Statement of Accounts, other than the financial statements and our auditor's report there on.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Chief Financial Officer for the financial statements

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Strategic Director of Environmental and Corporate Services and S.151 Officer's, as the Chief Financial Officer, is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices asset out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, and for being satisfied that they give a true and fair view. The Strategic Director of Environmental and Corporate Services and S.151 Officer, as the Chief Financial Officer, is also responsible for such internal control as Strategic Director of Environmental and Corporate Services and S.151 Officer (as the Chief Financial Officer) determines is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

The Strategic Director of Environmental and Corporate Services and S.151 Officer, as the Chief Financial Officer, is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and prepare the financial statements on a going concern basis on the assumption that the functions of the Council will continue in operational existence for the foreseeable future. The Strategic Director of Environmental and Corporate Services and S.151 Officer as the Chief Financial Officer is responsible for assessing each year whether or not it is appropriate for the Council to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the Council, we identified that the principal risks of non-compliance with laws and regulations related to the Local Government Act 2003 (and associated regulations made under section 21), the Local Government Finance Acts of 1988, 1992 and 2012, and the Accounts and Audit Regulations 2015, the Local Government and Housing Act 1989 and we considered the extent to which non-compliance might have a material effect on the financial statements.

We evaluated the Strategic Director of Environmental and Corporate Services and S.151 Officer incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions.

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements. Our audit procedures included but were not limited to:

- discussing with management and the Audit Committee the policies and procedures regarding compliance with laws and regulations;
- communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- considering the risk of acts by the Council which were contrary to applicable laws and regulations, including fraud.

Our audit procedures in relation to fraud included but were not limited to:

- making enquiries of management and the Audit Committee on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud;
- discussing amongst the engagement team the risks of fraud; and
- addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management and the Audit Committee. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

We are also required to conclude on whether the Strategic Director of Environmental and Corporate Services and S.151 Officer's (the Chief Financial Officer) use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, and Supplementary Guidance Note 01, issued by the National Audit Office in September 2021.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception

We are required to report to you if, in our view, we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

We have not completed our work on the Council's arrangements. On the basis of our work to date, having regard to the guidance issued by the Comptroller and Auditor General in December 2021, we have not identified any significant weaknesses in arrangements for the year ended 31 March 2022.

We will report the outcome of our work on the Council's arrangements in our commentary on those arrangements within the Auditor's Annual Report. Our audit completion certificate will set out any matters which we are required to report by exception

Responsibilities of the Council

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our work in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in December 2021.

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Use of the audit report

This report is made solely to the members of Mansfield District Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed:

- the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack for the year ended 31 March 2021, and consequently conclude the audit and issue the certificate for that period;

- the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack for the year ended 31 March 2022; and

- the work necessary to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

[*Signature*]

Mark Surridge, Key Audit Partner
For and on behalf of Mazars LLP

Birmingham, UK

[Insert date]

AUDIT COMMITTEE – 31st JANUARY 2023

Report of the Head of Governance & Human Resources

Part A

ITEM 6 COUNCIL'S USE OF REGULATORY OF INVESTIGATORY POWERS ACT (RIPA)

Purpose of Report

The purpose of this report is to provide the Committee with a summary of the Council's use of RIPA powers.

Recommendation

The Committee notes that there has been no use of RIPA powers by the Council for the period from 1 October 2022 to 31 December 2022.

Reason

To enable the Committee to comply with the request from Cabinet that the Audit Committee assumes responsibility for receiving a quarterly report on the use of RIPA, and to report to Cabinet any concerns arising from those reports that may indicate that the use of RIPA is not consistent with the Policy or that the Policy may not be fit for purpose.

Policy Justification and Previous Decisions

The use of RIPA to conduct covert surveillance in appropriate instances supports many of the Council's enforcement and anti-fraud policies. The Home Office Code of Practice, which relevant bodies are obliged to follow when using RIPA, requires that elected Members should consider reports on the use of RIPA on at least a quarterly basis to ensure that is it being used consistently with the policy and the policy remains fit for purpose.

Implementation Timetable including Future Decisions

Reports will continue to be submitted to the Committee on a quarterly basis.

Report Implications

The following implications have been identified for this report.

Financial Implications

None.

Risk Management

There are no risks associated with this decision.

Background Papers:	None
Officer to contact:	Adrian Ward Head of Governance & Human Resources (01509) 634573 adrian.ward@charnwood.gov.uk

Part B

Background

1. RIPA provides for the authorisation of covert surveillance by the Council where that surveillance is likely to result in the obtaining of private information about a person.

2. Surveillance includes monitoring, observing or listening to persons, their movements, conversations or other activities and communications. Surveillance is covert if it is carried out in a manner calculated to ensure that any persons who are subject to the surveillance are unaware that it is or may be taking place.

3. The Council only has the power to authorise covert surveillance under RIPA for the purpose of preventing or detecting crime, or of preventing disorder. Since 2012, RIPA applications are required to be approved by a Justice of the Peace (JP) at the Magistrates' Court in addition to the existing application and authorisation process. The amendments in the Protection of Freedoms Act 2012 mean that local authority authorisations and notices under RIPA for the use of particular covert investigation techniques can only be given effect once an order approving the authorisation or notice has been granted by a Justice of the Peace (JP).

4. At its meeting on 10th February 2022 Cabinet agreed to resolve that the Audit Committee continue to assume responsibility for receiving a quarterly report on the use of RIPA, and to report to Cabinet any concerns arising from those reports that may indicate that the use of RIPA is not consistent with the Policy or that the Policy may not be fit for purpose. This Committee will therefore continue to receive a regular report on the Council's use of RIPA powers.

5. During the period from 1st October 2022 to the 31st December 2022 the Council made no use of RIPA powers.

6. The Committee has the option to report to Cabinet any concerns arising from RIPA monitoring reports that may indicate that the use of RIPA is not consistent with the Council's RIPA Policy or that the Policy may not be fit for purpose.

AUDIT COMMITTEE – 31 January 2023

Report of the Head of Strategic Support

Part A

ITEM 7 INTERNAL AUDIT PROGRESS REPORT Q3 2022-23

Purpose of Report

The report summarises the progress against the 2022/23 Audit Plan, outlining key findings from final reports and any outstanding recommendations.

Recommendation

The Committee notes the progress report set out in Appendix 1.

Reason

To ensure the Committee is kept informed of progress against the Internal Audit plan and work of Internal Audit.

Policy Justification and Previous Decisions

The Accounts and Audit Regulations 2015 state (Regulation 5(1)) that the relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the Public Sector Internal Audit Standards and any appropriate guidance.

Implementation Timetable including Future Decisions

Reports will continue to be submitted to the Committee on a regular basis.

Report Implications

The following implications have been identified for this report.

Financial Implications

None

Risk Management

There are no specific risks associated with this report.

Background Papers: Public Sector Internal Audit Standards

Officers to contact: Adrian Ward
Head of Governance & Human Resources
(01509) 634573
adrian.ward@charnwood.gov.uk

Kerry Beavis
Audit Manager
(01509) 634806
kerry.beavis@charnwood.gov.uk

INTERNAL AUDIT SHARED SERVICE

Charnwood Borough Council

Internal Audit Progress Report 2022/23 Q3

Introduction

1.1 Internal Audit is provided through a shared service arrangement by North West Leicestershire District Council. The assurances received through the Internal Audit programme are a key element of the assurance framework required to inform the Annual Governance Statement. The purpose of this report is to update on Internal Audit activity during 2022/23 Q3.

2. Internal Audit Plan Update

2.1 The 2022/23 audit plan is included in Appendix A for information and shows the audits in progress. Since the last update report two final and two draft audit reports have been issued from the 2022/23 plan.

- Planned & Cyclical Maintenance Q1 – Reasonable Assurance
- Housing Repairs Q2 (Routine Repairs) – Limited assurance

The Housing Repairs Q2 audit was issued with a limited assurance opinion, with three high, four medium and one low recommendation being made covering:

- Procedure guides
- Systems management.
- Charges for key safe installation.
- Management of backlogs of routine repairs.
- Performance monitoring.

The executive summaries for these reports are included at Appendix B

Two audits at draft stage – S106 agreements and Debtors.

2.2 The audits due to take place in Q4 are:

- Planned & Cyclical Maintenance Q4
- Responsive Repairs Q4
- Town Hall

3.0 Outstanding Recommendations

3.1 Internal Audit monitor and follow up critical, high and medium priority recommendations. There are 9 overdue recommendations which are detailed in Appendix C for information.

4.0 Internal Audit Performance Indicators

4.1 Progress against the agreed Internal Audit performance indicators is included in Appendix D. There are no areas of concern to highlight.

5.0 Audit Team Structure & Reporting Lines

5.1 A request was made at the audit committee on 8 November 2022 to circulate s reporting and structure chart for the internal audit service. This can be found at Appendix E.

APPENDIX A

AUDIT PLAN AS AT 31st DECEMBER 2022

Audit Area	Type	Planned Days	Actual Days	Status	Assurance Level	Recommendations				Comments
						C	H	M	L	
Disabled Facilities Grants	Certification	6	3	Completed	N/A	-	-	-	-	
S106 Agreements	Audit	6	17	Draft						
Open Spaces Contract Management	Audit	7	10	Completed	Substantial	-	-	1	-	
Town Hall	Audit	10		Q4						
Key Financial Systems										
• Benefits	Audit	3	0.5	In progress						
• Council Tax	Audit	3	1	In progress						
• NNDR	Audit	8	6	In progress						
• Income Collection	Audit	3	0.5	In progress						
• Creditors	Audit	8	11.5	In progress						
• Debtors	Audit	3	5.5	Draft						
• Main Accounting/ Budgetary Control	Audit	8		Q4						
• Payroll	Audit	3	0.5	In progress						
• Rent Accounting	Audit	3		Q4						
• Treasury Management	Audit	3		Q4						
Capital Programmes	Audit	10	1.5	In progress						
Covid-19 related assurance work	Assurance	20	18	As required						
Benefits Subsidy	Assurance	60	45	Completed	N/A	-	-	-	-	
Planned & Cyclical Maintenance Q1	Audit	8	8	Completed	Reasonable	-	-	2	-	
Planned & Cyclical Maintenance Q2	Audit	8	8	In progress						

Planned & Cyclical Maintenance Q3	Audit	8		Q3						Moved to 23/24 – due to the timing of the mobilisation of the contractors.
Planned & Cyclical Maintenance Q4	Audit	6		Q4						Moved to 23/24 – due to the timing of the mobilisation of the contractors.
Responsive Repairs Q1	Audit	8	12	Completed	Limited	-	8	2	-	
Responsive Repairs Q2	Audit	8	13	Completed	Limited	-	3	4	1	
Responsive Repairs Q3	Audit	8		Q3						
Responsive Repairs Q4	Audit	6		Q4						Moved to 23/24 – due to the timing of the mobilisation of the contractors.
Workforce Planning	Audit	10	1	In progress						
National Fraud Initiative	Non audit	20	1	As required						
IT Key Controls Audit	Audit	10		IT Audit Contractor						In progress
IT Cyber Security	Audit	10		IT Audit Contactor						In progress

Key to Status Column

Status	Detail
Q1 (e.g.)	The expected quarter that the audit will start.
Planning	The audit is being planned and the engagement plan is currently being developed and agreed.
In progress	The audit has started, and field work has commenced.
Drafting	Field work has been completed and the report is being written.
Draft	The draft audit report has been issued to relevant officers.
Completed	The draft report has been agreed and final reports have been issued.
IT Audit Contactor	The audit is being carried out by an IT audit contractor, due to the specialist nature of these audits.

Planned & Cyclical Maintenance Q2

REASONABLE ASSURANCE	
	A generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

Key Findings

The contract with CLC Group Ltd commenced on the 1st April 2022, however the contract was not mobilised until September 2022. This was due to a delay in the contractor providing a tailored and detailed construction phase health and safety plan, which could not be provided until the work programme and site information was in place. Due to the delay in contract mobilisation Audit have unable to complete some elements of testing, therefore the opinion given is based on the testing that has been carried out and cover all risks associated with the control objectives and risks identified for this area.

Areas of positive assurance identified during the audit:

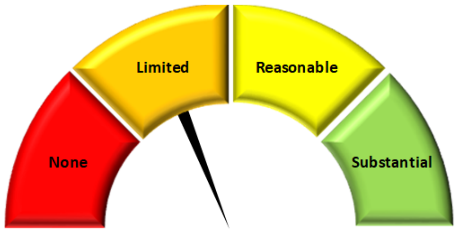
- The work programme and property files are accessible to both parties.
- Pre-inspections and work in progress inspections had been completed and recorded.
- The appropriate certificates and documentation are received from the contractor, filed and are easily accessible, to the point in the process that was tested.

The main areas identified for improvement are:

- Detailed written procedure guides are not in place for key processes.

Recommendation	Priority	Response/Agreed Action	Officer Responsible	Implementation Date
The council's website is updated to reflect the current Adaptions Policy.	Medium	The website was updated following receipt of the draft report.	Director of Housing and Wellbeing	With immediate effect.
Workflow processes are reviewed and updated. Key procedures are documented to support the workflow processes, as necessary, and should support relevant policies and the residents' handbook. The procedures and processes are made accessible to staff.	Medium	Agreed as per recommendation.	Principal Officer – Investment and Programme Delivery	April 2023

Housing Repairs Q2 (Routine Repairs)

LIMITED ASSURANCE	
	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.

Key Findings

The main areas identified for improvement are:

- Some routine repair lead times of 28 days have been amended to 90 days, but this target is still not being met on a consistent basis.
- Failure to ensure remedial works were completed and/or accurately recorded has resulted in successful disrepair claims.
- The recharge cost for installing key safes, at private residences, has not been reviewed.
- Historic data held on the housing management system (QL) is resulting in duplication of work.

Recommendation	Priority	Response/Agreed Action	Officer Responsible	Implementation Date
1. Target dates detailed in the Tenants Repair Guide should accurately reflect the amended target dates set by the authority, which need be comply with legislative dates set for repairs.	High	A review of the Tenants Repair Guide is currently in progress. Additionally, the electronic system will be checked to ensure that all repair timescales are in line with legislation.	Repairs and Investment Manager	March 2023
2. Management undertake a review of routine repair orders to establish the extent of the backlog, trends and the reasons behind delays in fulfilling our repairs obligations. Based on the findings a course of action should be establish, documented and executed.	High	The service has undertaken multiple failed recruitment processes for operative resources. Additional contracts have been brought on board to support delivery, including T&S Heating Ltd to support general works, and Newey Electrical Installations Ltd to support electrical works. Monitoring and analysis of repairs not completed in target timescales will be undertaken on a monthly basis.	Repairs and Investment Manager	April 2023
3. Procedures are put in place to ensure that the repairs team accelerate matters, particularly following inspections, follow up reports (from contractors and operatives) and where defect notices and complaints are received, these should all be fully investigated, action taken and appropriately documented.	High	A new process for capturing works needed as a follow on from inspections will be put in place. A disrepair works completion tracker has been designed and will be utilised going forward. Operatives now have to complete a works completion survey at the close of each job. This will support an accurate record of completed works.	Principal Officer – Repairs and Maintenance	March 2023

4. Order monitoring processes are put in place to ensure orders (including contractor orders) are appropriately progressed, completed or cancelled.	Medium	In addition to the above a process will be introduced to identify stagnant orders.	Principal Officer – Repairs and Maintenance	January 2023
5. Management review the cost of installing key safes and ensure the full cost (materials and labour) is recouped through the lifeline payments package.	Medium	Agreed.	Principal Officer - Repairs and Maintenance	January 2023
6. A review is undertaken to ensure obsolete supplier ids are disabled from the system and training is given to all those raising orders to reiterate the impact of using incorrect supplier identification numbers.	Medium	Agreed.	Repairs and Investment Manager	February 2023
7. Management consider including financial penalties to future contracts.	Low	Financial penalties will be considered going forward.	Repairs and Investment Manager	March 2023
8. Management consider introducing a KPI to manage and monitor the aged repairs orders.	Medium	Agreed.	Principal Officer - Repairs and Maintenance	March 2023

RECOMMENDATIONS TRACKER – OVERDUE RECOMMENDATIONS AS AT 31st DECEMBER 2022 (CRITICAL, HIGH AND MEDIUM PRIORITY)

Audit Year	Audit	Recommendation	Priority	Response/ Agreed Action	Responsible Officer	Due Date	1st Follow up comments	Ext Date	2nd Follow up comments	2nd Ext Date	Further Management update	Further Extension Date
2021/22	Choice Based Lettings	4. A review of all applications within the register where banding has expired is undertaken to identify applicants whose banding needs to be extended or reduced and whether their circumstances have changed, in accordance with housing allocation policy.	High	Agreed	Housing Needs Manager and Housing Allocations Team Leader	Dec-22	No response received.					
2021/22	Choice Based Lettings	7. An exercise is completed to ensure all active applicants have an appropriate band expiry date recorded on the system.	High	Agreed	Housing Needs Manager and Housing Allocations Team Leader	Dec-22	No response received.					

2021/22	Choice Based Lettings	9. Officers ensure that there is a process in place to carry out regular reviews of banding, as per the policy.	High	Agreed in conjunction with recommendation 4	Housing Needs Manager and Housing Allocations Team Leader	Dec-22	No response received.					
2021/22	Commercial Lettings	1. A full set of procedure documents should be in place which cover all key aspects of the Commercial Lettings area.	Medium	Agreed to implement local procedures to cover areas.	Strategic Asset Manager, Business Centre / Ind Managers and Senior Property and Asset Officer.	Dec-21	No response received	Mar-22	No response received	Apr-22	Currently drawing up a new set of templates to be used. The procedure documents will then follow.	Nov-22
2021/22	Commercial Lettings	2. Increases in rent charges should be calculated in line with Section 7 of the lease agreement. Details of how the increase has been calculated should be retained. The decision as to whether or not to increase rents should be formally documented and	Medium	Flat 3% increase applied for 3 years to 20/21 due to no previous increases being made. Going forward rent increases will be carried out in line with the lease agreement.	Strategic Director of Commercial Development, Asset and Leisure and Strategic Asset Manager.	Apr-22	No response received	May-22	No response received	Jun-22	As at 11th August 2022 no rent reviews have been completed but work is being carried out to review the rents.	Nov-22

		appropriately agreed.										
2021/22	Commercial Lettings	3. A valuation of the Commercial Units should be undertaken in order to compare the rents currently charged for units to market rents. This exercise should be repeated at regular intervals, e.g. every five years, to provide assurance that the rents charged are in line with achievable income.	Medium	Agreed – will instruct external company for a comparable to be carried out.	Strategic Director of Commercial Development, Asset and Leisure and Strategic Asset Manager.	Apr-22	No response received	May-22	No response received	Jun-22	No progress has been made in relation to this.	Dec-22

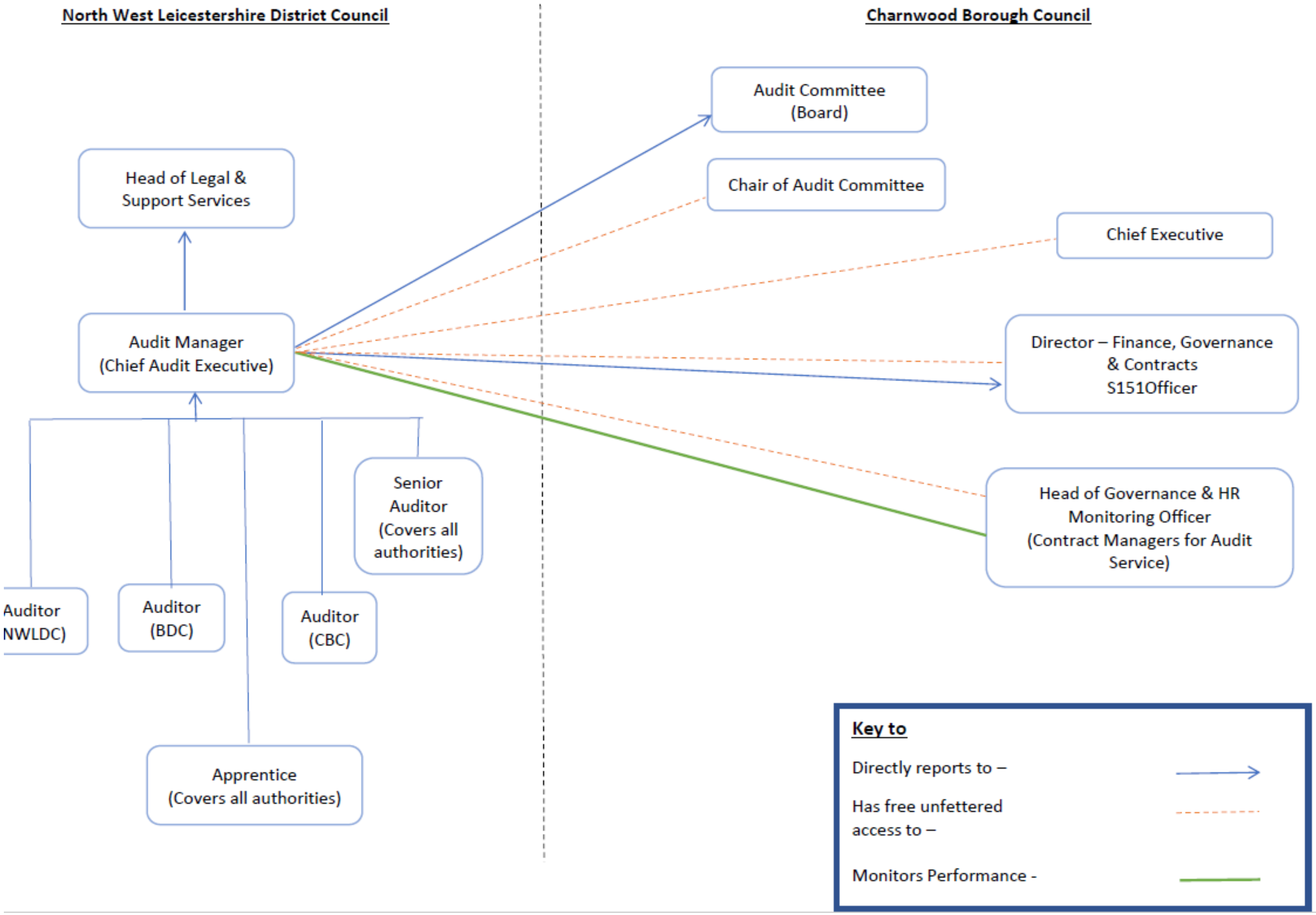
2021/22	Commercial Lettings	4. A breakdown of all service costs is calculated to ensure it covers all rechargeable cost, as per the lease agreement. This is then provided to the tenant two months prior to the service charge review date, again, as per the lease agreement.	High	Agreed, a process will be implemented across all teams. As leases expire these will be reviewed and brought into line with the process.	Strategic Director of Commercial Development, Asset and Leisure and Strategic Asset Manager.	Apr-22	No response received	May-22	No response received	Jun-22	As at 11th August 2022 no rent reviews have been completed but work is being carried out to review the rents.	Nov-22
2021/22	Commercial Lettings	6. The performance measures report showing occupancy rates should be provided to Management on a regular basis e.g. monthly / quarterly as agreed	Medium	Agreed	Strategic Asset Manager	Dec-22	No response received					

2019/20	Absence Management	4.1 All staff with absence management responsibilities (e.g. line managers and Heads of Service) should attend a training session delivered by the HR team to discuss discretion and how and when it can be applied. The session should address the application of manager discretion to the absence management policy and aim to clarify when it is and is not appropriate to apply discretion.	Medium	HR to include absence management in their next briefing sessions	Organisational Development Manager	Apr-21		Dec-21	Original Implementation date was April 2021. No progress reported since April 2021 when advised that HR had not scheduled an Absence Management Briefing Session.	Apr-22	A general HR policy update will be offered to managers, including Absence Management by the end of 2022. It may be noted that absences are at historically low levels and also that HR provide 1-2-1 support to managers where specific cases require further support.	Dec-22

INTERNAL AUDIT PERFORMANCE INDICATORS

PERFORMANCE MEASURE	POSITION AS AT 31st DECEMBER 2022	COMMENTS
Delivery of 2022/23 Audit Plan	31%	
Percentage of Client Satisfaction with the Internal Audit Service	100%	2 responses received for 2022/23
Compliance with the Internal Audit Standards	Conforms	Inspection took place w/c 30 November 2020. Internal Audit Service conforms to the Public Sector Internal Audit Standards.
Compliance testing of completed recommendations	100%	

Reporting Lines for Internal Audit Shared Service



AUDIT COMMITTEE – 31st January 2023

Report of the Head of Transformation, Strategy and Performance

Part A

ITEM 8 RISK MANAGEMENT (STRATEGIC RISK REGISTER) UPDATE

Purpose of Report

The purpose of this report is to provide the Committee with details of the Strategic Risk Register produced for the period to 2022/23.

Recommendation

The Committee notes the report.

Reason

To ensure the Committee is kept informed of progress against the Strategic Risks. Noting that should they occur they would cause the Council to be unable to operate and/or provide key services leading to a significant effect on public wellbeing.

Policy Justification and Previous Decisions

The Strategic Risk Register was approved by Cabinet on the 10th February 2022.

Cabinet resolved that the Audit Committee monitor progress against those risks on the register by receiving and considering reports on a quarterly basis.

Implementation Timetable including Future Decisions

Reports will continue to be submitted to the Committee on a quarterly basis.

Report Implications

The following implications have been identified for this report.

Financial Implications

None

Risk Management

There are no specific risks associated with this decision.

Background Papers:	Cabinet Report 10th February 2022 – Item 11 Audit Committee Report – 4th May 2022 – Item 8 Audit Committee Report – 15th February 2022 – Item 6 Audit Committee Report – 12th July 2022 – Item X Audit Committee Report – 8th November 2022 – Item X
Officers to contact:	Helen Gretton Head of Transformation, Strategy and Performance (01509) 634556 helen.gretton@charnwood.gov.uk

Part B

Background

1. In accordance with the work programme the Committee receives quarterly monitoring reports regarding the Council's risk management arrangements. The reports provide a detailed commentary against the risks included in the Strategic Risk Register and identify any changes to the risk rating and any updated treatments and controls.

Development of the Strategic Risk Register

2. In reading the risk registers attached in the appendices, it is important to understand that the 'Overall Score' shown in the first risk matrix is the risk that the Council would bear if ***no*** actions were taken to mitigate the risk – the inherent risk. In the vast majority of cases the Council is able to operate risk mitigation processes which result in the lower 'Net Risk Score' shown in the second risk matrix it is this latter score which represents the current assessment of strategic risks faced by the Council, this is the residual risk.

3. The registers continue to be monitored and reviewed by the Senior and Corporate Leadership Teams at the quarterly Risk Management Group (RMG) meetings, and are updated as required. The most recent meeting of the RMG was 7th December 2022.

4. The following notable changes were made to the Strategic Risks at that meeting;

Risk		**Section**	**Details**
SR1	Business Continuity	Planned Future Actions	Op Lemur (power outage) session at CLT in early 2023
SR3	Financial Resources	Current Treatments and Controls	Establishment of Financial Pressures group
SR4	Staffing	Current Treatments and Controls	Establishment of Workforce Board and associated work programme
		Planned Future Actions	Review of Agency staff and where they are allocated
		Planned Future Actions	Roll out of the Modern.gov software – by October 2022
SR6	Partnerships	Potential Consequences	Assess the impact of the lightbulb project review
		Current Treatments and Controls	Maintain an overview of the budget situation of key partners within Leicestershire
		Planned Future Actions	Map and register partnerships and shared services
SR7	Data Security	Planned Future Actions	Procure and mobilise document management system in Housing – to be rolled out across the authority

Risk		Section	Details
			Cyber Securing qualification by ICS Manager
SR10	External Factors	Planned Future Actions	Potential Planning changes

5. Attached at **Appendix A** is the updated Strategic Risk Register showing highlighted areas where the above changes are made.

Appendices

Appendix A - Strategic Risk Register 2022/23 – Version 8

Strategic Risk Register
OVERVIEW

RISK		OWNER	INHERENT RISK			RESIDUAL RISK		
			Likelihood	Impact	Total	Likelihood	Impact	Total
SR1	Risk that there is a lack of adequate business continuity and recovery arrangements, leading to major internal and/or external disruption to services in the event of an incident (i.e. major ICT fail, fire etc), resulting in injury and/or loss of life and/or reputation	Director of Finance, Governance and Contracts	3	4	12	3	3	9
SR2	Risk that there is a lack of robust civil contingency arrangements established leading to a failure to respond appropriately to a major incident (e.g. flooding, terrorism etc) resulting in injury and/or loss of life	Chief Executive	4	4	16	3	3	9
SR3	Risk that there is a lack of external funding and/or income generated leading to a reduction in the financial resources available for service provision and/or to fund corporate objectives resulting in not being able to delivery services or being financially solvent	Director of Finance, Governance and Contracts	3	3	9	2	3	6
SR4	Risk that the Council does not attract suitable or capable staff or resources or there is a high sickness level or there are capacity issues from contractors and suppliers leading to a high number of vacancies or staff available resulting in poor service provision	Chief Executive	3	3	9	3	2	6
SR5	Risk that the Council does not follow its own governance procedures leading to failure to deliver services and/or value for money and/or it can be challenged through a legal	Chief Executive	2	3	6	2	2	4

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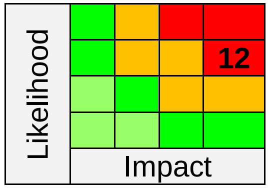
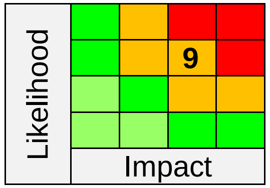
Strategic Risk Register

RISK		OWNER	INHERENT RISK			RESIDUAL RISK		
			Likelihood	Impact	Total	Likelihood	Impact	Total
	process leading to service delivery issues and/or reputation damage and/or criminal charges							
SR6	Risk that partnerships with key stakeholders are not developed or maintained leading to a failure to deliver shared outcomes and a lack of delivery to the public resulting in service delivery issues and/or reputational damage	Chief Executive	2	2	4	1	2	2
SR7	Risk that adequate data sharing and data security arrangements are not implemented leading to an increase in cyber-attacks resulting in service disruption or data loss or damage	Director of Finance, Governance and Contracts	3	3	9	2	3	6
SR8	Risk that the Council does not establish effective strategic communication arrangements leading in the public not being informed about Council activity resulting in reputational damage	Chief Executive	3	3	9	2	3	6
SR9	Risk that the Council does not lead by example and manage the ongoing impact of climate change leading to a lower than anticipated reduction in carbon output	Chief Executive	2	3	6	2	2	4
SR10	Risk that new legislation or external factors cause negative financial or reputational impact on the Council leading to a reduction in service provision (i.e., Environment Bill) resulting in service delivery issues and/or reputational damage	Chief Executive	3	4	12	3	3	9
SR11	Risk that there is an inability to meet increased housing demand arising from inflationary pressures, and asylum and	Chief Executive	3	4	12	3	3	9

RISK		OWNER	INHERENT RISK			RESIDUAL RISK		
			Likelihood	Impact	Total	Likelihood	Impact	Total
	refugee dispersal, in the context of constrained supply of public and private rented sector housing resources, leading to increased homelessness and associated costs, services unable to meet demand, and consequential reputational damage.							

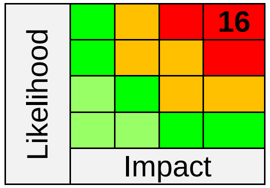
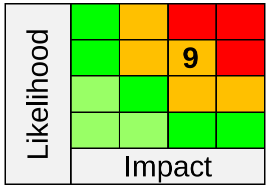
Strategic Risk Register

<table>
<tr><th>Risk Code and Title</th><th>Primary Risk Type</th><th>Potential Consequences</th><th>Inherent Risk Matrix</th><th>Residual (Current) Risk Matrix</th><th>Direction of Travel</th></tr>
<tr><td>SR1-Business Continuity
Risk that there is a lack of adequate business continuity and recovery arrangements, leading to major internal and/or external disruption to services in the event of an incident (i.e. major ICT fail, fire etc), resulting in injury and/or loss of life and/or reputation</td><td>Strategic</td><td>• Inability to deliver key/critical services e.g.benefits, refuse collection, homelessness applications, emergency repairs.
• Reduction in access channels available to residents / customers i.e. contact centre, customer services, telephony</td><td></td><td></td><td>Remains the same</td></tr>
<tr><td>Current Treatments and Controls</td><td colspan="5">• Business Continuity Planning
• IT Disaster Recovery Plan
• Website hosted externally
• Off-site data back-up arrangements
• Stand-by generator for ICS building and back up power for the Southfields site
• Cloud based telephony infrastructure
• Contingency planning for failure of major contractor</td></tr>
<tr><td>Risk Owner</td><td colspan="5">Director of Finance, Governance and Contracts</td></tr>
<tr><td>Planned Future Actions and Responsible Officer(s).</td><td colspan="2"><u>Description</u>:
Op Lemur (power outage) session at CLT in early 2023
Link to work regarding concurrent incidents
Update Business Continuity Plans

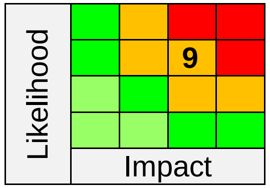
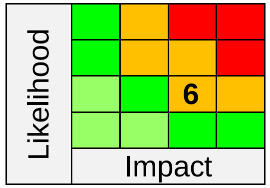
Link to workforce mental health</td><td colspan="2"><u>Responsible Officer</u>:
Head of Governance and HR

Head of Transformation, Strategy and Performance</td><td><u>Target Date</u>:
Ongoing</td></tr>
</table>

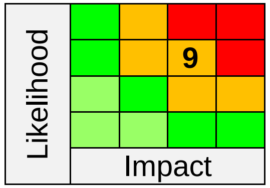
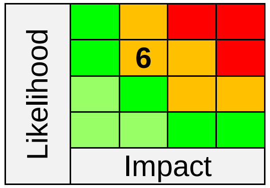
Strategic Risk Register

Risk Code and Title	Primary Risk Type	Potential Consequences	Inherent Risk Matrix	Residual (Current) Risk Matrix	Direction of Travel
SR2-Civil Contingencies Risk that there is a lack of robust civil contingency arrangements established leading to a failure to respond appropriately to a major incident (e.g. flooding, terrorism etc) resulting in injury and/or loss of life	Strategic	• Inability to respond to affected peoples' basic needs (food, shelter etc) • Adverse effect on the local economy • Major reputational damage and loss of public confidence • Extending the recovery phase longer than necessary • Dealing with the COVID pandemic will have a negative effect on the management of concurrent incidents			Remains the same
Current Treatments and Controls	• Participation in the Local Resilience Partnership and Forum (LRP and LRF) • Appropriate emergency and incident planning in place • Regular testing and exercising of emergency plans • Training and awareness for relevant staff • 24/7 call-out arrangements for senior managers (SLT / CLT) • Participation in county-wide Events Safety Group (SAG) • Reviews periodically undertaken within current Treatments and Controls				
Risk Owner	Chief Executive				
Planned Future Actions and Responsible Officer(s).	Description:		Responsible Officer:		Target Date:

Strategic Risk Register

Risk Code and Title	Primary Risk Type	Potential Consequences	Inherent Risk Matrix	Residual (Current) Risk Matrix	Direction of Travel
SR3 – Funding Risk that there is a lack of external funding and/or income generated leading to a reduction in the financial resources available for service provision and/or to fund corporate objectives resulting in not being able to delivery services or being financially solvent	Strategic	• Inability to meet demand for services • Inability to meet statutory duties • Ceasing or reducing some services			Direction of Travel increased due to impact of the revenue from the Town Hall and Car Parks
Current Treatments and Controls	• Annual production and monitoring of Medium Term Financial Strategy (MTFS) • Treasury Management Strategy • Budget and revenue monitoring processes • Production and monitoring of efficiency plan • Maintenance of reserves at specified required levels • Monitor, consider and respond to government proposals affecting budgets and/or income • Monitor the implications of the COVID pandemic on the financial situation • Active work around Supported living costs • Establishment of Financial Pressures group				
Risk Owner	Director of Finance, Governance and Contracts				
Planned Future Actions and Responsible Officer(s).	Description: Further exploration of commercial opportunities Monitor inflationary pressures		Responsible Officer: Strategic Director - Commercial Development, Asset and Leisure	Target Date: December 2022	
Risk Code and Title	**Primary Risk Type**	**Potential Consequences**	**Inherent Risk Matrix**	**Residual (Current) Risk Matrix**	**Direction of Travel**

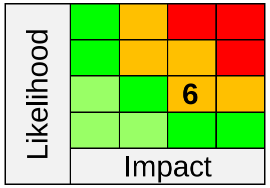
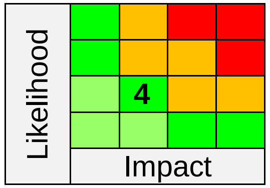
Strategic Risk Register

<table>
<tr>
<td>SR4 – Staffing
Risk that the Council does not attract suitable or capable staff or resources or there is a high sickness level or there are capacity issues from contractors and suppliers leading to a high number of vacancies or staff available resulting in poor service provision</td>
<td>Strategic</td>
<td>• Inability to meet demand for services
• Inability to meet statutory duties
• Ceasing or reducing some services</td>
<td>
</td>
<td>
</td>
<td>Remains the same</td>
</tr>
<tr>
<td>Current Treatments and Controls</td>
<td colspan="5">• Benchmarking with other Districts
• Seeking guidance from established organisations such as Jobs Go Public, East Midlands Councils, District Councils Network and Logal Government Association – especially relating to services which are hard to recruit to
• Marketing the Council / Local Authority
• Local Government Pay Award – has been allocated
• Establishment of Workforce Board and associated work programme</td>
</tr>
<tr>
<td>Risk Owner</td>
<td colspan="5">Chief Executive</td>
</tr>
<tr>
<td>Planned Future Actions and Responsible Officer(s).</td>
<td colspan="2"><u>Description</u>:
Internal review of Recruitment

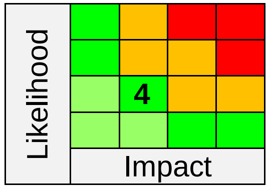
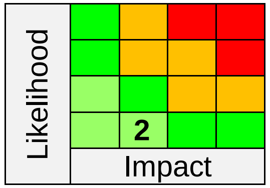
Review of Agency staff and where they are allocated</td>
<td colspan="2"><u>Responsible Officer</u>:
Head of Transformation, Strategy and Performance</td>
<td><u>Target Date</u>:
December 2022

July 2022</td>
</tr>
</table>

Strategic Risk Register

Risk Code and Title	Primary Risk Type	Potential Consequences	Inherent Risk Matrix	Residual (Current) Risk Matrix	Direction of Travel
SR5 – Governance Risk that the Council does not follow its own governance procedures leading to failure to deliver services and/or value for money and/or it can be challenged through a legal process leading to service delivery issues and/or reputation damage and/or criminal charges	Strategic	• Financial damage • Reputational damage • Not complying with legislation			Remains the same
Current Treatments and Controls	• Annual review of the constitution • Ensure that the Council's processes address the governance requirements • Established governance arrangements for Risk Management, Performance Management, Projects and Programme Management • Modern.gov – good democratic governance • Annual governance statement • Internal audit programme • External Audit process				
Risk Owner	Chief Executive				
Planned Future Actions and Responsible Officer(s).	Description: Roll out of the Modern.gov software		Responsible Officer: Head of Governance and HR		Target Date: October 2022

Strategic Risk Register

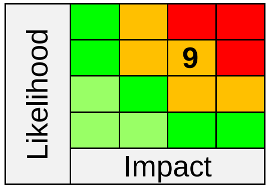
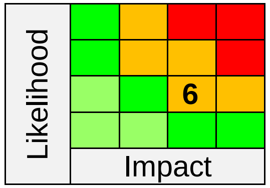
<table>
<tr><th>Risk Code and Title</th><th>Primary Risk Type</th><th>Potential Consequences</th><th>Inherent Risk Matrix</th><th>Residual (Current) Risk Matrix</th><th>Direction of Travel</th></tr>
<tr><td>SR6 – Partnerships
Risk that partnerships with key stakeholders are not developed or maintained leading to a failure to deliver shared outcomes and a lack of delivery to the public resulting in service delivery issues and/or reputational damage</td><td>Strategic</td><td>• Reputational Damage
• Lack of joined up working
• Damage to relationships with partners
• Assess the impact of the lightbulb project review</td><td>
</td><td>
</td><td>Remans the same</td></tr>
<tr><td>Current Treatments and Controls</td><td colspan="5">• Joint working with key organisations with clearly identified terms of reference and joint outcomes
• Up to date contact details within partner organisations
• Six monthly parish clerk meetings
• Community Safey Partnership Review
• Consider Partnership Register
• Maintian relationships across Leicester, Leciestershire and Rutland
• Strategic Partner reviews
• Maintain an overview of the budget situation of key partners within Leicestershire</td></tr>
<tr><td>Risk Owner</td><td colspan="5">Chief Executive</td></tr>
<tr><td>Planned Future Actions and Responsible Officer(s).</td><td colspan="2">Description:
Develop a LLR Chief Executive’s Group
Map and register partnerships and shared services</td><td colspan="2">Responsible Officer:
Chief Executive</td><td>Target Date:
October 2022

January 2023</td></tr>
</table>

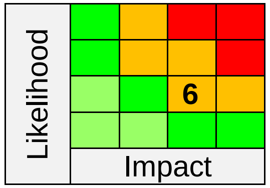
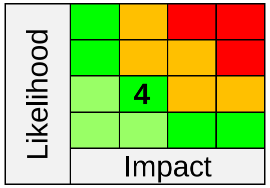
Strategic Risk Register

Risk Code and Title	Primary Risk Type	Potential Consequences	Inherent Risk Matrix	Residual (Current) Risk Matrix	Direction of Travel
SR7 – Data Security Risk that adequate data sharing and data security arrangements are not implemented leading to an increase in cyber-attacks resulting in service disruption or data loss or damage	Strategic	• Ineffective processes for sharing data with other agencies / authorities leading to data breaches • Reputational damage and loss of public confidence • Potentially significant fines • Increased risk due to the operating processes and people possibly taking documents home	Likelihood 9 Impact	Likelihood 6 Impact	Direction of travel improved due to more robust treatments and controls
Current Treatments and Controls	• Information sharing agreements in place with key agencies and authorities • Annual IT health checks including penetration testing • Data protection training and awareness for staff and councillors • Data Protection Impact Assessment form developed and circulated • IT security policies in place • Policies are reviewed on a regular basis • Information Security Group established with CLT • Checking the location of data storage post Brexit – EU / UK • Cyber Security insurance procured • Increased move to the Cloud • Review CPNI Information				
Risk Owner	Director of Finance, Governance and Contracts				
Planned Future Actions and Responsible Officer(s).	Description: Procure and mobilise document management system in Housing – to be rolled out across the authority Cyber Securing qualification by ICS Manager	Responsible Officer: ICS Manager	Target Date: April 2023 July 2023		

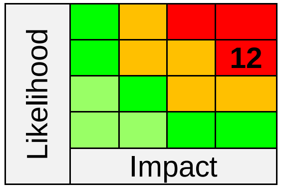
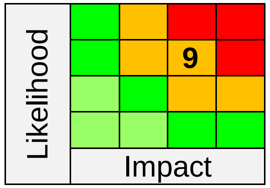
Strategic Risk Register

Risk Code and Title	Primary Risk Type	Potential Consequences	Inherent Risk Matrix	Residual (Current) Risk Matrix	Direction of Travel
SR8 – Communication Risk that the Council does not establish effective strategic communication arrangements leading to the public not being informed about Council activity resulting in reputational damage	Strategic	• Reputational damage • Adverse social media coverage • Damage to relationships with partners • Damage to staff morale			Remains the same
Current Treatments and Controls	• Adequately staffed and experienced corporate communications team • Communications Strategy and Plan in place • Regular monitoring of all media sources • Continue to expand social media use and reach • 'Horizon scanning' for potential communication issues at each Corporate Leadership Team meeting and as part of the Corporate Delivery Plan setting • Joint working with partners incldign LRF Comms Cells • Montitor the effectiveness of communications channels and posts				
Risk Owner	Chief Executive				
Planned Future Actions and Responsible Officer(s).	Description: Completion of the actions within the Communications Plan		Responsible Officer: Communications Manager		Target Date: March 2023

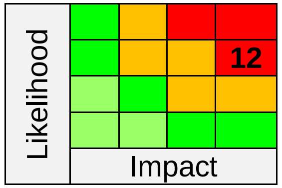
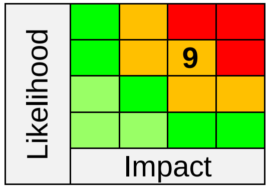
Strategic Risk Register

Risk Code and Title	Primary Risk Type	Potential Consequences	Inherent Risk Matrix	Residual (Current) Risk Matrix	Direction of Travel
SR9 – Climate Change Risk that the Council does not lead by example and manage the ongoing impact of climate change leading to a lower than anticipated reduction in carbon output	Strategic	• Reputational damage • Environmental damage			Remains the same
Current Treatments and Controls	• Cabinet pledge regarding climate change • Climate Change Action Plan • Caring for the Environment as a Corporate Strategy Theme and associated actions • Delivery of the new Strategy • Climate Action Board established – now met				
Risk Owner	Chief Executive				
Planned Future Actions and Responsible Officer(s).	<u>Description</u>: Completion of the Climate Change Action Plan		<u>Responsible Officer</u>: Director of Commercial and Economic Development		<u>Target Date</u>: March 2023

Strategic Risk Register

Risk Code and Title	Primary Risk Type	Potential Consequences	Inherent Risk Matrix	Residual (Current) Risk Matrix	Direction of Travel
SR10 – External Factors Risk that new legislation or external factors cause negative financial or reputational impact on the Council leading to a reduction in service provision (i.e., Environment Act) resulting in service delivery issues and/or reputational damage	Strategic	• Financial damage • Reputational damage • Not complying with legislation			Remains the same
Current Treatments and Controls	• Monitoring legislation through Parliament • Liaise with other Districts • Reviewing and understand the financial implications • Regular brieifings to Cabinet				
Risk Owner	Chief Executive				
Planned Future Actions and Responsible Officer(s).	<u>Description</u>: Environment Act – monitoring Elections Bill – Implementing Supported Accommodation programme legislation Potential Planning changes	<u>Responsible Officer</u>: Head of Contracts: Leisure, Waste and Environment / Head of Regulatory and Community Safety Head of Governance and HR Director of Customer Experience Head of Planning	<u>Target Date</u>: Ongoing		

Strategic Risk Register

Risk Code and Title	Primary Risk Type	Potential Consequences	Inherent Risk Matrix	Residual (Current) Risk Matrix	Direction of Travel
SR11 – Housing Demand Inability to meet increased housing demand arising from inflationary pressures, and asylum and refugee dispersal, in the context of constrained supply of public and private rented sector housing resources, leading to increased homelessness and associated costs, services unable to meet demand, and consequential reputational damage.	Strategic	• Financial damage • Reputational damage			Initially established

Current Treatments and Controls	• Acquisitions process for HRA property • Work wth local lettings agents and landords to increase the supply of private rented sector accommodation • Working with developers to provide housing through the planning system • Council stock used a temporary accommodation • Action plan in place to support faster re-let of HRA property		
Risk Owner	Chief Executive		
Planned Future Actions and Responsible Officer(s).	Description: Updated Housing Strategy to be developed. New HRA Asset Management Strategy in development.	Responsible Officer: Director of Housing and Wellbeing	Target Date: 2024 2022/23

AUDIT COMMITTEE – 31st January 2023

Report of the Director of Finance, Governance and Contracts

ITEM 9 CAPITAL STRATEGY (INCLUDING THE TREASURY MANAGEMENT STRATEGY) FOR 2023/24

Purpose of Report

The purpose of this report is to provide the Committee with an opportunity to scrutinise the proposed Capital Strategy for 2023/24 (including the Treasury Management Strategy Statement) that are being recommended by Cabinet to full Council for approval.

The Council's governance procedures require that the Audit Committtee have an opportunity to review the Capital Strategy prior to the Council decision.

Recommendation

That the Committee considers the proposed Capital Strategy (including the Treasury Management Strategy) for 2023/24, as attached in the Cabinet report extracts dated 9th February 2023, to determine whether there are any issues it wishes to draw to the attention of full Council when they consider the relevant recommendations from Cabinet.

Reason

To ensure that the proposed documents are appropriately scrutinised.

Policy Justification and Previous Decisions

The Audit Committee is specified as being the body responsible for scrutinising these documents before they are presented to full Council for approval.

Implementation Timetable including Future Decisions

The recommendations of Cabinet will be considered at the full Council meeting on 27th February 2023.

Report Implications

The following implications have been identified for this report.

Financial Implications

As set out in the Cabinet report.

(The Cabinet report will note that there are no direct financial implications arising from this report. Financial issues arising from the implementation of the strategies are covered within the report.)

Risk Management

As set out in the Cabinet report.

(The Cabinet report will note that a low risk exists with the decision being taken.)

Officer to contact: Simon Jackson
01509 634699
simon.jackson@charnwood.gov.uk

Cabinet report extracts:

Appendix B – Capital Strategy 2023/24
Appendix BB - Treasury Management Strategy Statement 2023/24

APPENDIX B

Charnwood Borough Council

Capital Strategy

2023 – 2024

Foreword

This latest Capital Strategy sets out our plans and aspirations in the areas of capital planning, treasury management, and new borrowing which supports and enables our corporate plan and is a key plank in ensuring the ongoing financial sustainability of the Council.

At risk of repeating my messages from previous years, it remains very true that the financial and economic outlook facing the Council is highly uncertain, exacerbated at this time by the ongoing war in Ukraine and the recent political turmoil within the UK. Further detail on the implications of this is provided in the body of this Capital Strategy and the latest version of the Medium Term Financial Strategy which is presented alongside this document. As in previous years, much of our focus will be to ensure that the Council remains on a sustainable financial footing.

The extant Capital Plan (2022 – 2025) has a focus on the upkeep of the Borough and maintenance of our existing asset portfolio. Our ambition for the Borough remains and we will retain funds earmarked for economic regeneration and investment in the Enterprise Zone, albeit at reduced levels than originally created, having reviewed the likely operational scenarios which would require funds being available within a compressed timescale. Notwithstanding the funding earmarked within the Capital Plan for economic regeneration, there is flexibility within existing earmarked capital reserves and our ability to borrow for capital purposes that would enable an ambitious redevelopment scheme to be financed should that be appropriate. Any significant scheme of this nature would be subject to the approval of full Council. Additionally, we will also continue to invest the resources required, both financially and in time, to ensure that we maximise the opportunity afforded by the £17m funding available through Loughborough's Town Deal.

The Council holds significant cash balances and this is an important resource which we will use proactively. It is clear from the proposed 2023/24 budget that the income we can generate from our treasury operations will form a vital component of our funding and we continue to look for ways to refine our treasury operations and seek to minimise our external borrowing requirement.   The Treasury Management Strategy has therefore been amended with a view to increasing yields but security and liquidity will still be the key elements of the Council's approach to treasury management. However, the financial challenges ahead, coupled with a now significantly upward trend in interest rates place even greater importance on the continuation of our strong record in this area.

Councillor Tom Barkley

Cabinet Lead Member for Finance & Property

January 2023

CONTEXT

The Capital Strategy, in common with other strategies produced by the Council supports the overarching Corporate Strategy; see:

https://www.charnwood.gov.uk/files/documents/charnwood_borough_council_corporate_strategy_2020_2024/Charnwood%20Borough%20Council%20Corporate%20Strategy%202020-24%20FINAL%2027.02.20.pdf

This strategy sets out the vision for the Borough as follows:

'Charnwood is a borough for innovation and growth, delivering high-quality living in urban and rural settings, with a range of jobs and services to suit all skills and abilities and meet the needs of our diverse community.'

In working towards this vision the Council's principle focus at present is to leverage its own capital resources alongside local partners and the government through schemes such as the Town Deal, Shared Prosperity and Levelling Up Funds.

Examples of this activity can be seen through Council-led projects such as the ambitious improvements in the public realm through the recently completed investment in the Bedford Square area of Loughborough, and plans under development for investment around Shepshed market place, alongside partner projects such as the expansion of training and skills facilities at Loughborough College, improvement to the Grand Union Canal tow path and enhancements to Loughborough's flood defences.

Within the Capital Plan a sum of £5m is set aside for regeneration investment, an amount designed to allow the Council to respond in a timely fashion should important property assets become available at short notice within the Borough, and where their acquisition will support regeneration or economic development objectives. An additional amount of £10m is also maintained to provide 'forward funding' (to be recovered through business rate retentions) for the Enterprise Zone areas within the Borough. The Treasury Management Strategy (appended to this Capital Strategy) assumes that this funding would be financed through borrowing and for the purposes of presentation assumes that this will happen in the 2023/24 financial year. In practice, the both the timing and quantum of this investment is reliant on third party actions and/or suitable opportunities presenting themselves; no funds will actually be borrowed unless and until they are required.

Finally, there will also be continued investment across the Borough ensuring that our public realm and open spaces are maintained and enhanced to the standard that residents deserve through the regular refresh of the Capital Plans. This investment will be funded from the Council's designated capital reserves.

Enabling this vision requires the Council to be financially sustainable. Cash balances managed through the Council's treasury function, and the interest generated, are increasingly important given the combination of cash and short term investments held (typically in the range of £50m-60m), rising interest rates and cost pressures within the Council's revenue budgets. There is therefore a clear incentive to husband cash carefully, avoid unnecessary capital expenditure and maximise treasury returns within an appropriately prudent framework.

In summary, the Capital Strategy shows how these expenditure plans are governed, the financing requirements they imply, how financial assets are managed through the treasury function, the impact on revenue budgets and the method by which the Council aims to mitigate some of the risks involved in capital expenditure and treasury operations.

CAPITAL STRATEGY (INCLUDING TREASURY MANAGEMENT)

The purpose of the Capital Strategy is to demonstrate that the Council takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. It sets out the long term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes. The Capital Strategy comprises a number of distinct, but inter-related, elements as follows:

1. **Capital expenditure**; which includes an overview of the governance process for approval and monitoring of capital expenditure, including the Council's policies on capitalisation, and an overview of its capital expenditure and financing plans.

2. **Capital financing and borrowing**; provides a projection of the Council's capital financing requirement, how this will be funded and repaid. It therefore sets out the Council's borrowing strategy and explains how it will make prudent revenue provision for the repayment of debt should any borrowing be required.

3. **Treasury management investments**; explains the Council's approach to treasury management investment activities, including the criteria for determining how and where funds will be invested to ensure that the principal sums are safeguarded from loss and that sufficient liquidity is maintained to ensure that funds are available when needed.

4. **Commercial investments**; provides an overview of those of the Council's current and any potential commercial investment activities that count as capital expenditure, including processes, due diligence and defining the Council's risk appetite in respect of these, including proportionality in respect of overall resources.

5. **Knowledge and skills**; summarises the knowledge and skills available to the Council and provides confirmation that these are commensurate with the Council's risk appetite. Further details are provided in the following sections.

6. (Appendix BB). **Treasury management policy statement and practices**; this is presented separately; it updates to the Council's Treasury Management Policy Statement and to its Treasury Management Practices. These set out the Council's policies, objectives and approach to risk management of its treasury management activities, and the manner in which it seeks to achieve its policies and objectives for treasury management.

1. Capital expenditure

Capitalisation policies

Capital expenditure involves acquiring or enhancing non-current assets with a long-term value to the Council, such as land, buildings, and major items of plant and equipment or vehicles, as well as the contribution or payments of grants to others to be used to fund capital expenditure. Capital assets shape the way services are delivered for the long term and may create financial commitments for the future in the form of financing costs and revenue running costs. Subsequent expenditure on existing assets is also classified as capital expenditure if these two criteria below are met.

Expenditure is classified as capital expenditure when the resulting asset:

- Will be held for use in the delivery of services, for rental to others, or for administrative purposes; and
- Is of continuing benefit to the Council for a period extending beyond one financial year.

There may be instances where expenditure does not meet this definition, but would nevertheless be treated as capital expenditure. This is known as 'Capitalisation' and it is the means by which the Government, exceptionally, permits local authorities to treat revenue costs as capital costs. It allows exceptional revenue costs, that should be met from revenue resources to be treated as capital expenditure. Permission is given through capitalisation directions, which the Secretary of State can issue under section 16(2)(b) of the Local Government Act 2003.

The Council operates a de-minimis limit of £10,000 for capital expenditure. This means that items below this limit are charged to revenue rather than capital.

Governance

A three year Capital Plan is prepared by officers and approved by Council. Potential schemes are identified by Officers, in conjunction with Cabinet members, and supported by a Capital Application form. Following a process of review by senior officers a report is prepared for Cabinet with recommendations as to which schemes to include in the Plan, how the Plan would be funded and other elements such as risk and compliance with the Prudential Code.

Once adopted the three year Capital Plan is formally reviewed by Cabinet at the end of year two when Heads of Service are asked to submit proposals for the following three years. 'Year three' of the current plan would then become 'year one' of the new plan.

New schemes can only be added outside of this procedure where they are in substitution of existing schemes or have a separate source of funding so that the actual total level of the Plan would not increase.

All schemes of £50,000 in value or greater require Capital Appraisal and all procurement and contracting must adhere to the Contract Procedure Rules. The Section 151 Officer (or 's151' – essentially a local authority's Finance Director as defined by Section 151 of the Local Government Act 1972) makes recommendations to Cabinet as to whether funding should be released to allow new schemes to be included in the Capital Plan.

After the end of the financial year an outturn report detailing the total amount of capital expenditure incurred during the year is submitted to Cabinet by the s151 Officer.

Prior to the closure of the Council's accounts a report detailing the proposed method of funding the capital expenditure incurred is submitted to Cabinet by the s151 Officer as required by the Local Government & Housing Act 1989.

2. Capital Financing Requirement and borrowing

The Council is required by regulation to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities (referred to as the 'Prudential Code') when assessing the affordability, prudence and sustainability of its capital investment plans. Fundamental to the prudential framework is a requirement to set a series of prudential indicators. These indicators are intended to collectively build a picture that demonstrates the impact over time of the Council's capital expenditure plans upon the revenue budget and upon borrowing and investment levels, and explain the overall controls that will ensure that the activity remains affordable, prudent and sustainable.

Updated regulatory framework

CIPFA published the updated Treasury Management and Prudential Codes on 20 December 2021. The main objective of the 2021 Codes was to respond to the major expansion of local authority investment activity over the past few years into the purchase of non-financial investments, particularly property.

The Code had a 'soft' introduction but Local Authorities are expected to fully implement the required reporting changes from 2023/24.

It should also be noted that DLUHC is proposing to tighten up regulations around local authorities financing capital expenditure on investments in commercial projects for yield and has already closed access to all PWLB borrowing if such schemes are included in an authority's capital programme. The new CIPFA codes have adopted a similar outlook to discourage further capital expenditure on commercial investments for yield.

In theory this does not mean that local authorities may not currently have the legal powers to undertake such capital expenditure despite such guidance and regulation, but in practice such investment is very likely difficult to justify, and in effect investment financed by borrowing (whether internal or external) purely for yield is no longer a viable activity.

There are a number of other technical changes within the 2021 version of the Code but other changes of note are:

- Adoption of a new liability benchmark treasury indicator to support the financing risk management of the capital financing requirement
- Reporting to members, including updates of prudential indicators, to be on a quarterly basis
- Assessment of the risks and rewards of significant investments over the **LONG TERM**; what may be viewed as 'significant' is a moot point whilst CIPFA has not defined what longer-term means, but it is likely to infer 20-30 years (our treasury advisor view)

Further discussion of the regulatory environment is set out with Section 4 of this Strategy.

Current Capital Plans

The Council has a policy of preparing a three year Capital Plan, and then refreshing this every other year.

The most recent Capital Plan was prepared covering the financial years 2022/23 to 2024/25, and subsequently incorporated the final year of the preceding Plan coverig the years 2020/21 to 2022/23.

Naturally, in the course of the three-year plan schemes will be added, deleted or amended through periodic Capital Plan amendment reports. The latest version of the amended Capital Plan was presented at the Cabinet Meeting of 9 February 2023:

In summary the situation may be illustrated as follows:

Capital Expenditure	2022/23 Budget Estimate	2023/24 Budget Estimate	2024/25 Budget Estimate
	£'000	£'000	£'000
Live Schemes			
General Fund	9,617	2,991	1,580
HRA	12,034	9,656	6,645
Provisional Schemes			
General Fund	3,020	15,000	0
HRA	0	0	0
Third Party Schemes			
General Fund	909	0	0
HRA	0	0	0
Total	**25,580**	**27,647**	**8,225**

It should be stressed that inclusion of the above within the Capital Plan, does not imply that any of the above amounts will ultimately be expended. Further discussion of the above is set out later in this document.

Funding of the Capital Plan

The Capital Plan is funded by a combination of the following sources:

- Capital grants and contributions - amounts awarded to the Council in return for past or future compliance with certain stipulations.

- Capital receipts – amounts generated from the sale of assets and from the repayment of capital loans, grants or other financial assistance.

- Revenue contributions – amounts set aside from the revenue budget.

Prudential borrowing - In addition to the above the Council also has the ability to borrow to fund capital expenditure. At this point in time the Council has been able to finance prudential borrowing internally, taking advantage of cash flows inherent within the Council's operations (ie. cash outgoings typically lag the associated cash inflows, often by months or years). So far it has not been necessary to use external borrowing to fund General Fund capital expenditure but some level of external borrowing may be required if the Council is to complete the delivery its Capital Plan within the projected timescales (and over the medium term as and when the positive cash flow position reverses).

The Council has taken out external borrowing to fund the purchase of its housing stock (held within the Housing Revenue Account) from the Government under the 2012 Self-Financing Regime. This totals £79m. An additional £25m borrowing (internally financed) has been undertaken to finance the commercial property portfolio and a proportion of the refuse collection fleet replacement.

Prudent revenue provision for debt repayment

Borrowing allows the Council to defer the funding of its capital expenditure so that it does not need to fund immediately from existing reserves, but instead charges to the revenue budget over a number of years into the future.

Where borrowing is used to finance capital expenditure within the general fund a Minimum Revenue Provision calculated in line with CIPFA guidance contained within the Prudential Code

3. Treasury management investment

The Treasury Management Code and statutory regulations require the Council to prepare an annual strategy that explains how the Council will invest its funds, giving priority to security and liquidity, and then to yield. This Annual Investment Strategy is set out in full in the Treasury Management Strategy Statement (Appendix BB).

The Council's Treasury Management Strategy Statement (TMSS) covers 'specified investments' and loans to other local authorities. The policies are designed to comply with the Statutory Guidance on Local Government Investments ('the Guidance'), effective from 1 April 2018. The Council manages treasury operations in line with its TMSS, which in turn is in accordance with the guidance. The Council is required to review the TMSS on an annual basis.

The Guidance defines in detail what criteria an investment would meet to be categorised as 'specified' One of the criteria of specified investments is that the local authority has a contractual right to repayment within 12 months. Certain loans to other local authorities made by the Council have a term of up to two years (with an intention to increase the allowed maimum to five years), so do not fall strictly within the definition. However, the Council considers that management of this type of financial instrument should fall within the ambit of the TMSS.

The prolonged and historically low interest rate environment that prevailed since the financial crisis of 2008 now appears over. Base rates are now (January 2023) at 3.5% and expected to increase to peak at around 4.5% in the summer. Subsequent projections show a gradual tailing off beyond that time but it seems rates will remain well above those seen into the early months of 2022, which were typically well below 1%. This new economic environment has therefore put even greater emphasis on the importance of the Council's treasury function.

CHANGES TO THE TREASURY MANAGEMENT STRATEGY FOR 2023/24

The thrust of the Treasury Management Strategy remains on prioritising the security of public money and ensuring the Council has sufficient day to day liquidity to meet its payment obligations. However, the increased importance of interest receipts combined with the growth in assets under management over recent years has resulted in amendments to the Strategy being proposed for 2023/24. The main changes allow for increasing values of investment in individual counter parties and maturity periods reflecting increasing amount of funds under management and to avoid challenges in being able to place funds effectively. The proposals are detailed within Appendix BB and comprise changes to the Code (as noted previously) and amendments to the investment limits and acceptable counterparties, countries and brokers, as follows (with comparatives or changes noted sine 2022/23 where applicable:

- B(3) Credit and counterparty risk management
- B(4) Approved countries for investments
- B(5) List of approved brokers for investment

4. Commercial investments

Regulatory framework

The introduction of the general power of competence (arising from the Localism Act 2011) has given local authorities far more flexibility in the types of activity they can engage in. These changes in the economic and regulatory landscape, combined with significant financial challenges, led many authorities to consider different and more innovative types of investment

CIPFA issues the Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (the Treasury Management Code). One of the main changes introduced in the most recent update to the Code is to require authorities to incorporate all of the financial and non-financial assets held for financial return in authorities' annual capital strategies.

Separately, the Ministry of Housing, Communities and Local Government issued Statutory Guidance on Local Government Investments under section 15(1)(a) of the Local Government Act 2003 and effective for financial years commencing on or after 1 April 2018.

As is the case for treasury activities, commercial investment should balance:

- Security – to protect the capital sums invested from loss
- Liquidity – ensuring the funds invested are available for expenditure when needed
- Returns – ensuring that the Council's investment ability is used effectively

Commercial investment may be defined quite widely and could include, for example:

- Commercial property investment held solely for the purposes of generating a financial return
- Investments in wholly owned companies and joint ventures (which maybe in the form of equity or loans)
- Wider scale and more ambitious regeneration projects
- Ad-hoc complex investments

The Statutory Guidance describes non-financial investment as being in non-financial assets held primarily or partially to generate a profit. Usually it will be expected that the underlying asset could be 'realised' to recoup the capital invested.

There are important aspects of financial reporting that Council's must be aware of. In terms of reporting it is necessary to state whether:

- The fair value of non-financial investments is sufficient to provide security against losses, and that the underlying assets provide adequate security for the originating capital investment

- Where the fair value is insufficient detail of mitigating actions should be provided to protect the capital invested

- Additionally, where the fair value assessment recognises a loss in the non-financial investment the subsequent Capital Strategy will need to reflect the impact of loss of security and the associated revenue consequences

- Fair value accounting in this context is covered by International Financial Reporting Standard 9, as modified by an extended statutory override applicable to local authorities. The implication of the override is that if a local authority recognises a loss on investment then this will not impact on the general fund, or, therefore, on an authority's ability to set its budget. However, the override is (currently) time limited to 31 March 2025 and a major downturn in the value of specific assets, or the property market generally, represents a clear risk in future financial periods.

This situation will be kept under close review and the Council will consider diverting interest and rental receipts to create a provision to cover any prospective loss on investment.

The Prudential Code is published by CIPFA (the chartered accountancy body which has a public sector focus), and aims to ensure local authorities' financial plans are affordable, prudent and sustainable. The new (2021) version of this code will apply fully from the 2023/24 financial year, which, as noted previously, tightens the definition of commercial investment and essentially prevents borrowing to finance the acquisition of assets purely for financial return. Although published by CIPFA, the Prudential Code does carry legal weight as the underpinning government regulations require that due regard is paid to the Code.

Approach for the 2023/24 financial year.

Overview

The Council has successfully developed a well-performing commercial property portfolio but in the current regulatory environment, as previously observed, the investment in commercial properties purely for yield has now effectively been outlawed where this activity has to be financed via borrowing.

The Council will however continue to investigate investment opportunities that may have a commercial element alongside attributes supporting other Council objectives, such as regeneration, or the climate change agenda. There are no specific plans at the time of developing this version of the strategy but some £5m within the current (amended) Capital Plan is earmarked for regeneration projects; this will enable an agile response should key sites within the Borough become available. Additionally, some £10m is included within the Capital Plan to support development of the

Enterprise Zone sites within the Borough. The initiation of such projects is within the gift of site sponsors (ie. Charnwood Campus and Loughborough University) but it is anticipated that some call on this fund will be likely in the next financial year.

For the purposes of completing the Treasury Management Strategy Statement it is assumed that the above funding (Regeneration £5m and Enterprise Zone £10m) will be fully required in 2023/24 and that this funding would be financed from borrowing rather than the Council's capital reserves. In practice however, no borrowing will be undertaken unless specific projects are identified.

Any investment required over and above these amounts would be need to be approved through updates to the extant Capital Strategy and Capital Plan in accordance with the Council's budgetary and policy framework.

The full details of the Council's Capital Financing Requirement (CFR) position and the limits that have been set for borrowing and all the associated prudential indicators implied by the above are provided In the Treasury Management Strategy Statement (Appendix BB).

Specific approach planned

<u>Commercial Investment properties</u>

The Council has now developed a commercial investment property portfolio totalling £22.5m. No further investments of this type are planned pro tem.

Management of existing portfolio (including risk mitigation)

The Council's commercial investment property portfolio can be summarised as follows:

Location	*Property type*	*Gross acquisition costs (£m)*	*Annual rent*	*Remaining lease term (at Jan 2023)*
Loughborough	Car showroom	2.4	165	12 years
Banbury	Offices	7.7	540	3 years
Aberdeen	Industrial	3.6	239	8 years
Scunthorpe	Industrial	8.8	600	13 years
		22.5	**1,544**	

The 2023/24 budget for commercial property income is set at £0.8m, being a net figure that allows for charges for interest and Minimum Revenue Provision, and the creation of a property reserve that allows for possible tenant non-payment (considered a very low probablilty based on tenant due diligence performed) and prospective periods of void and dilapidation costs that may arise at the end of the lease term. An allowance is also made for additional management costs arising from the acquisitions. These elements are analysed below:

(all figures £000)	*2023/24 (Budget)*
Gross rent	1,544
MRP charge (40-year annuity life method)	(295)
Interest charge (based on internal borrowing)	(113)
Portfolio management charges	(50)
Contribution to reserve (balancing figure)	(324)
Net contribution to revenue budget	**762**

The figures exclude the Loughborough skills hub situated in Loughborough. This is owned by the Council but purchased with Government grant money, and let to Loughborough College at peppercorn rent for the initial rental period of three years. Subsequently it is anticipated that the property will either generate a capital receipt or generate rentals on a commercial basis.

The total property reserve will be built up to ensure that a balance on the reserve of £1.5m is created before the first identified lease event (expiry of lease term on the Banbury property on 12 December 2025). The run rate set out above (some £0.3m+ per annum going forward) will ensure that this is achieved.

- Projected property reserve balance at 31 March 2023 £1.2m
- Projected property reserve balance at 31 March 2024 £1.5m

Finally, it may also be noted that the commercial property portfolio will be actively managed, to minimise (inter alia) void losses and dilapidation payments.

Reporting and monitoring of the commercial property portfolio is undertaken by the Audit Committee.

Loans to local enterprises and third parties (no change in approach planned)

Loans to local enterprises or partner public sector bodies could be considered, as part of a wider strategy for local economic growth, even though they may not all be seen as prudent if adopting a narrow definition of prioritising security and liquidity. Such loans could be considered as an option to generate a yield. There would need to be a set of criteria drawn up which would need to be met before any loan was given. These might include:

- Whether or not the loan has security
- The term of the loan
- The profile of capital repayments

- The credit rating of the counterparty
- That total financial exposure to this type of loan is proportionate
- An allowed 'expected credit loss' model for assessing credit risk is adopted[1]
- Appropriate credit control arrangements to cover overdue payments are in place
- The local authority has formally agreed the total level of loans by type that it is willing to make, and the total loan book is within that self-assessed limit

The Council will not proactively seek to market loans to third parties but will consider offering loans to local enterprises, local charities, on a case by case basis, as and when approached.

The Council will also consider offering a loan, on a case by case basis, to any subsidiaries that may exist at a point time; in particular, this would apply should the Council have a subsidiary Housing Development Company.

The strategy in this area is set out below.

STRATEGY FOR 2023/24 – LOANS TO THIRD PARTIES AND SUBSIDIARIES

No money will be set aside within the Capital Plan unless and until a specific proposal is available for consideration.

Should an opportunity to offer a loan to a third party arise reports will be taken to Cabinet, and Council if required, to seek specific approval for that transaction.

All prospective debtor organisations will be either be located, or will have substantial operations, within the Borough.

Any asset created through the loan will be located within the Borough.

The purpose of the loan will support local economic growth as defined within the extant Corporate Plan.

The maximum total loan book the Council would manage will be £10m.

The maximum single loan to an individual organisation will be:

- Secured loan £5m
- Unsecured loan £2m

The maximum total value of unsecured loans will be £4m.

Loans will be offered on a commercial basis with rates offered dependent on risk; unsecured loans will attract higher interest rates. Rates offered will be in accordance with independent professional advice

Due diligence will be carried out on prospective debtor organisations.

Generally, independent professional advice will be taken to ensure that the structure of loan finance offered, and the risk and return associated with that structure is appropriate.

[1] As defined within International Financial Reporting Standard 9 – in broad terms the likelihood of a creditor defaulting in future must be considered in accounting for impairment (compared to previous Standards in which accounting was based on actually incurred losses)

Support for Subsidiaries (no change in approach planned)

The Council does not currently have any wholly owned local trading or property (housing) companies. Should the Council decide to form a subsidiary then Council could decide to provide the funding required to support these organisations. As with providing loans to local enterprises and third parties there would need to be a set of criteria drawn up which would need to be met before any loan was given. This would mitigate the risk of loss to the Council.

However, the creation of a Property Development Company (probably with a housing focus) remains a possible course of action for the Council. It may be appropriate to invest directly in the equity of a Property Development Company, rather than in the form of a loan, as described above. The basis of investment will be equivalent, as described below.

STRATEGY FOR 2023/24 - INVESTMENT IN A PROPERTY DEVELOPMENT COMPANY

No money has been allocated within the capital plan at present.

This funding *may* be in the form of an equity investment in the PDC, upon which dividends or and / or management fees will be due to the Council.

It is assumed that this funding be financed through Council borrowing, as and when investment is required.

At minimum, dividends and management fees will cover all of the Council's borrowing costs, in cases where the subsidiary company is wholly owned by the Council.

At minimum dividends and management fees will cover all of the Council's borrowing costs, plus a margin of in cases where a subsidiary company or joint venture is only partially owned by the Council.

Professional advice will be taken to ensure:

- Any loans are structured in the most advantageous way, having regard to risk, prospective returns, and tax implications
- MRP can be avoided or mitigated through the loan structure

Appropriate due diligence will be carried out on prospective partner organisations.

In total, the maximum investment in a PDC, whether by loan or equity investment, will be an amount of £10m.

Economic development and regeneration

COVID-19 has, as might be expected, had a significantly negative impact on businesses, which is reflected in both the physical environment and employment rates. In general, the Council would want to consider investment projects that benefit its communities, but it also has the opportunity to invest using the following specific arrangements:

- Town Deal: Loughborough has secured funding of £17m to support improvements to Loughborough town centre; release of some of this funding is facilitated by providing 'match' funding from the Council in respect of Council-led projects[2]

- Other government funding – such as Levelling-Up Funding or the Shared Prosperity Fund: an approach analous to the approach adopted to attract and administer Town Deal funding is anticipated.

- Enterprise Zone: The Council can support the development of infrastructure on its Enterprise Zone sites by taking out a loan to fund projects, repayable fro future business rates generated

The strategy as related to the these opportunities is set out below:

STRATEGY FOR 2023/24 - INVESTMENT IN THE TOWN DEAL AND REGENERATION PROJECTS

An amount of £5m to fund material investment in regeneration projects will be carried forward into 2023/24 and future years of the Capital Plan 2020-23 (subject to approval by Council). This is in addition to earmarked funding for specific projects such as Bedford Square.

It is assumed that this funding be financed through Council borrowing, as and when investment is required.

Investment in regeneration projects (ie. where funding is to come from this £5m allocation) will be approved by Cabinet, or through an Urgent Decision process, on a case by case basis. In general, it is antipated that such projects will provide a positive financial return to the Council, but that a lower return than may be achievable with pure commercial investment will be acceptable.

STRATEGY FOR 2023/24 - INVESTMENT IN THE ENTERPRISE ZONE

An amount of £10m to forward fund investment in the Enterprise Zone (EZ) will be maintained. To date £2m has been allocated. The £10m balance will be carried forward into 2023/24 and future years of the Capital Plan 2022-25 (subject to approval by Council).

This total amount will be profiled for the 2023/24 financial year to ensure there is no impediment to investment opportunities.

The mechanism by which the investment will work is as follows:

1. The Council will take out a loan for the amount required to fund the project
2. Funds will be passed to the LLEP, who will then make a grant to the site sponsor[3] who will undertake the project delivery
3. The Council will cover the loan costs by retaining business rates generated by the project that would otherwise have been due to the LLEP (the LLEPP share of business rates generated is 85% as set out in the EZ agreement)

MRP treatment – generally, MRP will be calculated using the annuity method reflecting the life of underlying assets being long term and assumed at 40 years. However, where the loan is taken out on a repayment basis (as may be the case) then no MRP charge will be deemed necessary[4].

[2] Although it should be noted that the Town Deal also strongly encourages participation and investment from the private sector
[3] The site sponsors would be either Charnwood Campus (Jayplas) or Loughbourough University
[4] This is subject to compliance with the new Prudential Code; technical interpretation of relevant sections is still in progress

Forward funding agreements will be:

- Based on business cases supported by the Council and subject to approval by the LLEP Board (where the Council has representation at present)
- Subject to Cabinet approval on a case by case basis

A condition of any forward funding agreement is that the loan will have to be underwritten by the site sponsor.

It is assumed that this forward funding be financed through Council borrowing, as and when investment is required. It is also expected that repayment of the loan via future business rates will create a small 'margin' versus the terms of the loan that will provide a positive contribution to the Council's finances.

Other commercial investments

Investment in other types of asset, or in larger and more complex arrangements, is not considered within this iteration of the Commercial Investment strategy. In practice, should opportunities arise, the Commercial Investment and Capital Strategies could be amended, subject to the approval of full Council, to allow emerging opportunities to be exploited. It can also be assumed that any significant investment would be subject to the specific approval by Cabinet.

5. Knowledge and Skills

The Council recognises the importance of ensuring that all officers involved in the treasury management function (including commercial investment activities) are fully equipped to undertake the duties and responsibilities allocated to them. The Strategic Director for Corporate Services is responsible for recommending and implementing the necessary arrangements and does this by:

- Appointing individuals who are capable and experienced.
- Providing training and technical guidance to all individuals involved in the delivery of the treasury management function to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills to undertake the duties and responsibilities allocated to them.
- Appointing a treasury management advisor and other professional advisors when required. This ensures that the individuals involved in delivery of the Council's treasury management activities have access to specialist skills and resources. In addition, professional advisors are employed as required to ensure that the Council has access to the specialist skills and resources necessary to undertake commercial investment activities.

Treasury management advisors - The Council employs Link Asset Services (Treasury Solutions) to provide it with treasury management advice. The services provided by Link Asset Services (Treasury Solutions) include advice on treasury matters and capital finance issues, economic and interest rate analysis and creditworthiness information. Notwithstanding this, the final decision on all treasury matters remains vested with the Council. The services received from Link Asset Services (Treasury Solutions) are subject to regular review, including through periodic re-tendering.

6. Treasury management Policy Statement and Treasury Management Practices

The Council's Treasury Management Policy Statement and its Treasury Management Practices have been updated to reflect the requirements of the updated Treasury Management Code. They are presented for approval in the Treasury Management Strategy (Appendix BB)

APPENDIX BB

Charnwood Borough Council

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2023/24

INDEX

1. INTRODUCTION

1.1 Background

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

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

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

CIPFA defines treasury management as:

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

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

1.2 Reporting requirements

1.2.1 Capital Strategy

The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a Capital Strategy report which will provide the following: -

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

The aim of the strategy is to ensure that all the Council's elected members fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite.

1.2.2 Treasury Management reporting

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

a. **Prudential and treasury indicators and treasury strategy** (this report) The first, and most important report is forward looking and covers: -
    - the capital plans, (including prudential indicators)
    - a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time)
    - the Treasury Management Strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
    - an Annual Investment Strategy, (the parameters on how investments are to be managed)

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

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

Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit Committee and the reports are also available for consideration by the Scrutiny Commission.

Quarterly reports – In addition to the three major reports detailed above, from 2023/24 quarterly reporting (end of June, end of December) is also required. However, these additional reports do not have to be reported to Full Council/Board but do require to be adequately scrutinised. This role is undertaken by the Audit Committee.

1.3 Treasury Management Strategy for 2023/24

The strategy for 2023/24 covers two main areas:

Capital issues

- Capital expenditure plans and prudential indicators;
- Minimum revenue provision (MRP) policy.

Treasury management issues

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

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

1.4 Training

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

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

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

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

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

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

The training needs of treasury management officers are periodically reviewed.

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

1.5 Treasury Management Consultants

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

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

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

if the Council are undertaking non-treasury investments, e.g., investment in commercial properties, it would be expected that in undertaking such investing, it would use specialist property advisers.

2. THE CAPITAL PRUDENTIAL INDICATORS 2023/24-2024/25

The 2021 Prudential and Treasury Management Codes require local authorities to undertake financial planning for periods longer than the three years required for prudential and treasury indicators.

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

2.1 Capital expenditure

This prudential indicator is a summary of the Councils capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital expenditure	***Actual Spend 31/12/2022 £'000***	***2022/23 Budget Estimate £'000***	***2023/24 Budget Estimate £'000***	***2024/25 Budget Estimate £'000***
General Fund - general	2,492	13,546	2,991	1,580
Enterprise Zone	0	0	10,000	0
Regeneration	0	0	5,000	0
HRA	1,506	12,034	9,656	6,645
Total	**3,998**	**25,580**	**27,647**	**8,225**

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

Financing of capital expenditure	***2022/23 Budget Estimate £'000***	***2023/24 Budget Estimate £'000***	***2024/25 Budget Estimate £'000***
Total Capital Expenditure as per above table	**25,580**	**27,647**	**8,225**
Financed by:			
GF Revenue Contributions	38	0	0
GF Capital receipts	4,714	1,433	453
GF Capital Grants	8,580	1,558	1,127
GF Capital Plan Reserves	214	0	0
HRA MRR & Financing Fund	10,863	9,207	6,195
HRA Capital Receipts	1,171	449	450
Internal /External Borrowing	0	15,000	0
Total Funding	**25,580**	**27,647**	**8,225**

2.2 The Council's borrowing need (the Capital Financing Requirement)

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

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

The resultant CFR projections are set out in the table below. These reflect the current (updated) Capital Plan (which was due to be approved by Council 27th February 2023) and the main body of the Capital Strategy report, and comprise:

- 50% funding of the Environmental Services fleet in 2020/21 (£2.4m)
- Purchase Commercial Property (£25m), in 2020/21. No further Commercial activities are planned beyond this date.
- Regeneration fund of £5m to take advantage of opportunities that arise, there are currently no plans in place.
- Enterprise Zone fund of £10m to enable further forward funding within the Enterprise Zone (to be repaid through business rates generated) this is not subject to MRP as this is classed a a Capital Grant.

(In practice expenditure under the latter two headings may fall into later periods but the presentation assumes the earliest possible spend)

Capital Financing Requirement	***2021/22 Actual £'000***	***2022/23 Original Budget £'000***	***2023/24 Original Budget £'000***	***2024/25 Original Budget £'000***
CFR - (Fleet-Less MRP)	2,086	1,788	1,490	1,192
CFR – (Commercial Activites Less MRP)	22,716	22,422	22,119	21,806
CFR – (Regeneration Less MRP)	0	0	5,000	4,937
CFR - (Enterprize Zone - No MRP)	0	0	10,000	10,000
CFR – (HRA No MRP)	81,820	81,820	81,820	80,820
Total CFR	**106,622**	**106,030**	**120,429**	**118,755**
Movement in CFR represented by:		592	(14,399)	1,674
Net financing need for the year (above)	0	0	15,000	(1,000)
Less MRP charge	(583)	(592)	(601)	(674)
Movement in CFR	**(583)**	**(592)**	**14,399**	**(1,674)**

8

2.3 Liability Benchmark

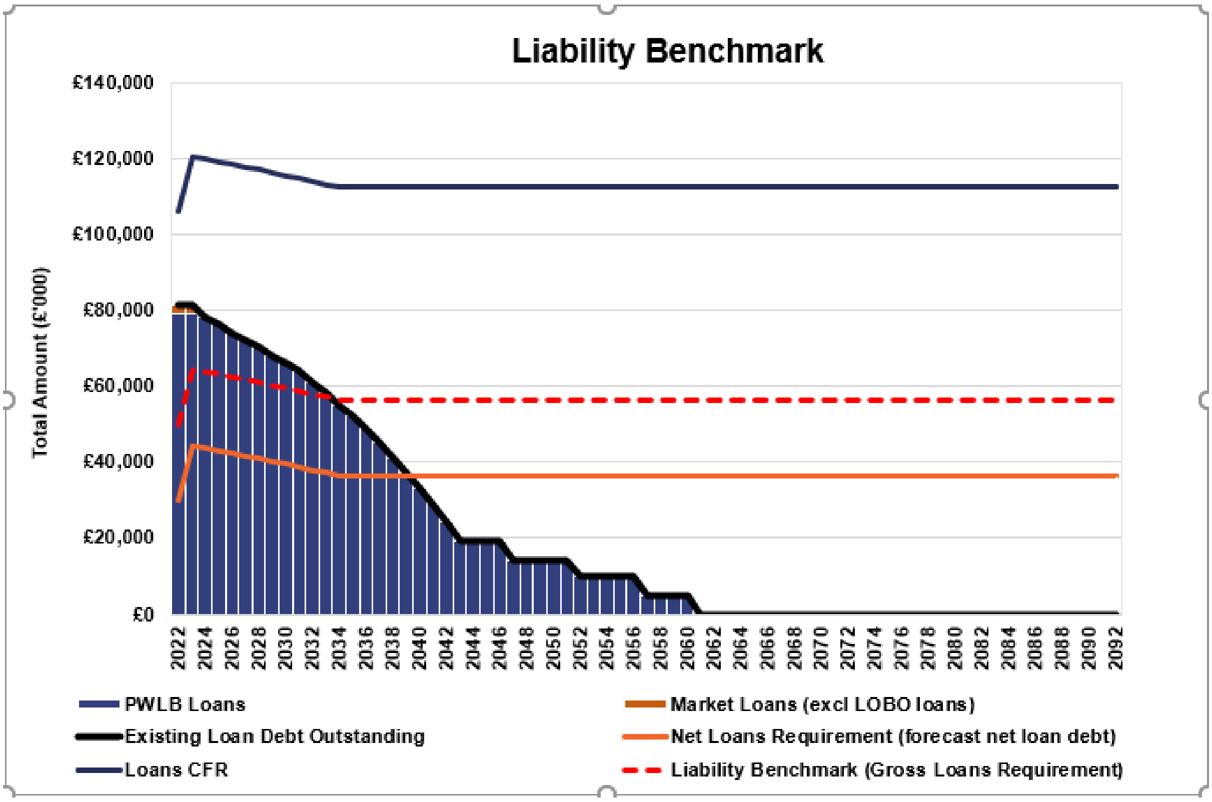
A third and new prudential indicator for 2023/24 is the Liability Benchmark (LB). The Council is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

There are four components to the LB: -

1. **Existing loan debt outstanding**: the Council's existing loans that are still outstanding in future years.
2. **Loans CFR**: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
3. **Net loans requirement**: this will show the Council's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
4. **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.
5.

Liability Benchmark	**2022/23 £'000**	**2023/24 £'000**	**2024/25 £'000**
Existing Loans			
HRA	79,190	79,190	78,190
Other Loans	2,000	2,000	0
Total Debt Outstanding	**81,190**	**81,190**	**78,190**
TM Investments Opening Position	(50,507)	30,091	44,490
Planned Prudential Borrowing	0	15,000	0
Less MRP	(592)	(601)	(674)
Net Loans Requirement	**30,091**	**44,490**	**43,816**
Liquidity/Working Capital Allowance	20,000	20,000	20,000
Liability Benchmark	**50,091**	**64,490**	**63,816**
(Over)/Under Liability Benchmark	**(31,099)**	**(16,700)**	**(14,374)**

The table above shows the difference between the total Debt outstanding compared to the Liability Benchmark (Net loans requirement plus the liquidity allowance), the Council is currently over the liability benchmark. What this shows is that the Council has more than sufficient external borrowings to maintain its required liquidity and working capital (the cash needed to ensure the Council can meet day to day expenditure such as meeting the payroll and payment of preceptors and suppliers).



The Liability Benchmark perhaps makes more sense when viewed over the longer term. The graph above extrapolates the current situation into the future, and assuming no changes to the underlying metrics, it can be seen that from around 2033 the level of borrowing falls below the Benchmark (red dotted line), implying that the Council would need to increase external borrowing at this time. This also implies that in the short term, the Council has scope to increase internal borrowing, as the current combination of external loans and treasury balances is well above the benchmark.

2.4 Core Funds and Expected investment balances held

The application of resources (Capital Plan Reserves, Capital Receipts, HRA Major Repair Reserve, HRA Financing Fund) to finance Capital expenditure will have an ongoing impact on investments unless resources are supplemented each year by new resources (assets sales, grants etc). Detailed below are estimated year end balances held for each resource after funding the current capital programme.

Year End Resources £m	2021/22 Actual £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Capital Plan Reserves	1,909	1,695	1,695	1,695
Capital Receipts 1-4-1	3,162	2,513	2,586	2,658
Other Capital Receipts	7,220	3,288	,2,637	2,966
HRA MRR	4,248	4,248	4,248	4,248
HRA Financing Fund	14,575	12,627	11,246	10,246
Total core funds	**31,114**	**24,371**	**22,412**	**21,813**

The current Capital Plan runs through to 31 March 2025, Funding for the plan are tabled above in 2.1. Any additional proposals for capital expenditure will require a capital appraisal and business plan to be considered by Senior Leadership Team and Cabinet approval. The funding position is regularly reviewed and if there is a need to borrow, this will require a further appraisal and a revision to the Capital Programme and the Treasury Management Strategy and will therefore require additional Council approval.

2.5 Minimum revenue provision (MRP) policy statement

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (Voluntary Revenue Provision - VRP).

MHCLG regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision.

There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made (although there are transitional arrangements in place).

MRP Overpayments - A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), VRP or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31 March 2022 the total VRP and overpayments were £0m.

The Council has for the General Fund a CFR requirement and therefore will need to make a MRP provision. As the Council is likely to fund capital expenditure for borrowing in the future and as there is a statutory requirement to have an approved MRP Statement in place in advance for each year, an MRP policy has been included in this Treasury Management Strategy as Appendix B(2). Council is asked to adopt and approve the MRP policy statement.

3 BORROWING

The capital expenditure plans set out in Section 2.1 above provide details of the capital expenditure of the Council over the next 2 years. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes so that sufficient cash is available to meet this service activity. This will involve both the management of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury/prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current portfolio position

One of the key indicators is that the Council's gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2022/23 and the following two financial years. This is to ensure that the Council conducts its activities within well-defined limits. Also the indicator allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes or speculative purpose.

The table below shows the forward projections for external debt against the underlying need to finance capital expenditure through borrowing or other long term liabilities, i.e. the CFR, highlighting any over or under borrowing.

	2021/22 Actual £'000	***2022/23 Estimate £'000***	***2023/24 Estimate £'000***	***2024/25 Estimate £'000***
External Debt at 1 April	81,190	81,190	81,190	81,190
Expected change in Debt	0	0	15,000	14,000
Actual debt at 31 March	**81,190**	**81,190**	**96,190**	**95,190**
Capital Financing Requirement	106,622	106,030	120,429	118,755
Under borrowing	**25,432**	**24,840**	**24,239**	**23,565**

The table shows that the Council has complied with this prudential indicator in the current year and does not envisage difficulties for the future

3.2 Treasury Indicators: limits to borrowing activity

The 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 CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational boundary	***2021/22 Actual £'000***	***2022/23 Estimate £'000***	***2023/24 Estimate £'000***	***2023/24 Estimate £'000***
Debt	81,190	108,090	108,090	107,090
Non-financial investments	0	0	15,000	15,000
Total	**81,190**	**108,090**	**123,090**	**122,090**

The authorised limit for external debt.

A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

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

It should be noted that the authorised limits (as shown in the table below) has been set based on the current capital expenditure and funding plans within the Capital Strategy, which is the same as last years limits.

The authorised limits are in line with the Capital Strategy is approved by Council:

Authorised limit	***2021/22 Actual £'000***	***2022/23 Estimate £'000***	***2023/24 Estimate £'000***	***2024/25 Estimate £'000***
Debt	81,190	120,000	120,000	120,000
Non-financial investments	0	0	15,000	15,000
Total	**81,190**	**120,000**	**135,000**	**135,000**

In October 2018 the Government published the "Limit of Indebtedness (Revocation) Determination 2018". This removed the HRA debt cap which was £88,770k and therefore the HRA is able to determine its own level of borrowing in alignment with prudential guidelines. This means that it can borrow providing it can demonstrate that the interest and loan repayments are affordable, within the overall HRA.

3.3 Prospects for interest rates

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 08.11.22. These are forecasts for certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View	08.11.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.30	4.30	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.50	4.50	4.40	4.30	4.20	4.00	3.90	3.70	3.60	3.50	3.40	3.30	3.20
25 yr PWLB	4.70	4.70	4.60	4.50	4.40	4.30	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.40	3.30	3.20	3.20

PWLB forecasts are based on PWLB certainty rates.

Additional notes by Link on this forecast table: -

Our central forecast reflects a view that the MPC will be keen to demonstrate its anti-inflation credentials by delivering a succession of rate increases. This has happened throughout 2022, but the new Government’s policy of emphasising fiscal rectitude will probably mean Bank Rate does not now need to increase to further than 4.5%.

Further down the road, we anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures have lessened – but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

The CPI measure of inflation will peak at close to 11% in Q4 2022. Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market. Wage increases, excluding bonuses, are currently running at 5.7%.

Regarding the plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening), this has started but will focus on the short to medium end of the curve for the present. This approach will prevent any further disruption to the longer end of the curve following on from the short-lived effects of the Truss/Kwarteng unfunded dash for growth policy.

In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but the on-going conflict between Russia and Ukraine. (More recently, the heightened tensions between China/Taiwan/US also have the potential to have a wider and negative economic impact.)

On the positive side, consumers are still 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 challenges. However, most of those are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

PWLB RATES

Yield curve movements have become less volatile under the Sunak/Hunt government. PWLB 5 to 50 years Certainty Rates are, generally, in the range of 3.75% to 4.50%. The medium to longer part of the yield curve is currently inverted (yields are lower at the longer end of the yield curve compared to the short to medium end).

We view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the poor inflation outlook but markets are volatile and further whipsawing of gilt yields across the whole spectrum of the curve is possible.

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is to the downside. Indeed, the Bank of England projected two years of negative growth in their November Quarterly Monetary Policy Report.

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

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, rising gilt yields).

- **The Bank of England** acts too quickly, or too far, over the next two years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

- **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.

- **Geopolitical risks,** for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.

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

- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly and for a longer period within the UK economy, which then necessitates an even more rapid series of increases in Bank Rate faster than we currently expect.

- **The Government** acts too slowly to increase taxes and/or cut expenditure to balance the public finances, in the light of the cost-of-living squeeze.

- **The pound weakens** because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.

- Longer term **US treasury yields** rise strongly, if inflation numbers disappoint on the upside, and pull gilt yields up higher than currently forecast.

Borrowing advice: Our long-term (beyond 10 years) forecast for Bank Rate stands at 2.5%. As all PWLB certainty rates are now above this level, borrowing strategies will need to be reviewed in that context. Better value can generally be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive whilst the market waits for inflation, and therein gilt yields, to drop back later in 2023.

Our suggested budgeted earnings rates for investments up to about three months' duration in each financial year are as follows: -

Average earnings in each year	
2022/23 (remainder)	3.95%
2023/24	4.40%
2024/25	3.30%
2025/26	2.60%
2026/27	2.50%
Years 6 to 10	2.80%
Years 10+	2.80%

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

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

3.4 Borrowing Strategy

The Council 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 Councils's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. That is, Bank Rate increases over the remainder of 2022 and the first half of 2023.

Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The Council will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

The Council's investments in commercial property in the medium term has used internal borrowing as the Council has been able to utilise its cash balances as an alternative to external borrowing. This is considered to be an effective strategy at present as:

It enables the Council to avoid significant external borrowing costs in the short to medium term (i.e. making it possible to avoid net interest payments); and
It mitigates the risks associated with investing cash and the low investment rate returns.

3.5 Policy on Borrowing in Advance of Need

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

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.6 Debt rescheduling

At a point in time, short term borrowing rates may be considerably cheaper than longer term fixed interest rates. In this event there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

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

Consideration will also be given to identify whether there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

The Council currently has one long term market debt of £2m which matures in June 2024 and it carries a current interest rate of 11.625%. The cost of replacing this debt is prohibitive and this position is unlikely to change in the next three years. Once this has loan has matured then a revenue Income stream of £232.5k PA will be available to support the General Fund budget.

The £79.19m of HRA debt is at fixed interest rates and the twenty-four loans are repayable from 2024 to 2061. The first repayment is in 2024/25 £1M, which has been reflected in the tables above. Their maturity dates are set to match income and expenditure levels in the HRA Business Plan and they will be reviewed in line with that plan. However, the primary objective of the plan over the next few years is to invest in the Council's housing stock and this position is not expected to change in the near future. Therefore these debts are unlikely to be rescheduled over the next three years. All rescheduling will be reported to the Cabinet at either the half year or full year report stage.

3.7 New Financial Institutions as a Source of Borrowing and / or Types of Borrowing

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 out to 3 years or so – generally are still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a "cost of carry" or to achieve refinancing certainty over the next few years).

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources. This Council may make use of this new source of borrowing as and when appropriate.

3.8 Approved Sources of Long and Short-term Borrowing

Should the Council require further borrowing in the future then borrowing options will be considered and reported to Cabinet and Council for approval.

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy – Management of isk

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, essentially the purchase of income yielding assets and service investments, are covered in the Capital Strategy.

The Council's investment policy has regard to the following: -

- DLUHC's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
- CIPFA Treasury Management Guidance Notes 2021

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

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

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

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short-term and long-term ratings.

2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as **"credit default swaps"** and overlay that information on top of the credit ratings.

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

4. This Council has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in Appendix B3, under the categories of 'specified' and 'non-specified' investments.

   - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity, if originally they were classified as being non-specified investments solely due to the maturity period exceeding one year.

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

   - **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments limit is £30m.

5. **Lending limits**, (amounts and maturity), for each counterparty will be set as per Appendix B3.

6. **Transaction limits** are set for each type of investment in Appendix B3.

7. This Council will set a limit for its investments which are invested for **longer than 365 days**, (see Appendix B3)

8. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph below 4.3).

9. This Council has engaged **external consultants**, (see paragraph above 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this Authority in the context of the expected level of cash balances and need for liquidity throughout the year.

10. All investments will be denominated in **sterling**.

11. As a result of the change in accounting standards for 2022/23 under IFRS 9, this Authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31.3.23. At the current juncture it has not been determined whether a further extension to the over-ride will be agreed by Government.

    At the time of writing, we are still waiting to hear whether the application of IFRS9 will be deferred for a further period.

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

Changes in risk management policy from last year.

The above criteria has changed from last year due to a new investment Strategy.

Investment instruments identified for use in the financial year are listed in appendix B (3) under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices.

4.2 Creditworthiness policy

This Council applies the creditworthiness service provided by the Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays: -

1. "watches" and "outlooks" from credit rating agencies;
2. CDS spreads that may give early warning of changes in credit ratings;
3. sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, and any assigned Watches and Outlooks, in a weighted scoring system which is then combined with an overlay of CDS spreads. The end-product of this is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will, therefore, use counterparties within the following durational bands

- Yellow 5 years *
- Dark pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
- Light pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services' creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the

iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services.

- Extreme market movements may result in downgrade of an institution or
- removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on any external support for banks to help support its decision making proces

Creditworthiness.

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, more recently the UK sovereign debt rating has been placed on Negative Outlook by the three major rating agencies in the wake of the Truss/Kwarteng unfunded tax-cuts policy. Although the Sunak/Hunt government has calmed markets, the outcome of the rating agency reviews is unknown at present, but it is possible the UK sovereign debt rating will be downgraded. Accordingly, when setting minimum sovereign debt ratings, this Authority will not set a minimum rating for the UK.

CDS prices

Although bank CDS prices, (these are market indicators of credit risk), spiked upwards during the days of the Truss/Kwarteng government, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Council has access to this information via its Link-provided Passport portal.

Limits

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

> **Non-specified treasury management investment limit.** The Council has determined that it will limit the maximum total exposure of treasury management investments to non-specified treasury management investments.

4.3 Country limits

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch, other than the UK where the Council has set no limit. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix B(4). This list will be added to or deducted from by officers should ratings change in accordance with this policy.

4.4 Investment strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e., rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that is the case at present, but there is the prospect of Bank Rate peaking in the first half of 2023 and possibly reducing as early as the latter part of 2023 so an agile investment strategy would be appropriate to optimise returns.

Accordingly, 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.

Investment returns expectations.
The current forecast shown in paragraph 3.3, includes a forecast for Bank Rate to reach 4.5% in Q2 2023.

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

Average earnings in each year	
2022/23 (remainder)	3.95%
2023/24	4.40%
2024/25	3.30%
2025/26	2.60%
2026/27	2.50%
Years 6 to 10	2.80%
Years 10+	2.80%

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

Investment treasury indicator and limit - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

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

Maximum principal sums invested > 365 days			
£m	**2023/24**	**2024/25**	**2025/26**
Principal sums invested >365 days	£30m	£30m	£30m

4.5. Investment risk benchmarking

This Council will use an investment benchmark to assess the investment performance of its investment portfolio of overnight, 7 day, 1, 3, 6 or 12 month compounded / SONIA

4.6 End of year investment report

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

APPENDICES FOR APPENDIX BB

BB (1). Economic Background

BB (2). Minimum Revenue Provision Policy

BB (3). Treasury management practice 1 – credit and counterparty risk management

BB (4). Approved Countries for Investment

BB (5). Approved Brokers for investments

BB (6). Current Investments as at 5th January 2023

BB (7). Treasury management scheme of delegation

BB (8). The treasury management role of the section 151 officer

Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022.

Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 200bps since the turn of the year. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

	UK	**Eurozone**	**US**
Bank Rate	3.0%	1.5%	3.75%-4.00%
GDP	-0.2%q/q Q3 (2.4%y/y)	+0.2%q/q Q3 (2.1%y/y)	2.6% Q3 Annualised
Inflation	11.1%y/y (Oct)	10.0%y/y (Nov)	7.7%y/y (Oct)
Unemployment Rate	3.6% (Sep)	6.6% (Sep)	3.7% (Aug)

Q2 of 2022 saw UK GDP revised upwards to +0.2% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Nevertheless, CPI inflation has picked up to what should be a peak reading of 11.1% in October, although with further increases in the gas and electricity price caps pencilled in for April 2023, and the cap potentially rising from an average of £2,500 to £3,000 per household, there is still a possibility that inflation will spike higher again before dropping back slowly through 2023.

The UK unemployment rate fell to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact is that with many economic participants registered as long-term sick, the UK labour force actually shrunk by c£500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at 5.5% - 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food and energy that have endured since Russia's invasion of Ukraine on 22nd February 2022.

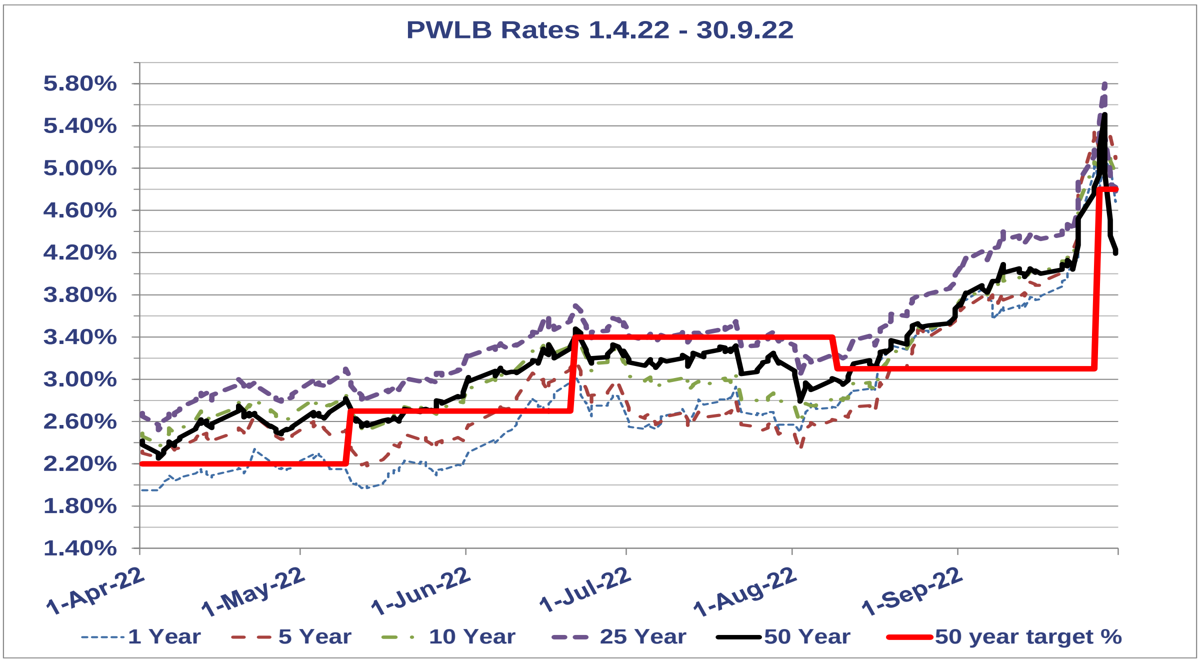
Throughout Q3 Bank Rate increased, finishing the quarter at 2.25% (an increase of 1%). Q4 has seen rates rise to 3% in November and the market expects Bank Rate to hit 4.5% by May 2023.

Following a Conservative Party leadership contest, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September and December. Put simply, the markets did not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor, Kwasi Kwarteng, and their reign lasted barely seven weeks before being replaced by Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. Their Autumn Statement of 17th November gave rise to a net £55bn fiscal tightening, although much of the "heavy lifting" has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have completely reversed the increases seen under the previous tenants of No10/11 Downing Street.

Globally, though, all the major economies are expected to struggle in the near term. The fall below 50 in the composite Purchasing Manager Indices for the UK, US, EZ and China all point to at least one if not more quarters of GDP contraction. In November, the MPC projected eight quarters of negative growth for the UK lasting throughout 2023 and 2024, but with Bank Rate set to peak at lower levels than previously priced in by the markets and the fiscal tightening deferred to some extent, it is not clear that things will be as bad as first anticipated by the Bank.

The £ has strengthened of late, recovering from a record low of $1.035, on the Monday following the Truss government's "fiscal event", to $1.20. Notwithstanding the £'s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

In the table below, the rise in gilt yields, and therein PWLB rates, through the first half of 2022/23 is clear to see.



However, the peak in rates on 28th September as illustrated in the table covering April to September 2022 below, has been followed by the whole curve shifting ever lower. PWLB rates at the front end of the curve are generally over 1% lower now whilst the 50 years is over 1.75% lower.

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.35%	5.80%	5.51%
Date	28/09/2022	28/09/2022	28/09/2022	28/09/2022	28/09/2022
Average	2.81%	2.92%	3.13%	3.44%	3.17%
Spread	3.16%	3.26%	2.99%	3.28%	3.26%

After a shaky start to the year, the S&P 500 and FTSE 100 have climbed in recent weeks, albeit the former is still 17% down and the FTSE 2% up. The German DAX is 9% down for the year.

CENTRAL BANK CONCERNS – NOVEMBER 2022

At the start of November, the Fed decided to push up US rates by 0.75% to a range of 3.75% - 4%, whilst the MPC followed a day later by raising Bank Rate from 2.25% to 3%, in line with market expectations. EZ rates have also increased to 1.5% with further tightening in the pipeline.

Having said that, the press conferences in the US and the UK were very different. In the US, Fed Chair, Jerome Powell, stated that rates will be elevated and stay higher for longer than markets had expected. Governor Bailey, here in the UK, said the opposite and explained that the two economies are positioned very differently so you should not, therefore, expect the same policy or messaging.

Regarding UK market expectations, although they now expect Bank Rate to peak within a lower range of 4.5% - 4.75%, caution is advised as the Bank of England Quarterly Monetary Policy Reports have carried a dovish message over the course of the last year, only for the Bank to have to play catch-up as the inflationary data has proven stronger than expected.

In addition, the Bank's central message that GDP will fall for eight quarters starting with Q3 2022 may prove to be a little pessimistic. Will the £160bn excess savings accumulated by households through the Covid lockdowns provide a spending buffer for the economy – at least to a degree? Ultimately, however, it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).

MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT

Under Regulation 27 of the 2003 Regulations, local authorities are required to charge MRP to their revenue account in each financial year. It should cover the gap between the Capital Financing Requirement (CFR) and grant income and capital receipts.

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (MRP). It is also allowed to undertake additional voluntary payments if desired (voluntary revenue provision - VRP). Any planned overpayments must be recorded clearly in the MRP statement.

MHCLG (now DLUHC) regulations have been issued which require the full Council to approve an MRP Statement in advance of each year; hence, the inclusion of this policy within the Capital Strategy.

The Council is required to calculate in each financial year a prudent provision to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits (asset life). MRP cannot be negative, and can only be zero if the CFR is nil or negative, or if the charge is fully reduced by reversing previous overpayments. A maximum asset life of 40 years can be used, except freehold land which can be 50 years.

In calculating MRP the Council must base its calculation on methods set out within 'guidance' issued by the Secretary of State under section 21(1A) of the Local Government Act 2003. Under that section local authorities are required to 'have regard' to this guidance. The extant guidance distinguishes between borrowing incurred prior to 2008 and that incurred in subsequent years. The Council did not incur borrowing to finance assets prior to 2008 and hence its options on which its MRP calculation is based are restricted to Options 3. and 4. as set out in guidance, as below:

Option 3: Asset Life Method

Where capital expenditure on an asset is financed wholly or partly by borrowing or credit arrangements, MRP is to be determined by reference to the useful life of the asset.

There are two main methods by which this can be achieved, as described below.

(a) Equal instalment method

MRP is the amount given by the following formula:

<u>A - B</u>

C

Where:

A is the amount of capital expenditure in respect of the asset financed by borrowing or credit arrangements.

B is the total provision made before the current financial year in respect of that expenditure.

C is the inclusive number of financial years from the current year to that in which the estimated useful life of the asset expires.

(b) Annuity method

MRP is the principal element for the year of the annuity required to repay over the asset's useful life the amount of capital expenditure financed by borrowing or credit arrangements. The Council should use an appropriate interest rate to calculate the amount. Adjustments to the calculation to take account of repayment by other methods during repayment period (e.g. by the application of capital receipts) should be made as necessary.

Option 4: Depreciation method

MRP is deemed to be equal to the provision required in accordance with deprecation accounting in respect of the asset on which expenditure has been financed by borrowing or credit arrangements. This should include any amount for impairment charged to the income and expenditure accounts.

Selected Charnwood calculation methods

For assets with a life of 10 years or less, the straight line asset life method (Option 3 (a)) will be used

For assets with a life in excess of 10 years, the annuity asset life method (Option 3 (b)) will be used

The asset life method calculation requires estimated useful lives of assets to be input in to the calculations. These life periods will be determined by the Council's Chief Financial Officer (this is the Council's designated s151 Officer, a role currently held by the Director of Finance, Governance and Contracts), with regard to the statutory guidance and advice from professional valuers if required.

The Chief Financial Officer may also determine that if, in their opinion, the straight line method is more prudent for an asset with a life in excess of 10 years then this option may be used.

Generally, the straight line asset life method is considered appropriately prudent for assets with a relatively short term life (such as most types of plant and equipment). Assets purchased with a longer life will usually be land and buildings and hence an annuity asset life method will be used reflecting that such assets will in practice have a value at the end of the designated asset life. One aspect of the annuity asset life method is that it generates MRP payments that are relatively low in early years which then increase over the asset life. This structure of MRP is well-suited to commercial properties as the increase in MRP could be expected (broadly) to mirror increasing rental income created by periodic rent reviews.

The designated asset life of land and buildings, including commercial property for investment purposes, will usually be set at 40 years, in accordance with the guidance and in common with other local authorities.

In line with the extant guidance MRP will be not be charged until the later of the year after capital expenditure is incurred or the year after the asset becomes operational

The calculation of MRP is also subject to the following details:

- An average asset life for each project will normally be used. There will not be separate MRP schedules for the components of a building (e.g., plant, roof etc.). Asset life will be determined by the Chief Finance Officer. A standard schedule of asset lives will generally be used (as stated in the Statement of Accounts accounting policies).
- MRP will commence in the year following the year in which capital expenditure financed from borrowing is incurred, except for single assets when expenditure is being financed from borrowing the MRP will be deferred until the year after the asset becomes operational.

  Other methods to provide for debt repayment may occasionally be used in individual cases where this is consistent with the statutory duty to be prudent, as justified by the circumstances of the case, at the discretion of the Chief Finance Officer; this may include certain circumstances relating to investment (forward funding) within the Enterprise Zone and where the underlying loan is taken out on a repayment basis. In this case no MRP charge will be deemed necessary assuming the loan term does not exceed the asset life.

APPENDIX (BB3)

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

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to maximum of 1 year** with the exception of other Local Authorities which have a maximum of 2 years and investments in Property Funds which are longer-term investments. All investments will meet the minimum 'high' quality criteria where applicable.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories. The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	Minimum credit criteria / colour band	**Current investment Limits 2022/23**	**Investments Limits 2023/24**	**Max. maturity period**
DMADF – UK Government	N/A	Unlimited	Unlimited	6 months
UK Government gilts	UK sovereign rating	Unlimited	Unlimited	12 months
UK Government Treasury bills	UK sovereign rating	Unlimited	Unlimited	12 months
Bonds issued by multilateral development banks	AAA	Unlimited	Unlimited	6 months
Money Market Funds (CNAV, LVAV & VNAV)	AAA	£12m any one institution and £30m in total	£12m any one institution and £30m in total	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	Pink, AAA	£7m any one institution and £20m in total	£12m any one institution and £20m in total	Liquid
Local authorities	N/A	£5m any one institution and £20m in total	£5m any one institution and £20m in total	5 Years
Property Funds	N/A	£5m any one instition and £20m in total	£5m any one instition and £20m in total	20 Years
Term deposits with banks and building societies	Purple	£8m any one institution and £12m in total	£12m any one institution and £20m in total	Up to 12 months
	Blue	£7m any one institution and £12m in total	£12m any one institution and £20m in total	Up to 12 months
	Orange	£8m & (£18m for HSBC only) any one institution and £35m in total	£12m & (£18m for HSBC only) any one institution and £45m in total	Up to 12 months
Term deposits with banks and building societies	Red	£8m any one institution and £50m in total	£12m any one institution and £60m in total	Up to 6 Months
	Green	£6m any one institution and £20m in total	£12m any one institution and £25m in total	Up to 100 days
	No Colour	Nil	Nil	Not for use

Non Specified Investments: In 2018 the Council invested in established Property Funds run by external fund managers. These funds are longer term investments (typically 2-5 years) and give potentially higher returns than more liquid investment categories. Investments totaling £5m have been made in Property Funds, these investments will form part of the £30m limit for investments of over 365 days duration.

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, a review of the accounting implications of new transactions will be carried prior to any investment decision.

5.1 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 Hong Kong and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link creditworthiness service. (No changes)

Based on lowest available rating

AAA

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

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

- Belgium
- Qatar
- **U.K.**

List of Approved Brokers for Investments

The list below represents approved brokers that the Council will use to facilitate its investment strategy when necessary;

King and Shaxson

Tradition (UK) Ltd

RP Martin

Link Asset Services Agency Treasury Service

Tullet Prebon (New)

Current Investments as at 5th January 2023 (for information only).

For illustrative purposes only the Council's investments as at 5th January 2023 are set out below. Please note that these investments alter on a daily basis.

Institution	Colour	Maximum Time Limit	Invest Limit £m	Amount Invested £m	Interest Rate	Start Date	Maturity Date
Lloyds Bank Corporate Markets	Red	6 months	£8,000	£3,000	2.43%	25/07/2022	24/01/2023
Close Brothers	Red	6 months	£8,000	£2,000	2.00%	29/07/2022	27/01/2023
Goldman Sachs International Bank	Red	6 months	£8,000	£4,000	4.18%	03/10/2022	03/04/2023
SMBC Bank International	Red	6 months	£8,000	£3,000	4.27%	13/10/2022	13/04/2023
HSBC	Orange	12 months	£18,000	£5,000	3.29%	07/11/2022	06/02/2023
Standard Chartered Bank - Sustainable Deposit	Red	6 months	£8,000	£5,000	3.62%	07/11/2022	13/03/2023
Standard Chartered Bank - Sustainable Deposit	Red	6 months	£8,000	£3,000	3.89%	14/11/2022	12/05/2023
HSBC	Orange	12 months	£18,000	£4,500	3.48%	15/11/2022	13/03/2023
National Bank of Canada	Red	6 months	£8,000	£3,000	4.22%	30/11/2022	30/05/2023
Landesbank Hessen Thueringen Girozentrale	Orange	12 months	£8,000	£5,000	4.47%	30/11/2022	30/11/2023
Oversea-Chinese Banking Corporation	Orange	12 months	£8,000	£5,000	4.35%	08/12/2022	08/09/2023
SMBC Bank International	Red	6 months	£8,000	£3,000	3.74%	08/12/2022	20/03/2023
Bayerische Landesbank	Red	6 months	£8,000	£5,000	4.14%	05/01/2023	05/07/2023
Money Market Funds	AAA Rated	1 Day Notice	£30,000	£12,920	3.30%		
Property Funds	N/A	20 Years	£5,000	£5,000	1.70%*		
TOTAL INVESTMENTS				**£68,420**			

*As at 30/09/2022

TREASURY MANAGEMENT SCHEME OF DELEGATION

(i) Council

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

(ii) Cabinet

- approval of/amendments to the organisation's adopted clauses, treasury management policy
- statement and treasury management practices.
- budget consideration and approval.
- approval of the division of responsibilities.
- receiving and reviewing monitoring reports and acting on recommendations.

(iii) Audit Committee/Overview Scrutiny Board

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

THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- submitting regular treasury management policy reports;
- submitting budgets and 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.
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the Council
- ensure that the authority has appropriate legal powers to undertake expenditure on non- financial assets and their financing
- ensuring the proportionality of all investments so that the Council does not undertake a level of investing which exposes the Council to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the Council has adequate expertise, either in house or externally provided, to carry out the above

AUDIT COMMITTEE – 31st January 2023

Report of the Director of Finance, Governance and Contracts

ITEM 10 WORK PROGRAMME

Purpose of Report

To enable the Committee to consider its Work Programme.

Actions Requested

That the Committee considers any items that it wishes to add to or amend, in its work programme for future meetings.

Reason

To enable the Committee to identify future items of business and enable planning for future meetings to be undertaken, for example preparing reports and arranging for the attendance of officers and/or others at meetings.

Background

The Work Programme agreed at the last meeting of the Committee is attached as an appendix for the consideration of the Committee.

Officer to contact: Ed Brown
Democratic Services Officer
(01509) 634502
Ed.brown@charnwood.gov.uk

APPENDIX

ISSUE	MEETING

External Audit Progress Report and Technical Update **External Audit Business** ***If required***	*Standing Item*
Council's Use of Regulation of Investigatory Powers Act (RIPA)	*Standing Item*
Internal Audit Plan – Progress	*Standing Item*
Risk Management (Risk Register)	*Standing Item*
Governance and Risk Aspect of Commercial Investment and Performance Review - EXEMPT	Reported every six months.

Governance and Risk Aspect of Commercial Investment and Performance Review - EXEMPT	31st January 2023 Every 6 months
2021/22 Auditor Annual Report **External Audit Business**	31st January 2023 (Moved From 22nd November 2022) Annually
Capital Strategy, TMSS, MRPP and AIS 2023/24	31st January 2023
2021/22 Treasury Management Statement, Annual Investment Strategy and MRP Strategy	25th April 2023 Annually
2022/23 Internal Audit Plan **Internal Audit Business**	25th April 2023 Annually
2021/22 Annual Audit Letter	25th April 2023 Annually
External Quality Assessment of Internal Audit	25th April 2023
Annual IT Health Check (Code of Connection) -EXEMPT	25th April 2023 Annually – **Moved from February 2021 meeting.**