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NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

24 January 2024

Chairman: Councillor Keith Vickers

Venue: Room F01e,
Conference Room
Church Square House
Scunthorpe

Time: 9:00 am
Member Development Session (NOT PUBLIC)

10.00 am
(Public Meeting)

E-Mail Address:
matthew.nundy@northlincs.gov.uk

AGENDA

Member Development Session (NOT PUBLIC) (9:00 am)

1. Treasury Management Training - To receive a presentation from Mr Robert Baxter, Director - LINK Group

Public Meeting (10:00 am)

2. Substitutions (if any)

3. Declarations of Disclosable Pecuniary Interests and Personal or Personal and Prejudicial Interests (if any).

4. To take the minutes of the meeting held on 22 November 2023 as a correct record and authorise the chairman to sign. (Pages 1 - 6)

5. Draft Treasury Management Strategy Statement and Treasury Management Practices (Pages 7 - 56)

6. Treasury Management Quarter 3 Report 2023-24 (Pages 57 - 74)

7. Audit Progress Report - January 2024 - Report of Mazars (Pages 75 - 96)

8. Accounting Policies 2023-24 (Pages 97 - 116)

9. Strategic Risk Register (Pages 117 - 128)

10. Interim Internal Audit Report 2023-24 (Pages 129 - 152)

11. Date and time of next meeting - Change of date - 10 April 2024

12. Any other items which the chairman decides are urgent by reasons of special circumstances which must be specified.

The public are likely to be excluded from the meeting for consideration of the following item on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

13. Questions to the council's External Auditors and Head of Internal Audit and Assurance (if required)

Note: Reports are by the Director: Outcomes unless otherwise stated.

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

22 November 2023

PRESENT: - Councillor K Vickers (Chairman)

Councillors T Foster (Vice-Chair), L Yeadon, N Ahmed, S Swift and D Wells

The meeting was held in Room F01e, Conference Room, Church Square House, Scunthorpe.

755 **SUBSTITUTIONS (IF ANY) -** Councillor N Ahmed substituted for Councillor H Yates, Councillor S Swift substituted for Councillor A Davison and Councillor D Wells substituted for Councillor P Clark.

756 **DECLARATIONS OF DISCLOSABLE PECUNIARY INTERESTS AND PERSONAL OR PERSONAL AND PREJUDICIAL INTERESTS (IF ANY) -** There were no declarations of Disclosable Pecuniary Interests and Personal or Personal and Prejudicial Interests.

757 **TO TAKE THE MINUTES OF THE MEETING HELD ON 6 OCTOBER 2023 AS A CORRECT RECORD AND AUTHORISE THE CHAIRMAN TO SIGN -** That the minutes of the proceedings of the meeting held on 6 October 2023, having been printed and circulated amongst the members, be taken as read and correctly recorded and be signed by the Chairman.

758 **AUDIT COMPLETION REPORT - YEAR ENDING 31 MARCH 2023 - REPORT BY MAZARS -** The council's external auditors circulated the Audit Completion report for members information. Members heard that the detailed scope of the external auditors work was set out in the National Audit Office's (NAO) Code of Audit Practice, with its responsibilities and powers derived from the Local Audit and Accountability Act 2014, and as outlined in the Audit Strategy Memorandum. The external audit had also been conducted in accordance with International Standards on Auditing (UK).

Contained within section 4 of the report was the external auditors conclusions and significant findings from their audit. This section included Mazars conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which included -

- management override of controls;
- valuation of property, plant and equipment; and
- net defined benefit liability valuation.

Section 5 of the report contained Mazars internal control recommendations and section 6 stated the audit misstatements.

Section 7 outlined Mazars work on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources.

Members heard that Mazars had substantially completed its audit in respect of the financial statements for the year ended 31 March 2023 and were guided through the significant matters that remained outstanding.

Upon completion of Mazars verbal presentation, the Chairman facilitated a discussion between the committee and its external auditors.

Resolved – That the Audit Completion report be noted.

759 **AUDITED ACCOUNTS 2022-23 -** The Director: Outcomes informed the meeting that the council's unaudited accounts were approved on 30 May 2023. This met the statutory requirement that they be approved by 31 May 2023.

The Accounts and Audit Regulations 2015 (England) required the council to publish a statement of accounts each financial year. These accounts were the formal statement of the council's financial performance for the year and its financial position at the end of that period. A financial year ran from April to March.

The legislation relating to the timescale for the production and audit of the accounts was amended for the 2020-2021 and 2021-2022 financial years. These changes were incorporated into the Accounts and Audit (Amendment) Regulations 2021 (SI 2021/263).

The production of the draft accounts deadline moved from 31 May to 31 July. The audit completion date moved from 31 July to 30 September.

For 2022-2023 the deadlines reverted back to 31 May for the draft accounts and the 30 September deadline remained for the audited accounts. The council's unaudited accounts were approved by the Director Governance and Communities on 30 May 2023. This met the statutory requirement that they be approved by 31 May 2023.

The International Standard on Auditing 260 – 'The Auditor's Communication with Those Charged with Governance (ISA 260)' requires auditors to report certain matters arising from the audit of the council's financial statements before giving an opinion on them.

The Audit Completion Report (ACR) from the council's auditors (Mazars) sets out the matters arising from the audit of the council's 2021-2022 accounts. A copy of the amended accounts was attached to the report as an appendix.

Members heard that it was expected that an unqualified opinion on the council's accounts following the outstanding work being completed. It was also expected that an unqualified opinion on the council's arrangements for securing Value for Money would be issued but this work was not yet complete.

The error had been extrapolated to £2,424k across the sampled expenditure population, but as the individual amount was below trivial, it had been agreed that this would not be corrected.

International Standard on Auditing 580 ‘Management Representations’ required auditors to obtain written confirmations of appropriate representations from management before the audit report was issued. A proposed letter of representation was attached as an appendix to the Audit Completion report, which the Committee was asked to approve and authorise the Chair of the Audit Committee and the Director: Governance and Communities to sign.

Additionally, IAS 570 required a specific statement on the applicability of the ‘Going Concern’ concept to the council. The accounts had been prepared on a going concern basis.

The Director guided the committee through the Statement of Accounts for the Financial Year 2022-23 (which were attached to the report as an appendix) and responded to questions.

Resolved – (a) That the Statement of Accounts for 2022-2023 be approved; (b) that the signing of the Letter of Representation by the Chair of the Audit Committee and the Director: Finance and Section 151 Officer (Interim) be endorsed, and (c) that the Chair of the Audit Committee and the Director: Finance and Section 151 Officer (Interim) be given delegated authority to approve the audited set of accounts on behalf of the Audit Committee following the completion of all audit work.

760 **TREASURY MANAGEMENT MID-YEAR REPORT 2023-24**

The Director: Outcomes submitted a report that provided an overview of the council’s treasury performance during the first six months of 2023-24 and set out national factors that affected the council’s treasury activity.

The Director reminded members that the report fulfilled the Authority’s legal obligation under the Local Government Act to have regard to both the Chartered Institute of Public Finance and Accountancy (CIPFA) Code and the Department for Levelling Up, Housing and Communities (DLUHC), previously Ministry of Housing, Communities and Local Government, Investment Guidance. The CIPFA Code required that Full Council receive a report at the start of the financial year, mid-year and year end. The Audit Committee also received regular updates regarding treasury activity, providing assurance on the effectiveness of the council’s treasury management arrangements.

The committee heard that the CIPFA Code set out the following objectives for treasury management:

“It was important that treasury management policies adequately reflect risk and in particular security, liquidity and yield risk, in that order of importance.

No treasury management transaction was without risk and management of risks was the key purpose of the treasury management strategy."

Full Council agreed the Treasury Management Strategy Statement (TMSS) for 2023-24 in February 2023.

Members were informed of the following –

- Interest rates remained high and were not expected to fall significantly until at least 2025. The bank rate was expected to remain at 5.25% into the next financial year with gradual reductions during 2024, not reaching 4.00% until March 2025.

- The council aimed to achieve optimum return on its investments in accordance with its priorities of security, liquidity and risk appetite.

- The Council's average level of funds for investment during the first six months of the year were £44.7m and was therefore able to meet its liabilities, while managing risks associated with carrying cash balances.

- Interest earned in the first six months amounted to £1.021m an average of 4.67%. This was 0.3% higher than the SONIA benchmark. The council continued to prioritise security, liquidity and yield in that order.

- The investment activity during the year conformed to the approved strategy, and the council had no liquidity difficulties.

- The current forecast was that cash balances would continue to reduce towards year end. This being due to increased levels of capital expenditure, repayment of existing borrowing and planned use of reserves. It was anticipated that borrowing would be required towards the end of this financial year.

Following the Director's verbal presentation, the Chairman facilitated a discussion between the members and the Director on the Treasury Management Mid-Year report.

Resolved – (a) That the mid-year treasury management performance for 2023-24 be noted, and (b) that the treasury management mid-year report provided a sufficient level of assurance on the effectiveness of the council's treasury management arrangements.

761 **ANTI FRAUD AND CORRUPTION STRATEGY REVIEW REPORT -** The Director: Outcomes submitted a report that informed members that effective anti-fraud and corruption arrangements supported the delivery of the council's strategic objectives by contributing to effective governance arrangements designed to underpin them.

These arrangements were periodically reviewed to ensure they remained relevant and effective. The report introduced the council's updated Anti-

Fraud and Corruption Strategy. Members heard that whilst there were no material changes to the strategy, its approval would provide a clear and consistent message that the risk of fraud and corruption was real, would not be tolerated and was the responsibility of all council employees to minimise.

The council's anti-fraud and corruption strategy was last reviewed and approved in July 2021. It was strongly influenced by 'Fighting fraud and corruption locally – a strategy for the 2020's. The 'Fighting fraud and corruption locally' strategy was based on best practice throughout the country and had been produced specifically for the fraud challenges that councils faced.

The strategy and accompanying fraud response plan had been reviewed to ensure that the council's response was as robust as possible to protect public funds, through good governance, awareness of the fraud risks, the ability to prevent and detect fraud and in taking action against those that seek to defraud us.

In reviewing the strategy and response plan, only minimal changes had been made to increase clarity and provide an update on the latest available data in relation to fraud losses in Local Government.

The message remained clear that fraud and corruption would not be tolerated.

The Chair then facilitated a discussion on the anti-fraud and corruption strategy report.

Resolved – (a) That the updated anti-fraud and corruption strategy be approved, and (b) that the Leader of the Council and Chief Executive endorse and sign the foreword to emphasise the council's zero tolerance to fraud.

762 **COUNTER FRAUD PROGRESS REPORT -** The Director: Outcomes circulated a report that informed members of the key issues arising from counter fraud work.

Members heard that the council's framework to combat fraud, corruption and misappropriation was approved by the Audit Committee in September 2021. The framework followed national guidance as laid out in the document 'Fighting Fraud and Corruption Locally (FFCL) - a strategy for the 2020's', and was based upon the key principles of:

- Govern
- Acknowledge and understand
- Prevent and detect
- Pursue
- Protect

This update, which was attached as an appendix highlighted the work carried out in each of these areas and demonstrated the council's continuing commitment to minimise the risk of fraud.

The Director sought the committees' views on whether they believed it was necessary for a member with lead responsibility for fraud should receive a regular report that included information, progress and barriers on the assessment against the FFCL checklist, fraud risk assessment and horizon scanning. Following an informed debate, the committee agreed that, in their opinion, it was not necessary for a member of the council's Executive to hold lead responsibility for fraud.

To conclude, the Director confirmed that during the period covered by this report, there had been no significant frauds reported and no major issues had been identified as a result of the fraud work undertaken.

Resolved – (a) That the progress report provided a sufficient level of assurance on the adequacy of the council's counter fraud arrangements; (b) that the counter fraud work programme provided a sufficient level of assurance on the adequacy of the council's counter fraud arrangements, and (c) that the Director, on behalf of the committee, thank the council's Fraud Team for their continued efforts to combat fraud, corruption and misappropriation.

763 **EXCLUSION OF PRESS AND PUBLIC - Resolved -** That the public be excluded from the meeting for consideration of the following item (Minute 764 refers) on the grounds that it involves the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 (as amended).

764 **QUESTIONS TO THE COUNCIL'S EXTERNAL AUDITORS AND HEAD OF INTERNAL AUDIT AND ASSURANCE (IF REQUIRED) -** The committee had no questions for the council's External Auditors or Head of Internal Audit and Assurance.

Report of the Director: Outcomes — Meeting: 24 January 2024

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

DRAFT TREASURY MANAGEMENT STRATEGY STATEMENT AND TREASURY MANAGEMENT PRACTICES

1. OBJECT AND KEY POINTS IN THIS REPORT

1.1. To review the draft Treasury Management Strategy Statement (TMSS) and the Draft Treasury Management Practices (TMPs) prior to submission to the Council for approval in February 2024.

2. BACKGROUND INFORMATION

2.1 The draft TMSS and TMPs for 2024/25 are attached at Appendix 1. The Strategy and TMPs have been developed in consultation with our treasury management advisors, Link Asset Services Ltd. The statement also incorporates the Investment Strategy.

2.2 Whilst the Council has appointed advisors to support effective treasury management arrangements, the Council is ultimately responsible for its treasury decisions and activity. No treasury activity is without risk. The successful identification, monitoring and control of risk is therefore an important and integral element of treasury management activities.

3. OPTIONS FOR CONSIDERATION

3.1 The options for consideration are detailed in the appendix

4. ANALYSIS OF OPTIONS

4.1 The options for consideration are detailed in the appendix

5. RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY, IT)

5.1 None, other than those set out in the report and appendices.

6. OTHER IMPLICATIONS (STATUTORY, ENVIRONMENTAL,DIVERSITY, SECTION 17 - CRIME AND DISORDER, RISK AND OTHER)

6.1 Not applicable

7. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)

7.1 Not applicable.

8. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

8.1 Not applicable.

9. RECOMMENDATIONS

9.1 That the Audit Committee reviews the draft TMSS and TMPs prior to submission to the Council on 22 February 2024 for approval.

DIRECTOR: OUTCOMES

Church Square House
30-40 High Street
Scunthorpe
North Lincolnshire
DN15 6NL

Author: Tracy Falshaw Date: 9th January 2024

Background Papers used in the preparation of this report

Local Government Act 2003
CIPFA Treasury Management in Public Services Code of Practice (2021 Edition)
CIPFA Code of Practice 2023-24
CIPFA The Prudential Code for Capital Finance in Local Authorities (2021 Edition)

North Lincolnshire Council Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2024/25

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1 REPORTING REQUIREMENTS

1.1 Background

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

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that it can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet 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, including its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

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 elected members on the full council 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 Council 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.

d. **Quarterly reports** – Performance on prudential indicators, including forecast debt and investments will be incorporated into the Council's existing quarterly budget monitoring reporting. These reports are not required to be presented to full council.

The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken for a) by the Governance Scrutiny Panel and for a), b), c) and d) by the Audit Committee.

1.3 Treasury Management Strategy for 2024/25

The strategy for 2024/25 covers two main areas:

Capital issues
- the capital expenditure plans and the associated prudential indicators
- the minimum revenue provision (MRP) policy

Treasury management issues
- the current treasury position
- treasury indicators which limit the treasury risk and activities of the Council
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy; and

- the policy on use of external service providers

These elements cover the requirements of the Local Government Act 2003, Department of Levelling Up, Housing and Communities (DLUHC) Investment Guidance, DLUHC MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

1.4 Training

The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training for the Audit Committee was delivered in January 2023 and further training will be arranged as required. Training for members has been arranged for 24th January 2024.

The training needs of treasury management officers are periodically reviewed.

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.

1.6 Minimum Revenue Provision (MRP) Policy Statement

The Council is required to set aside an element of the accumulated General Fund capital spend each year (the Capital Financing Requirement CFR) through a revenue charge (the Minimum Revenue Position- MRP), although it is allowed to undertake additional voluntary payments if required (Voluntary Revenue Provision- VRP).

DLUHC regulations have been issued which requires a 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. The Council is recommended to approve the following MRP statement.

For capital expenditure incurred before 1st April 2008 the MRP policy will be to use the Annuity Method with an assumed asset life of 50 years.

From 1st April 2008 the MRP policy will be Asset Life Annuity Method - MRP will be based on the estimated life of the assets, in accordance with the regulations using the annuity method. This option provides for a reduction in the borrowing need over approximately the asset's life.

The council will only make Voluntary Revenue Provisions to smooth future years MRP contributions to support the council's financial plans. Such contributions will either be included as part of the annual budget setting or explicitly approved during the closure of accounts process and only if prudent considering medium term financial forecasts.

Repayments included in finance leases are applied as MRP over the life of the contract.

MRP Overpayments - A change introduced by the revised DLUHC MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision (VRP) or over payments, 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. As at the 31st March 2023 the total VRP overpayments were £4.0m.

2 BORROWING

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

2.1 Current Portfolio Position

The overall treasury management portfolio as at 31st March 2023 and for the position as at 31st dec are shown below for both borrowing and investments.

TREASURY PORTFOLIO				
	actual **31.3.23**	actual **31.3.23**	current **29.12.23**	current **29.12.23**
Treasury investments	£000	%	£000	%
Banks	4,538	28%	6,623	24%
DMADF (H.M.Treasury)	11,400	72%	11,450	42%
Money Market Funds		0%	9,000	33%
Total managed in house	**15,938**	**100%**	**27,040**	**100%**
Total treasury investments	**15,938**	**100%**	**27,040**	**100%**
Treasury external borrowing				
Local Authorities	3,000	2%		0%
PWLB	141,571	98%	135,940	100%
Total external borrowing	**144,571**	**100%**	**135,940**	**100%**
Net treasury investments / (borrowing)	**-128,633**	**0**	**-108,867**	**0**

2.2 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 07 November 2023. These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 0.80%.

Link Group Interest Rate View	07.11.23												
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.25	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.40	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.50	3.30	3.30	3.30	3.30	3.30
5 yr PWLB	5.00	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
10 yr PWLB	5.10	5.00	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.70	3.60	3.60	3.50
25 yr PWLB	5.50	5.30	5.10	4.90	4.70	4.50	4.30	4.20	4.10	4.10	4.00	4.00	4.00
50 yr PWLB	5.30	5.10	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.80	3.80	3.80

Forecasts for Bank Rate
After several years of historically low interest rates there has been a pattern of steep increase in a bid to tackle the rising inflation. From April 2022 to March 2023 the base rate rose sharply from 0.75% to 4% The rate has continued to increase reaching 5.25% in August 2023 where

it has since remained steady. The current MPC expectation is that it will remain at 5.25% until September 2024.

Forecasts for PWLB rates and gilt and treasury yields

As the interest forecast table for PWLB certainty rates above shows, there is likely to be a steady decline over the forecast period. As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

Investment and borrowing rates

- **Investment returns** and Borrowing interest rates are forecast to have peaked and are likely to reduce during 2024/25. The policy of avoiding new borrowing by running down spare cash balances has served the Council well over the last few years.
- The current PWLB margins over gilt yields are as follows: -.
    - **PWLB Standard Rate** is gilt plus 1.0%
    - **PWLB Certainty Rate** is gilt plus 0.80%
    - **Local Infrastructure Rate** is gilt plus 0.60%
- Borrowing for capital expenditure. Our long-term (beyond 10 years) forecast for Bank Rate has increased to 3%. 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 2024.
- The council will only borrow when cash balances fall below £10m. While this Council will not be able to avoid borrowing to finance new capital expenditure and to replace maturing debt, there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new borrowing that causes a temporary increase in cash balances.

2.3 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 Council'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.

Against this background and the risks within the economic forecast, caution will be adopted with the 2024/25 treasury operations. The Chief Finance Officer/Head of Financial Services will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances. The current strategy remains to only borrow to meet cashflow requirements.

Any decisions will be reported to the Audit Committee at the next available opportunity.

2.4 Policy on Borrowing in Advance of Need

The Council will not borrow more than or in advance of its needs and will also not borrow primarily for yield.

2.5 Rescheduling

The rescheduling of current borrowing in our debt portfolio will be kept under review but the legal requirements on the PWLB and the associated accounting requirements means this is unlikely to be beneficial to the council.

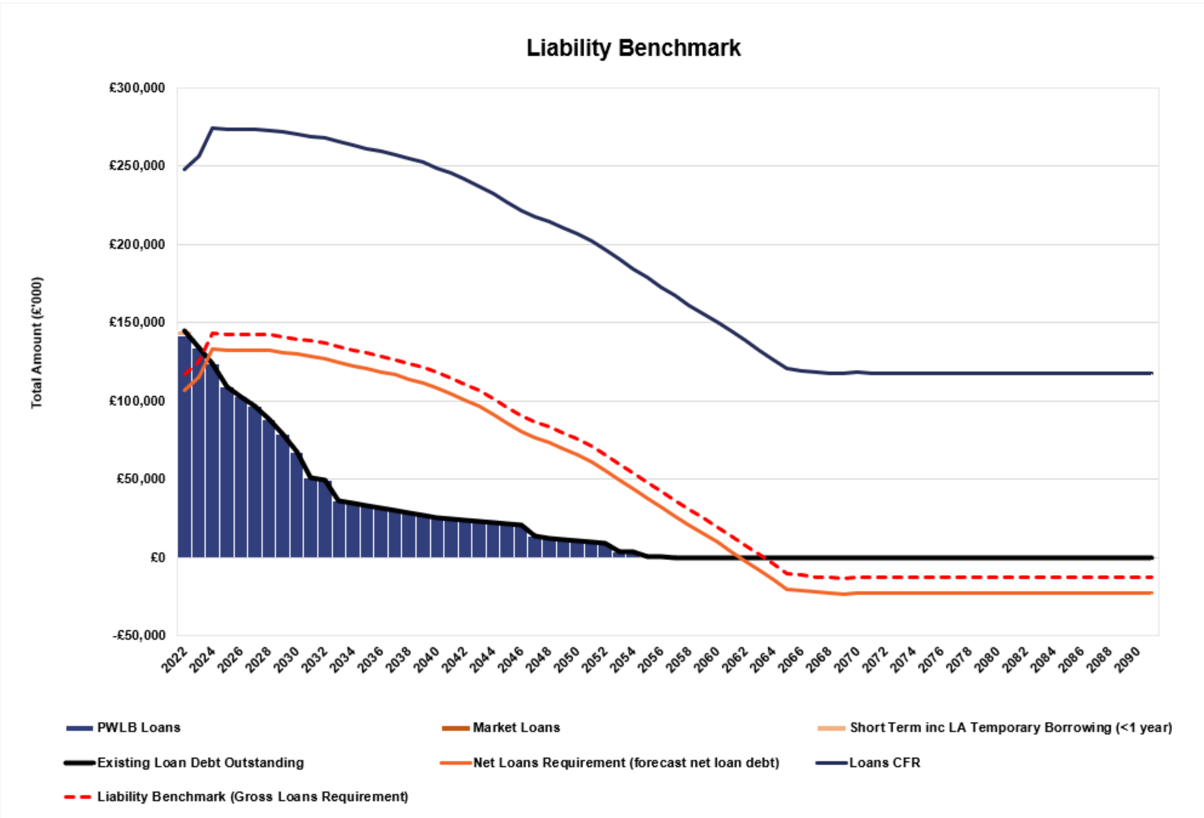
2.6 Liability Benchmark (LB)

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.

Council's current LB is as per below:



2.7 Approved Sources of Long and Short-term Borrowing

The PWLB remains the primary source of borrowing for the council. Consideration may be given to any other suitable source of borrowing. Other such sources include:

- Local authorities (primarily shorter dated maturities out to 3 years or so – generally 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).
- Municipal Bond Agency and UK Infrastructure Bank where circumstances make their use value for money.

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

Proved sources of long and short-term borrowing

Funding source	**Fixed**	**Variable**
Internal (capital receipts & revenue balances)	●	●
PWLB	●	●
Local Authorities	●	●
Overdraft		●
UK Municipal Bond Agency	●	●
Finance Leases	●	●
Banks	●	●
Pension Funds	●	●
UK Infrastructure Bank	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Negotiable Bonds	●	●

Lender Option, borrower Option (L.O.B.O) loans will not be used.

3 ANNUAL INVESTMENT STRATEGY

3.1 Investment Policy – Management of Risk

The Department of Levelling Up, Housing and Communities (DLUHC) 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, are covered in the Capital Strategy, (a separate report).

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 keep investments short term to cover cash flow needs. However, where appropriate, the council will also consider the value available in periods up to 12 months with high credit rated financial institutions, 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 **types of investment instruments** that the treasury management team are authorised to use.

    - **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.

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

5. **Non-specified and loan investment limits.** The Council has determined that it will not invest in Non-specified investments except if explicitly approved by the relevant cabinet member.

6. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 3.2.

7. **Transaction limits** are set for each type of investment in 3.2.

8. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 3.3).

9. This Council has engaged **external consultants**, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this Council 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 Council 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 DLUHC, 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 31st March 2023. More recently, a further extension to the over-ride to 31st March 2025 has been agreed by Government.

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, (see paragraph 3.5). Regular monitoring of investment performance will be carried out during the year.

3.2 Creditworthiness Policy

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

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

The Chief Finance Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to full Council for approval as necessary.

These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

Credit rating information is supplied by Link Group, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer-term bias outside the central rating view) are provided to officers almost immediately after they occur, and this information is considered before dealing. For instance, a negative rating Watch applying to a counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

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

- Banks 1 - good credit quality **–** the Council will only use banks which:
    - i. are UK banks; and/or
    - ii. are non-UK and domiciled in a country which has a minimum sovereign Long-Term rating of AA-

  and have, as a minimum, the following Fitch, Moody's and Standard & Poor's credit ratings (where rated):
    - i. Short Term – BBB; Baa2, BBB
    - ii. Long Term – F-3, P-3, A-3
- Banks 2 – Part nationalised UK bank. These can be included provided they continue to be part nationalised or meet the ratings in Banks 1 above.
- Banks 3 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time invested.
- Bank subsidiary and treasury operation. The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.
    - i. Building societies. The Council will use all societies which meet the ratings for banks outlined above.
- Money Market Funds (MMFs) – *AAAmmf* denominated in sterling and domiciled in a country with a minimum sovereign credit rating of AA-.
- UK Government (including gilts, Treasury Bills and the Debt Management and Deposit Account (DMADF))
- Local authorities, parish councils etc

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

Time and monetary limits applying to investments. The time and monetary limits for institutions on the Council's counterparty list are as follows (these will cover both specified and non-specified investments): -

	Fitch long term rating	The higher of Value £m	% of portfolio	Time Limit
Banks 1 higher quality	AAA-	5	12.5%	1 year
Banks 1 medium quality	AA-	3	7.5%	1 year
Banks 1 lower quality	BBB	1	2.5%	1 year
Banks 2 – part nationalised	BBB	3	7.5%	1 year
Limit 3 category – Council's banker	BBB	5	20.0%	60 days
Building Societies	BBB	1	2.5%	1 year
Debt Management Account Deposit Facility	UK sovereign rating	Unlimited		1 year
Local authorities	N/A	5	10.0%	1year
	Fund rating	**Value £m**	**% of portfolio**	**Time Limit**
Money Market Funds per fund	AAAmmf	5	10.0%	liquid

The UK Sovereign rating by Fitch remains at AA- with a negative Outlook.

3.3 Other Limits

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

a. **Country limit.** The Council has determined that it will only use approved counterparties from the UK and from countries with a **minimum sovereign credit rating of *AA-*** from Fitch or equivalent.

b. **Other limits**. In addition:

- no more than 5% or £2m will be placed with any non-UK country at any time except for non UK domiciled MMFs.
- limits in place above will apply to a group of companies.
- sector limits will be monitored regularly for appropriateness.

3.4 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).

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.
Considering the current economic situation, the council expects to earn the following returns on its investments.

Predicted Average earnings in each year	
2023/24 (residual)	5.30%
2024/25	4.70%
2025/26	3.20%
2026/27	3.00%
2027/28	3.25%
Years 6 to 10	3.25%
Years 10+	3.25%

3.5 Investment Performance / Risk Benchmarking

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

3.6 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.

3.7 External Fund Managers

The Council does not currently use external fund managers. However, it will keep this decision under review and if it is proposed to engage external fund managers this will be reported to the Audit Committee.

4 APPENDICES

APPENDIX 1 – CHARTS AND TABLES TO BE UPDATED WHEN FIGURES AVAILABLE

4.1 THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2024/25 – 2026/27

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.

4.1.1 Capital Expenditure

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

£m	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Capital expenditure	38.1	51.4			
Finance Leases			1	1	1
Total					

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

Financing of capital expenditure £m	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Capital receipts		38.6			
External Financing					
Revenue		0.1			
Net financing need for the year		**15.4**			

The Council is now required to confirm to the PWLB that it does not plan to incur Capital expenditure on projects for yield schemes if it wishes to access PWLB borrowing. PWLB borrowing remains a lower cost option than other borrowing available to councils.

4.1.2 Affordability Prudential Indicators

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

4.1.3 Ratio of Financing Costs to Net Revenue Stream

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

The maximum percentage for this prudential indicator should be 10% with a target of 7.5% (1% above the estimated unitary average).

The table below looks at the Estimate of Borrowing - it assumes the council resumes borrowing to finance its capital programme and refinance its debt repayments from the end of 2023/24.

Capital Financing Costs as a % of Net Revenue Expenditure	2022/23	2023/24	2024/25	2025/26	2026/27
Estimate of Borrowing					
Target					
Maximum Level					

4.1.4 Maturity Structure of Borrowing

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

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

Maturity structure of fixed interest rate borrowing 2024/25		
	Lower	**Upper**
Under 12 months	0%	30%
12 months to 2 years	0%	30%
2 years to 5 years	0%	40
5 years to 10 years	0%	45
10 years to 20 years	0%	50
20 years to 30 years	0%	75
30 years to 40 years	0%	60
40 years to 50 years	0%	25
Maturity structure of variable interest rate borrowing 2024/25		
	Lower	Upper
Under 12 months	0%	100
12 months to 2 years	0%	90
2 years to 5 years	0%	90
5 years to 10 years	0%	90
10 years to 20 years	0%	50
20 years to 30 years	0%	20
30 years to 40 years	0%	10
40 years to 50 years	0%	10

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

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

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

The CFR includes any other long-term liabilities (e.g. finance lease). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility by the least provider and so the Council is not required to separately borrow for these schemes. The council currently doesn't have any such leases within the CFR.

The Council is asked to approve the CFR projections below:

£m	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
The Capital Financing Requirement (CFR)				
Services Total CFR				
Movement in CFR				

Movement in CFR represented by				
Net financing need for the year (above) Less MRP/VRP and other financing movements				
Movement in CFR				

4.3 Call funds and expected investment balances

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

The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Year End Resources £m	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Fund balances / reserves Capital receipts Provisions				
Total core funds				
Working capital Under/ (over) borrowing				
Expected investments				

External Debt £m	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Debt The Capital Financing Requirement				

Under / (Over) borrowing

Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the council needs to ensure that its growth step does not come up except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2024/25 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Chief Finance Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view considers current commitments, existing plans, and the proposals in this budget report.

4.4 Treasury Indicators: limits to borrowing activity

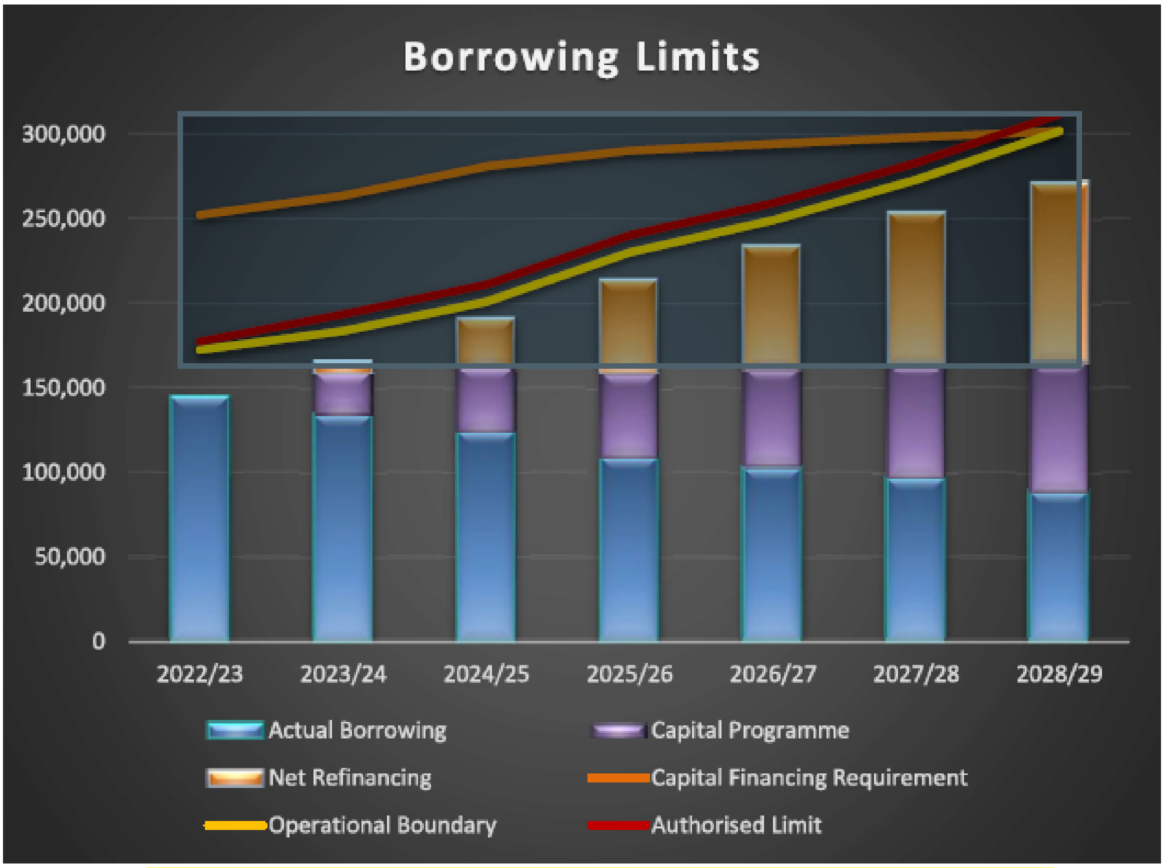
The operational boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational boundary £m	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Debt	261.587	266.083		
Other long-term liabilities	20.00	20.00	20.00	
Total	**281.587**	**286.083**		

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

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

Authorised limit £m	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Debt	281.587	286.083		
Other long-term liabilities	50.00	50.00	50.00	
Total	**291.587**	**296.083**		



The above graph depicts 2022-23 and will be updated when figures are available.

4.5 Lists of commercial income

A council that is heavily reliant on Commercial Income is subject to a wider range of financial risk than other councils. It is therefore appropriate to place a limit on the level of Commercial Income as a percentage of the net revenue stream. For North Lincolnshire Council this limit is 5%.

Commercial income/net revenue stream/£m	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Rental income	5.4	5.5	5.5	
As a percentage of Net Revenue Stream	2.9%	2.8%	2.7%	

Treasury Management Practices

Version Number	1.1	Approved By:	Audit Committee
Issue Date	2024		

TREASURY MANGEMENT PRACTICES
PRINCIPLE AND SCHEDULES

This document has been prepared in the sequence provided by CIPFA. For ease of use, the key areas for North Lincolnshire Council treasury operations are referenced below:

TMP1 - Risk Management

1. Credit and Counterparty Policies

1.1.1 All treasury management activities present risk exposure for the Council. The council's policies and practices emphasise that the effective identification, management and containment of risk are the prime objectives of treasury management activities.

1.1.2 The Chief Finance Officer will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties in consultation with the Council's advisors.

1.1.3 The criteria will be agreed by Audit Committee.

1.1.4 Investment with government offers the least risk but lower yields.

1.1.5 The Council selects countries and the institutions within them for the counterparty list after analysis and careful monitoring of:

- Credit Ratings - the Council will use credit rating criteria as the main means of assessing the creditworthiness of counterparties for placing investments with – where available this Rating information will be supplemented by additional risk indicators such as Credit Default Swap Rates.
- Sovereign credit ratings/sovereign support mechanisms.
- The credit rating criteria will also apply to securities issued by financial and non-financial institutions, which in some instances, might be higher than that of the issuing institution.
- Financial limits for individual counterparties and sectors will be set to ensure a sound diversification policy.
- Longer term and cash limits may be set for secured investments (e.g. those with underlying collateral or which are by regulation excluded from being bailed-in/restructured in the event of financial distress.)
- Where there is no investment-specific rating, but collateral upon which the investment secured is rated, then the higher of the collateral and counterparty rating will be used to determine time and cash limits.
- Credit Default Swap (CDS) information
- Macro-economic indicators
- Corporate developments, news and articles, market sentiment
- Where one or more counterparties are part of a group a limit will be set for the aggregate for all investments with the group.

1.1.6 Treasury team will construct a lending list comprising time, type, sector and specific counterparty limits based on the Council's approved Treasury Management Strategy Statement.

1.1.7 It may be impractical to determine a specific list of non-financial counterparties in whose securities investments might be made. The minimum credit rating criteria and whether the security is secured or unsecured will determine its selection for investment.

1.1.8 The counterparty list will be checked in accordance with the Treasury Management Strategy Statement. Credit ratings for individual counterparties can change at any time. The Treasury Advisors notify the Council of credit rate changes which affect the Councils counterparty list and any consequent change in limits. They also provide economic summaries, CDS information (monthly) and share price information.

1.1.9 The treasury management officer will amend the approved list in line with the policy on criteria for selection of counterparties.

1.1.10 Where an entity's credit rating is downgraded so that if fails to meet the minimum criteria, then only with the explicit approval of the Chief Finance Officer will a lower level of investment be permitted within the Non-Specified category. This is particularly apposite for the Council's own bankers where overnight deposits may be required for Operational purposes.

1.1.11 Where a credit rating is placed on review for possible downgrade (also termed 'rating watch negative') so that it may fall below the minimum approved credit criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the rating review has been completed and its outcome known. This will not apply for 'negative outlooks' which indicate a long-term direction of travel rather than a possibility of an imminent downgrade.

1.1.12 Credit ratings will be used as supplied from one or more of the following credit rating agencies.

- Fitch Ratings Ltd
- Moody's Investors Services
- Standard & Poor's

1.1.13 Operationally the Chief Finance Officer may take measures to restrict (but not extend) the criteria approved in the Treasury Management Strategy Statement.

1.1.14 Advisers will be informed of changes to the Counterparty List where necessary.

1.2 <u>Liquidity</u>

1.2.1 The Council will seek to maintain sufficient cash balances to meet its daily cash requirements without recourse to short-term borrowing.

1.2.2 Should unforeseen circumstances arise short–term borrowing will be undertaken to ensure liabilities are met as they fall due.

1.2.3 The Treasury Specialist maintains cash flow forecasts (see TMP8)

1.2.4 Approved sources of short-term borrowing are:-

- The Council agrees an overdraft facility if necessary, with its bankers.
- The Council accesses temporary loans either through money brokers or directly from financial institutions/other local authorities.

1.2.5. The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current programme or to finance future debt maturities.

1.3 Interest Rate Risk Management

1.3.1 Treasury management strategies are prepared in consultation with treasury advisors to take account of interest rate forecasts (see TMP6). Trigger points for consideration of borrowing are included within the strategy where appropriate. The treasury management advisors periodically update the forecasts and any impact on trigger points. The Council may determine it is more cost effective in the short-term to fund its borrowing requirement through the use of internal resources ('internal borrowing') or through borrowing short-term loans. The benefits of such borrowing will be monitored regularly against the potential for incurring additional costs by deferring or refinancing in future years when interest rates are expected to be higher.

1.3.2 For its investments, the Council also considers dealing from forward periods dependent upon market conditions. The Council's counterparty term limits will apply and will include the forward period of the investment.

1.3.3 The Prudential Code requires the Council to determine each year upper limits on net fixed interest rate and net variable interest rate exposures are determined each year as part of the Treasury Management Indicators included in the annual Treasury Management Strategy Statement.

1.3.4 The upper limits on net fixed interest rate and net variable interest rate are reviewed at least annually and are approved by Council within the Treasury Management Strategy reports. The Treasury Specialist monitors compliance which is subject to regular review as part of the assurance arrangements.

1.3.5 Policies concerning the use of financial derivatives and other instruments for interest rate management are set out in TMP4-

- a. The CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy. The authority does not currently intend to use derivatives. Should this position change, the Council will seek to develop a detailed and robust risk management framework governing the use of derivatives.
- b. Forward Dealing – consideration will be given to forward lending or borrowing for a period no more than 60 months in advance of the transaction.

1.4 Exchange Rate

1.4.1 Borrowing and Lending will only be undertaken in £ Sterling.

1.4.2 The Authority may have some exposure to exchange rate movements from time to time because expenditure or income is denominated in a foreign currency, but these transactions will generally be small and will normally be converted out of or into sterling at the time of the transaction.

1.5 Refinancing

1.5.1 The Council will seek to limit refinancing exposure by ensuring that only a limited amount of loan debt will mature in any one year. This limit will be kept under review and reported annually as part of the Treasury Management Strategy. The Prudential Code requires as a specific treasury management indicator, upper and lower limits for the maturity structure of the Council's debt.

1.5.2 The opportunities for debt restructuring will be kept under review in line with market conditions.

1.5.3 All loan debt rescheduling will be reported to the Audit Committee as part of the outturn report.

1.5.4 The council will prepare as a minimum a three-year plan for capital expenditure. The Capital Investment Strategy and capital programme will be used as a basis for estimating the anticipated financing requirement and a three-year revenue budget for loan charges consisting of MRP, interest and expenses as well as loan repayments and forecast interest rates.

1.5.5 The Council sets affordable limits for borrowing to inform the capital investment plans. The main source of borrowing for the authority is the Public Works Loan Board (PWLB) and estimates shall be prepared using forecast PWLB rates.

1.5.6 In addition to PWLB, any other source providing best value for money and favourable terms for borrowing will be considered.

1.6 Legal and Regulatory

1.6.1 **References to Relevant Statutes and Regulations**

The treasury management activities of the Council shall comply fully with legal statute, guidance, Codes of Practice and the regulations of the Council. These are:

English Authorities

Statutes

- Local Government Finance Act 1988 section 114 – duty on the responsible officer to issue a report if the Council is likely to get into a financially unviable position.
- Requirement to set a balanced budget - Local Government Finance Act.
- Local Government Act 2003
- Localism Act 2011
- S.I. 2023 no. 241 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2023
- S.I. 2015 no. 234 Accounts and Audit Regulations 2015
- S.I. 2021 no. 263 Accounts and Audit Regulations 2021
- S.I. 2021 no. 565 Accounts and Audit Regulations 2021
- S.I. 2022 no. 708 Accounts and Audit Regulations 2022
- All other relevant regulations/ codes of practice etc.

Guidance and codes of practice

- CIPFA Standard of Professional Practice on Continuous professional Development 2005
- CIPFA Standard of Professional Practice on Ethics 2006
- The Good Governance Standard for Public Services 2004
- CIPFA's Treasury Management Codes of Practice and Guidance Notes 2017
- CIPFA Prudential Code for Capital Finance in Local Authorities revised 2017
- CIPFA Prudential Code for Capital Finance in Local Authorities – guidance notes for practitioners 2013
- MHCLG Revised Guidance on Investments Feb 2017
- MHCLG guidance on minimum revenue provision – Feb 2017
- The Prudential Code for Capital Finance in Local Authorities: Guidance Notes for Practitioners (2018 edition)
- Practitioners' Guide to Capital Finance (2019 Edition)
- LAAP Bulletins
- Code of Practice On Local Authority Accounting In The United Kingdom
- PWLB circulars on Lending Policy
- The UK Money Markets Guide. Financial Conduct Authority's Code of Market Conduct
- The Council's Standing Orders
- The Council's Financial Regulations
- The Council's Scheme of Delegated Functions

1.6.2 Where required, the Council will establish the powers of those with whom they enter into transactions, including any compliance requirements in respect of a duty of care and best practice.

1.7 <u>Fraud, error and corruption</u>

1.7.1 TMP5 and TMP6 set out the Council's arrangements for clarity of organisation, reporting arrangements, and management information systems and controls.

<u>Contingency management</u>

1.7.2 Emergency and Contingency Planning Arrangements Disaster Recovery Plan.
Under established agile working practises, all members of the Treasury Management team have remote access to the required systems to enable continuity.

- An electronic record is kept of all necessary treasury management data.
- Payments can be given by instruction by hand to the Bank.
- Balances can also be obtained over the telephone.
- Capability exists to make payments off-site through agile working practices.

1.7.3 Details of systems and procedures to be followed:

Authority

- The scheme of delegation to Officers set out the appropriate delegated levels. All loans and investments, including PWLB, are negotiated by authorised persons.

Occurrence

- A detailed register of loans and investments is maintained as part of the treasury management arrangements (Treasury Live). This is confirmed to the ledger balance.
- Adequate and effective cash flow forecasting records are maintained within the treasury management arrangements to support the decision to lend or borrow.
- Confirmation of a deal is received from the counterparty or trading portal. This could be in electronic or hardcopy format.
- A broker note showing details of the loan arranged confirming all transactions placed through brokers.

Completeness

- The loans register (Treasury Live) is updated to record all lending and borrowing this includes the date of the transaction and its terms.

Measurement

- The calculation of repayment of principal and interest notified by the lender or borrower is checked for accuracy against the amount calculated by the Authority.

Timeliness

- The Treasury Live system highlights when money borrowed, or lent is due to be repaid. The Dealer will obtain daily from the Authority's bankers the intraday balance, and ensure that allowance will be made for the repayment/ receipt of loans/ investment due.

Procedure

- All investment is only made to institutions on the approved list.
- All loans raised and repayments made go directly to and from the authority's designated bank account.
- Authorised limits are set for every institution, grouped entities and types of instrument.
- Every effort is made to maintain balances within approved limits.
- Transactions are cross-checked against broker notes, counterparty confirmations and schedules by dates, amounts, interest rates, maturity, interest payment dates, etc.
- Brokers will have a list of named officers authorised to perform loan transactions.
- There is adequate insurance cover for employees involved in loans management and accounting.
- The control totals on the Treasury Live system are reconciled quarterly with the ledger.
- There is a clear separation of duties between functions discussed in detail in TMP5.

Security

- All Investment Payments should be authorised by a bank signatory.
- NLC Faster Payments –Payments should be authorised by relevant budget head.
- Cards, PINs and card readers are required for Barclays.net transactions.
- When receiving requests for change of payment details, due care will be exercised to ascertain the bona fide of the request and avoid potential fraud. Additional checks will be made through independently obtained contact details for the payee before altering payment details.

Internal Audit

1.7.4 Internal Audit carries out an annual regulatory review of the treasury management function. (See TMP 7)

1.7.5 The Council has “Crime Stop” insurance cover. This covers the loss of cash by fraud or dishonesty of employees.

1.8 Market Risk Management

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

1.8.2 The Council will from time-to-time access instruments in which there is an active secondary market (Certificates of Deposit, Treasury Bills etc.). The capital value of these instruments will fluctuate depending on the remaining period to maturity and prevailing market conditions. However, when using such instruments the Council will always do so on the basis that it intends to hold them to maturity and thereby secure a fixed capital value.

1.8.3 The method for accounting for unrealised gains or losses on the valuation of financial assets will comply with the Accounting Code of Practice.

1.9 Management practices for non-treasury investments

This organisation recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios.

This organisation will ensure that all the organisation’s investments are covered in the capital strategy, investment strategy or equivalent, and will set out, where relevant, the organisation’s risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.

The organisation will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the organisation’s risk exposure.

The Authority intends that TMP 1-12 are replicated/applicable as far as this is relevant and practicable to its non-financial investment activity. This particularly applies to TMPs 1, 2, 5, 6, and 10.

1.9.1 Policy on environmental, social and governance (ESG) considerations

Investment guidance, both statutory and from CIPFA makes clear that all investing must adopt the key Treasury Management principles of security, liquidity and yield (SLY) in this order of priority. The Council is however committed to Environmental, Social and Governance (ESG) factors. In fact, as part of the approach, and in support the Councils Climate Change agenda, a Climate Emergency was declared on 24 January 2022, committing to tackling climate change and working towards carbon neutrality.as an area as well as for the Council by 2030.

Furthermore, through our Treasury Management Strategy, in terms of ESG investment considerations, ESG metrics are incorporated into the credit rating agency assessments which the Council uses in its investment strategy. Typical areas of consideration include:

- Environmental: Emissions and air quality, energy and waste management, waste and hazardous material, exposure to environmental impact.
- Social: Human rights, community relations, customer welfare, labour relations, employee wellbeing, exposure to social impacts.
- Governance: Management structure, governance structure, group structure, financial transparency.

TMP2- Performance measurement

Methodology to be applied for Evaluating the impact of Strategic Treasury Management Decisions

All strategic treasury decisions are to be evaluated to determine:
- The impact on the Council's finances
- Any resultant change in the treasury management risk characteristics.

2.1 Methods to be employed for measuring the performance of the authorities Treasury Management activities

- Prudential Indicators are local to the Council and are not intended as a comparator between authorities.
- Benchmarking information can be obtained from Advisors (where applicable), Treasury Live and/or CIPFA.
- The performance review will be made in the light of general trends in interest rates during the year and how the decisions made corresponded with these trends and the Council's agreed strategy, i.e., the Council will avoid hindsight analysis.
  - For debt management the following Performance Indicators (PI's) will be used
  - Average rate on all external debt
  - Average rate on external debt borrowed in previous financial year
  - Average period to maturity of external debt
  - For new borrowing, the average PWLB borrowing rate for the period for the same maturity profile.
- For investments the following performance indicator within the TMSS regarding Security will be monitored - a portfolio credit rating of A and for liquidity total cash available of £15m on a daily basis.

2.2 To assist in evaluating the impact of strategic treasury management decisions the following will be carried out

- Monitoring of Prudential, treasury indicators and compliance treasury strategy.
- Mid-year and annual report to Audit Committee and Full Council.
- Reviews with the treasury management advisors.
- Internal audit reviews

2.3 Policy Concerning Methods for Testing Value in Treasury Management

2.3.1 Frequency and Processes for tendering

Banking services and other treasury services provided by external providers shall be subject to review at least every 5 years depending on type of contract.

2.3.2 Money Broking Services

Except for approved direct dealing the Council uses money broking services in order to make deposits or to borrow from the market, and will establish charges for all services prior to using them.

Currently, council deals with following list of brokers which takes account of both prices and quality of services, to obtain funds from the money markets and to place investments in accordance with the Approved list.

- Martin Brokers
- Tullett Prebon
- ICAP (restricted to Borrowing transactions only)
- King and Shaxson Limited
- BGC Sterling
- Tradition UK
- Imperial Treasury Brokers
- Institutional Cash Distributors (ICD)

This list will be reviewed periodically. Use of individual brokers will be determined by the need to access the services which they provide in the first instance and by performance/cost assessment thereafter.

2.3.3 Consultants/Advisors Services

NLC's policy is to appoint full-time professional treasury management advisors; the contract will be reviewed at least every three years.

2.3.4 Policy on External Managers

The Authorities' current policy is not to appoint external investment managers, but this will be kept under review.

TMP3 - Decision making and analysis.

Documents will be retained to evidence the processes and rationale behind all decisions:

3.1 Funding, Borrowing, Lending, and New Instruments / Techniques

3.1.1 Records to be kept.

The Treasury team maintains a daily electronic record of bank balances, statements and cash flow calculations and uses specialist computer software to record all cash flow and treasury management transactions which are authorised independently.

The record will have the following details relative to each loan or investment.

- Brokers (if applicable)
- Counterparty
- Interest rate
- Repayment date
- Term of loan
- Loan type
- Commission
- Transfer arrangement
- Basis on which a particular deal was judged to be the correct one
- Confirmation of compliance with Counterparty List

In addition, the following records will be kept: -

- Broker Confirmations
- Counterparty Confirmations
- Deal Tickets

3.1.2 Processes to be pursued.

- Cash flow forecasting – 6 months ahead (daily breakdown), period of Medium-Term Financial Forecast (Monthly breakdown).
- Investment of surplus cash balances.
- Temporary borrowing to cover cash deficits.
- Long-term borrowing to finance capital expenditure.
- Obtaining other forms of financing where that offers best value.
- Managing the investment and debt portfolio – maturity profile, debt rescheduling opportunities etc.
- Monitoring of actual against budget for debt charges, interest earnings and debt management expenses.

3.1.3 Issues to be addressed.

In respect of every decision made the Council will have regard to the nature and extent of the risks to which the authority may become exposed.

- Be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained.

- Be content that the documentation is adequate both to deliver the Authorities objectives and protect the authority's interests and to deliver good housekeeping.
- Ensure that third parties are judged satisfactory in the context of the Authorities creditworthiness policies, and that limits have not been exceeded.
- Be content that the terms of any transactions are competitive.

3.1.4 In respect of borrowing and other funding decisions, following activities will be carried out.

- Evaluation of the economic and market factors that might influence the manner and timing of any decision to borrow.
- Consideration of the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships.
- Consideration of the use of internal resources and/or the most appropriate periods to fund and repayment profiles to use.
- Consideration of the ongoing revenue liabilities created, and the implications for the Authorities future plans and budgets.
- Where applicable, monitor regularly the benefits of internal borrowing against the potential for incurring additional costs by deferring borrowing into future years.

3.1.5 In respect of investment decisions, following activities will be caried out:

- Determination of that the investment is within the Council's strategy and pre-determined instruments and criteria.
- Consideration of the optimum period, in the light of cash flow availability and prevailing market conditions.
- Consideration of the alternative investment products and techniques available, especially the implications of using any which may expose the Authority to changes in the value of its capital.
- Evaluating the credit risk associated with unsecured investments with banks and building societies.
- Determination of appropriate credit policy limits and criteria to minimise the Authorities exposure to credit worthiness and other investment risks.

<u>TMP4 - Approved instruments, methods and techniques</u>

4.1 <u>Approved activities of the Treasury Management operation</u>

- Borrowing
- Investing
- Capital Financing
- Debt Repayment and rescheduling
- Consideration, approval and use of new financial instruments and treasury management techniques.
- Managing the underlying financial risk associated with the Council's capital financing and surplus funds activities.

- Managing Cash Flow.
- Managing any underlying exchange rate risk associated with the Council's business activities.

The above list is not finite and the Council would, from time to time, consider and determine new financial instruments and treasury management techniques; however, the Council will consider carefully whether the officers have the skills and experience to identify and manage the advantages and risks associated with using the instruments/techniques before undertaking them, more so as some risks may not be wholly or immediately transparent.

4.2 Approved Instruments for Investments

Investments will be with those bodies identified by the Council for use through the Treasury Management Strategy and may include using the following instruments:

- Deposits with the UK government, the Debt Management Agency Deposit Facility (DMADF), and UK local authorities, Term deposits, callable deposits, and forward deals with high rated banks and building societies.
- Treasury Bills, Gilts and other Government issued securities
- Certificates of deposit with high rated banks and building societies.
- AAA-rated Money Market Funds.
- Highly rated corporate bonds
- Covered bonds (i.e. those with underlying collateral)
- Unsecured corporate bonds
- Reverse Repurchase Agreements ('reverse repos')
- Floating Rate Notes
- Pooled funds i.e. Collective Investment schemes meeting the criteria in SI 2004 No 534 and subsequent amendments
- Pooled funds i.e. Collective Investment Schemes which do not meet the definition of Collective Investment Schemes in SI 2004 No 534 and subsequent amendments – these will be capital expenditure investments.

4.2.1 Implementation of MIFID II requirements

Since 3 January 2018, UK public sector bodies are defaulted to "retail" status under the requirements of MiFID II. However, for each counterparty it is looking to transact with, (e.g. financial institution, fund management operator, broker), there remains the option to opt up to "professional" status, subject to meeting certain requirements specified by MIFID II and that it has the appropriate level of knowledge and experience and decision making processes in place in order to use regulated investment products.

MIFID II does not cover term deposits so local authorities should not be required to opt up to professional status. However, some non-UK banks do not have the necessary regulatory permissions to deal with retail clients, so opting up to professional status would be required.

For investing in negotiable investment instruments, (e.g. certificates of deposit, gilts, corporate bonds), money market funds and other types of investment funds, which are covered by MIFID II, a schedule is maintained of all counterparties that the treasury management team are authorised to place investments with. This specifies for each investment instrument and for each counterparty, whether the authority has been opted up to professional status. (N.B. some money markets funds will deal with both retail and professional clients.)

A list is maintained for all permissions applied for and received for opt ups to professional status specifying name of the institution (please see below).

SCHEDULE FOR OPT UPS TO PROFESSIONAL STATUS

Institution Type	Professional Status Required	Via
Banks	None	N/A
Money Market Funds	Black Rock	ICD
	Goldman Sachs	ICD
	Morgan Stanley	ICD
Bond Funds	None	N/A
Others	Link Asset Services	N/A
	King and Shaxson	N/A
	BGC Partners /RP Martin	N/A
	Tradition UK	N/A
	Imperial Treasury Brokers	N/A

SCHEDULE FOR EXEMPTIONS

4.3 <u>Approved Techniques include</u>

Forward dealing up to 5 years in advance. All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The Chief Finance Officer has delegated powers in accordance with Financial Regulations, Standing Orders, and the Scheme of Delegation and the Treasury Management Strategy to take the most appropriate form of borrowing from the approved sources.

Finance will only be raised in accordance with the Local Government Act 2003.

4.4 <u>Prohibited sources of Finance:</u>

- Lenders Option/Borrowers Option - no new LOBO loans will be entered into.
- The authority will not use standalone derivatives.

4.5 <u>Investment & Borrowing Limits</u>

All investment and borrowing decisions will be made within limits set in TMSS.

TMP5 Organisation, clarity and segregation of responsibilities and dealing

5.1 Limits to Responsibilities / Discretion at Authority Level

Council

- Formal Approval of the delegation of responsibilities (Constitution).
- Budget consideration and approval.
- Set the Prudential Indicators and revise them as and when necessary.
- Formal Approval of The Treasury Management Strategy Statement which incorporates
- the Minimum Revenue Provision Policy Statement, Annual Investment Strategy and Prudential Code indicators.
- Receive annual report and mid-year review on treasury management.

Cabinet

- Receive reports on treasury management arrangements and activities and the approval of decisions not reserved to Council

Audit Committee

- Scrutiny and overview of treasury management arrangements and Treasury Management Activity.
- Receive the Annual Report and mid-year review.
- Approve the Treasury Management Practices (TMPs).
- Receiving and reviewing internal and external audit reports and reviewing progress on the implementation of recommendations.

Portfolio Holder

- Oversight of treasury management activities in conjunction with the Chief Finance Officer.

5.2 Principles and Practices concerning Segregation of Duties.

The following duties must be undertaken by separate officers:-

- Dealing
- Authorisation of deal
- Release payment from online banking system.
- Administration of user profiles on cash management and banking systems

5.3 Treasury Management Organisation Chart

Chief Finance Officer / Interim Section 151 Officer

Head of Financial Services / Deputy Section 151 Officer

Strategic Lead (Finance Service Desk)

Specialist (Treasury)

Finance Practitioner (Treasury)/ Reserve Finance Practitioner

5.4 Statement of Duties / Responsibilities for Each Treasury Post

5.4.1 Chief Finance Officer / Section 151 Officer

- As per PART D Rule 6 – Financial Regulations of the Constitution.
- Receives quarterly reports on the treasury management function.

5.4.3 Head of Financial Services /Deputy s151 officer

- Provides absence cover for the Chief Finance Officer on policy issues and undertakes the day-to-day treasury management duties of the Chief Finance Officer.
- Maintains a strategic overview of the treasury management function.
- One of the officers who can approve investments.
- Ensures that treasury management practices are documented and are regularly reviewed.
- Ensure training is up to date for Members with oversight of the Treasury function.
- Submitting management information reports to the Chief Finance Officer.

5.4.4 Strategic Lead (Finance Service Desk)

- One of the officers who can approve investments.
- Provide oversight of the day-to-day treasury management operations.
- To ensure that adequate resources are available,
- Ensure training is up to date for all roles,
- Review compliance with Assurance Targets and report any exceptions.

5.4.5 Treasury Specialist

- Oversee the execution of transactions and ensure adequate recording takes place.
- Adherence to agreed policies and practices on a day-by-day basis.
- Maintaining relationships with banking and treasury related third parties and external service providers.
- Monitoring treasury performance on a day-to-day basis.
- Identifying and recommending opportunities for improved practices.
- Ensure Finance Practitioners are kept up to date with market developments.
- Horizon scanning for macro-economic factors.
- Agree reconciliation of Treasury transactions to the ledger.

5.4.5 Finance Practitioner

- Execution of Transactions and their recording.
- Maintenance of Dealer Duties
- The finance practitioner may enter payment details into online banking platforms and transfer funds between the Council's own accounts.
- Undertakes the monthly reconciliation of Treasury transactions to the ledger.

5.4.6 Treasury Management Group

- Head of Financial Services, Strategic Lead (Finance Service Desk) and Specialist (Treasury).
- Monthly operational decision-making group within the Treasury Management Strategy Statement
- Reporting quarterly to the Chief Finance Officer, with exception reporting more frequently as needed.

5.4.7 Head of Legal and Democracy

- Ensures compliance by the Chief Finance Officer with the legislative and regulatory requirements for treasury management.
- Satisfies himself that any proposal to vary treasury practice complies with the law or any code of practice.
- Advises the Chief Finance Officer where his advice is sought.

5.4.8 Internal Audit

- Reviews and makes recommendations in respect of compliance with approved policy and procedures.
- Reviews and makes recommendations in respect of duties and operational practice.
- Assesses the value for money of treasury activities.
- Undertakes the probity audit of the treasury function.

5.5 Absence cover arrangements

- All roles will be covered by at least two persons who have received sufficient training.

5.6 Dealing limits:

Long term (where the period is in excess of 364 days)
Investments
All long-term investment decisions shall be authorised by the Chief Finance Officer by discussion and appropriate (email/Decision notice) confirmation.
Borrowing
All long-term borrowing decisions shall be approved by the Treasury Management Group (paragraph 5.4.6) by recording in minutes of the meeting setting out compliance with the Treasury Management Strategy Statement.
Settlement transmission (paragraph 5.8) to be authorised by a different bank signatory.

Short term funding and investment
In respect of the daily surplus or loan decision, approval of Bank Signatories would be required prior to making commitment with counterparty.

5.7 Direct Dealing Practices

Direct dealing is carried out with institutions and with external pooled funds identified on the counterparty list and subject to maturity limits and dealing limits.

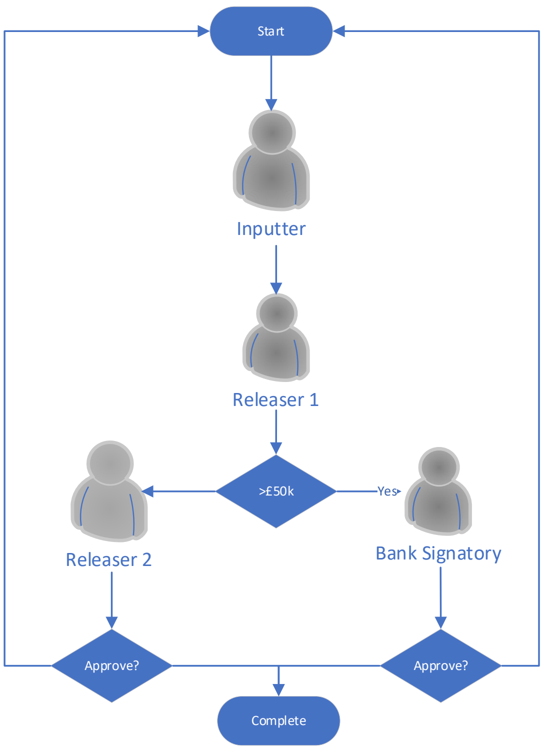
Deal Ticket Proforma:	Deals will be recorded as per the deal ticket proforma. (Proforma maintained at Operational level)
Deal Transactions:	By email, via online dealing portal or telephone.

5.8 Settlement Transmission Procedures

The transfer of funds for deals arranged shall normally be made via the Council's online banking platform. Every payment on Barclays.net would require 3 different individuals for processing. This would include Inputter, and two Releasers, where over £50,000 one of the releasers will be a Bank Signatory:

- Bank Signatory – (Section 151 Officer, Deputy s151 and Financial Services Strategic Leads), authorise deals/payments on online banking system, manually or, as appropriate and reviewing their compliance with treasury management arrangements & strategy.
- Releaser (Finance team, grade 8 and above) - authorisation of release of payments via online banking platform.
- Inputter – treasury management team.

Below process flow chart explains the online payment process on Barclays.net



5.9 Documentation Requirements:

For each deal undertaken the following will be prepared:

Investments

- Investment Deal ticket providing the investment details.
- Confirmation from the broker/ Counterparty.
- Contract notes for purchase and sale of shares/units in pooled funds from the fund's manager/administrator.

Loans

- Borrowing Deal ticket with signature to agree loan
- Confirmation from the broker OR
- Confirmation from PWLB/market counterparty
- Completed call back for repayment of principal and interest on maturity.

TMP6 Reporting requirements and management information arrangements.

6.1 Annual reporting requirements before the start of the year

- **Treasury Management Strategy report** on proposed treasury management activities for the year comprising of the Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy Statement
- **Capital Strategy / Capital Investment Strategy** to cover the following: -
  - give a long-term view of the capital programme and treasury management implications thereof beyond the three-year time horizon for detailed planning.
  - an overview of treasury and non-treasury investments to highlight the risks and returns involved in each and the balance, (proportionality), between both types of investments.
  - The authorities risk appetite and specific policies and arrangements for non-treasury investments
  - Schedule of non-treasury investments
- Quarterly review report
- Annual review report after the end of the year

6.2 Treasury Management Strategy Statement

The Treasury Management Strategy Statement (TMSS) sets out the specific expected treasury activities for the forthcoming financial year. This Strategy will be submitted by the Chief Finance Officer to the Council for approval before the commencement of each financial year.

The Treasury Management Strategy is concerned with the following elements:
- The current treasury portfolio position
- The prospects for interest rates
- The expected borrowing strategy
- The expectations for debt rescheduling
- The Annual Investment Strategy (see below) The Prudential Limits placed by the Council on treasury management activities.

6.3 Annual Investment Strategy

As part of its annual TMSS for the following year, the Chief Finance Officer will present an Annual Investment Strategy covering the identification and approval of the following:

- The strategy guidelines for decision making on investments.
- The maximum periods for which funds can be committed.
- Specified investments the Council will use. These are high security (defined by the Council), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

6.4 Prudential Indicators

Under the prudential system, the Council must determine the level of their affordable borrowing, having regard to the CIPFA Prudential Code.

The prudential indicators for the forthcoming and following years must be set before the beginning of the forthcoming year. These are included as an Appendix to the TMSS.

The Chief Finance Officer is responsible for ensuring compliance with these limits. Should it prove necessary to amend these limits, the Chief Finance Officer shall submit the changes for approval to Council.

6.5 Annual reporting requirements after the year end

An annual report will be presented to Council at the earliest practical meeting after the end of the financial year, but in any case, by the end of September.

The report will include.

- A comprehensive picture for the financial year of all treasury policies, plans, activities and results.
- Report on risk implications of decisions taken and transactions executed.
- Compliance report on approved policy, practices and statutory/regulatory requirements.
- Measurements of performance.
- Report on compliance with CIPFA code recommendations.

6.6 In year reporting requirements

A quarterly report on treasury management activity will be presented to Audit Committee and Cabinet by the Chief Finance Officer.

The reports will include.

- Report on risk implications of decisions taken and transactions executed.
- Measurements of performance.
- Treasury Management Indicators

6.7 Management information requirements

The Treasury Specialist will provide to the Treasury Management Group.

- Monitoring and forecast information in respect of relevant treasury budgets.
- Loan and investment balances.
- Information demonstrating compliance with prudential indicators.
- Extent of compliance with Treasury Strategy and reasons for variance (if any).

The Treasury Specialist will produce for each meeting of the Treasury Management Group

- Borrowing and lending balances
- Cash flow report
- Market Intelligence

The Treasury Specialist will bring any major issues to the attention of the Head of Financial Services officer outside of scheduled meetings.

TMP7 Budgeting, Accounting and audit Arrangements

7.1 Statutory/Regulatory Requirements

The accounts are drawn up in accordance with the Code of Practice on Local Authority Accounting in Great Britain that is recognised by statute as representing proper accounting practices.
The Council has also adopted in full the principles set out in CIPFA's 'Treasury Management in the Public Services - Code of Practice' (the 'CIPFA Code'), together with those of its specific recommendations that are relevant to this Council's treasury management activities.

7.2 Budgets/Accounts

Head of Financial Services in consultation with the Strategic Lead (Finance Service Desk) and Treasury Specialist will prepare revenue estimates for treasury management activity and function for the medium-term financial planning period.

This will bring together all the costs involved in running the function, together with associated income, i.e.:

- Interest payable
- Interest receivable
- Debt management expenses (including bank charges, external advisors etc)

The Treasury Specialist will monitor and report on these estimates throughout the year in accordance with the Council's budget monitoring arrangements.

7.3 Information requirements of Auditors

- Related treasury information/ records will be provided upon request.

TMP8 - Cash and cash flow management

8.1 Arrangements for preparing /submitting cash flow statements

The Treasury Specialist shall keep up to date annual and daily rolling cash flow projections. The projections are prepared from the Medium Term Financial Plan and accumulated knowledge on individual cash flow items, adjusted for known changes in levels of income and expenditure (revenue and capital) and changes in payments and receipts dates. Daily Cash Flow records are maintained on the Treasury Live system.

TMP9 Money Laundering

9.1 Local authorities

Public service organisations and their staff are subject to the full provisions of the Terrorism Act 2000 and may commit most of the principal offences under the Proceeds of Crime Act (POCA), but are not legally obliged to apply the provisions of the Money Laundering Regulations, 2012, 2015 and 2017. However, as responsible public bodies, they should employ policies and procedures which reflect the essence of the UK's anti-terrorist financing, and anti-money laundering, regimes. Accordingly, this Council will do the following: -

- Evaluate the prospect of laundered monies being handled by them
- Determine the appropriate safeguards to be put in place
- Require every person engaged in treasury management to make themselves aware of their personal and legal responsibilities for money laundering awareness
- Make all its staff aware of their responsibilities under POCA
- Appoint a member of staff to whom they can report any suspicions.
- In order to ensure compliance is appropriately managed, this council will require senior management to give appropriate oversight, analysis and assessment of the risks of clients and work/product types, systems for monitoring compliance with procedures and methods of communicating procedures and other information to personnel.
- The officer responsible for the creation and monitoring the implementation of a corporate anti money laundering policy and procedures is the Chief Finance Officer and it shall be a requirement that all services and departments implement this corporate policy and procedures.

9.2 Procedures for establishing Identity of Lenders/Borrowers

The Council does not accept loans from individuals.

All loans are obtained from the PWLB, other local authorities or from authorised institutions under the Financial Services and Markets Act 2000.
The identity and authenticity of commercial institutions (banks, building societies and other financial institutions) authorised to carry out borrowing and lending activity in the UK will be checked via the Bank of England/Prudential Regulation Authority's website.

The Council will only borrow from permitted sources identified in TMP4.

All banking transactions will only be undertaken by the personnel authorised to operate the Council's bank accounts.

9.3 Other payees

When receiving requests for change of payment details due care is exercised to ascertain the bona fide of the request and avoid potential fraud. Checks will be made through pre-existing contact details for the payee before altering payment details.

Banking details for new payees should be reconfirmed thorough appropriate means such as call back.

9.4 Methodologies for identifying deposit takers

In the course of its treasury activities, the council will only lend money to or invest with those counterparties that are on its approved lending list.

TMP10 - Training and Qualifications

10.1.1 The council must 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.

As a minimum, we will 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 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.

The Chief Finance Officer will ensure that Council members tasked with Treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their need and those responsibilities.

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

10.1.3 The Chief Finance Officer is committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained. Other staff involved in Treasury Management activities who are members of CIPFA must also comply with the SOPP (Statement of Professional Practice).

10.1.4 Details of staff training needs will be identified, as part of the training needs analysis undertaken as part of the Council's Performance Management Framework.

10.1.5 In addition all treasury management staff will receive appropriate training relevant to the requirements and duties of their role prior to undertaking those duties.

10.1.6 The training needs of each of the following roles is documented, reviewed and delivered by the Head of Financial Services or his nominee:

- Dealing staff
- Releasers
- Authorising Staff

10.1.7 Training updates will be provided as required. Regular meetings will be co-ordinated by the Treasury Specialist with Dealing Staff to ensure they are up to date with developments on Treasury issues (e.g. Strategy decisions arising from TMG).

10.1.8 Treasury management seminars will be attended as appropriate and will be open to all relevant staff.

10.1.9 The Head of Financial Services will ensure that there are sufficient trained staff in each of the roles to ensure:

- No disruption of effective treasury management service or standards,
- That there is adequate cover and succession arrangements in the event of departure of key staff.
- That there are opportunities for staff to develop their skills.

TMP11 - Use of external service providers

Responsibility for Treasury management decisions remains with the Council at all times.

11.1.1 Banking Services

Barclays Bank PLC
PO Box No 3333 1 Snow Hill
Snow Hill Queensway
Birmingham B3 2WN

11.1.2 Money Broking Services

- Martin Brokers
- Tullett Prebon
- ICAP (restricted to Borrowing transactions only)
- King and Shaxson Limited
- BGC Sterling

- Tradition UK
- Imperial Treasury Brokers
- Institutional Cash Distributors (ICD)

Additional money brokerage service providers may be added subject to approval of Treasury Management Group.

11.1.3 **Treasury Advisers**

Link Asset Services

11.1.4 **Deals Recording**

Public Sector Live

11.1.5 **Bribery Act**

The council is mindful of the requirements of the Bribery Act 2011 in its dealings with external providers.

TMP12 - Corporate Governance

All applicable treasury related documents will be available on council's website such as Treasury Management Strategy statement etc.

Note that in order to maintain commercial confidentially, requests for more detailed information should be made to inforequest@northlincs.gov.uk clearly explaining the information you would like and providing a contact email or postal address.

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Report of the Director: Outcomes Meeting: 24 January 2024

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

TREASURY MANAGEMENT QUARTER THREE 2023-24

1. OBJECT AND KEY POINTS IN THIIS REPORT

1.1 This report provides an overview of the council' treasury performance during the first three months of 2023-24 and sets out national factors that affect the council's treasury activity.

1.2 The key points are that the council's –

- Investment returns are forecast too be £1.960m for the year.
- Borrowing remains comfortably within the control levels set and no new borrowing was undertaken.
- Treasury activity was compliant with the Prudential Indicators set for the financial year.

2. BACKGROUND INFORMATION

2.1 This report fulfils the Authority's legal obligation under the Local Government Act to have regard to both the CIPFA Code and the Department for Levelling Up, Housing and Communities (DLUHC). The Treasury Management Code of Practice 2021 stipulates that quarterly update reports on treasury management are required from 2023/24, providing assurance on the effectiveness of the Council's treasury management arrangements.

2.2 The CIPFA Code sets out the following objectives for treasury management:

"It is important that treasury management policies adequately reflect risk and in particular security, liquidity and yield risk, in that order of importance. No treasury management transaction is without risk and management of risks is the key purpose of the treasury management strategy."

2.3 Full Council agreed the Treasury Management Strategy Statement (TMSS) for 2023/24 in February 2023.

3. OPTIONS FOR CONSIDERATION

3.1 This is a report for the Audit Committee to consider the quarter three treasury management activity and performance. Full details of the quarter one review are attached in appendix 1.

4. ANALYSIS OF OPTIONS

4.1 The key messages are:

- Interest rates have remained elevated during the year. The bank rate is expected to remain at the current 5.25% until June 2024, when a decrease to 5% is predicted. Rates are then expected to continue to reduce reaching 3% by December 2025.

- The Council aims to achieve optimum return on its investments in accordance with its priorities of security, liquidity, and risk appetite. Investment returns to 31st December 2023 were £1.650m.

- Average investment balances during the quarter were £49.6m. The council remains in a position where it can meet its liabilities, while managing risks associated with carrying cash balances.

- The investment activity during the year conformed to the approved limits within the strategy, and the Council had no liquidity difficulties.

- No new borrowing has taken place during the first quarter of the year.

- It is likely that further borrowing will be required towards the end of this financial year.

5. RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY, IT)

5.1 Not applicable

6. OTHER IMPLICATIONS (STATUTORY, ENVIRONMENTAL,DIVERSITY, SECTION 17 - CRIME AND DISORDER, RISK AND OTHER)

6.1 Risk and external factors are considered in the monitoring report.

7. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)

7.1. Not applicable.

8. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

8.1 Not applicable.

9. RECOMMENDATIONS

9.1 That the Audit Committee considers the assurance provided by this report on the effectiveness of the arrangements for treasury management, and:

9.2 That the Audit Committee note the report and the treasury management activity during the first quarter of 2023/24.

DIRECTOR: OUTCOMES

Church Square House 30-40 High Street Scunthorpe
North Lincolnshire DN15 6NL

Author: Tracy Falshaw Date: 9th January 2023

Background Papers used in the preparation of this report

Council
2023-24 Treasury Management Strategy 2023-24 Capital Programme
CIPFA Publications
Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (2017 Edition)
The Prudential Code for Capital Finance in Local Authorities (2017 Edition)

Legislation and Central Government Guidance Local Government Act 2003
The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003
DLUHC

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Treasury Management Update

1

Quarterly report

31st December 2023 (Q3 2023-24)

Contents

Treasury Management Update
Quarter Ended 31st December 2023 (Q3 2023/24)

The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management 2021 recommends that members be updated on treasury management activities at least quarterly. This report, therefore, ensures this Council is implementing best practice in accordance with the Code.

2. Interest rate forecasts

The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 0.20%) which has been accessible to most authorities since 1st November 2012.

Link Group Interest Rate View	07.11.23												
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.25	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.40	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.50	3.30	3.30	3.30	3.30	3.30
5 yr PWLB	5.00	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
10 yr PWLB	5.10	5.00	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.70	3.60	3.60	3.50
25 yr PWLB	5.50	5.30	5.10	4.90	4.70	4.50	4.30	4.20	4.10	4.10	4.00	4.00	4.00
50 yr PWLB	5.30	5.10	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.80	3.80	3.80

- LIBOR and LIBID rates ceased at the end of 2021. In a continuation of previous views, money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.
- The Link forecast for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short-term cash at any one point in time.

A SUMMARY OVERVIEW OF THE FUTURE PATH OF BANK RATE

- Our treasury advisor's central forecast for interest rates was previously updated on 7th November and reflected a view that the MPC would be keen to underpin its anti-inflation credentials by keeping Bank Rate at 5.25% until at least H2 2024. We expect rate cuts to start when both the CPI inflation and wage/employment data are unequivocally supportive of such a move, and that there is a strong likelihood of the overall economy enduring tepid growth (at best) or a mild recession (at worst) over the coming months.

- Naturally, timing on this matter will remain 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.

- 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 also international factors.

- On the positive side, consumers are still anticipated to be sitting on some excess savings left over from the pandemic, which could cushion some of the impact of the above challenges and may be the reason why the economy is performing a little better at this stage of the economic cycle than may have been expected. Nonetheless, with approximately 400,000 households per quarter facing a mortgage interest reset at higher levels than their current rate, the economy will face on-going headwinds from that source, in addition to lower income households having to spend disproportionately on essentials such as food, energy and rent payments.

PWLB RATES

- Gilt yields have endured a volatile nine months with yields rising significantly on the back of inflation concerns before retracing much of those increases in November and December. With the market now anticipating rate cuts by H2 2024, the short and medium parts of the curve are now close to where they started 2023/24, but the longer part of the curve is still a little higher. At the time of writing there is c50 basis points difference between the 5 and 50 year parts of the curve.

The balance of risks to the UK economy
There is currently a risk to UK economic growth due to a range of factors including a potential recession, potential labour shortages and uncertainty to whether the bank of England's interest rate strategy is working.

3. Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2023/24, which includes the Annual Investment Strategy, was approved by the Council on **13th February 2023**. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:

- Security of capital
- Liquidity
- Yield

The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity, aligned with the Council's risk appetite. In the current economic climate, over and above keeping investments short-term to cover cash flow needs, there is a benefit to seek out value available in periods up to 12 months with high credit rated financial institutions, using the Link suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information. *(Amend if you use your own creditworthiness approach.)*

As shown by the charts below and the interest rate forecasts in section 2, investment rates have remained elevated during 2023/24 but are now expected to have peaked.

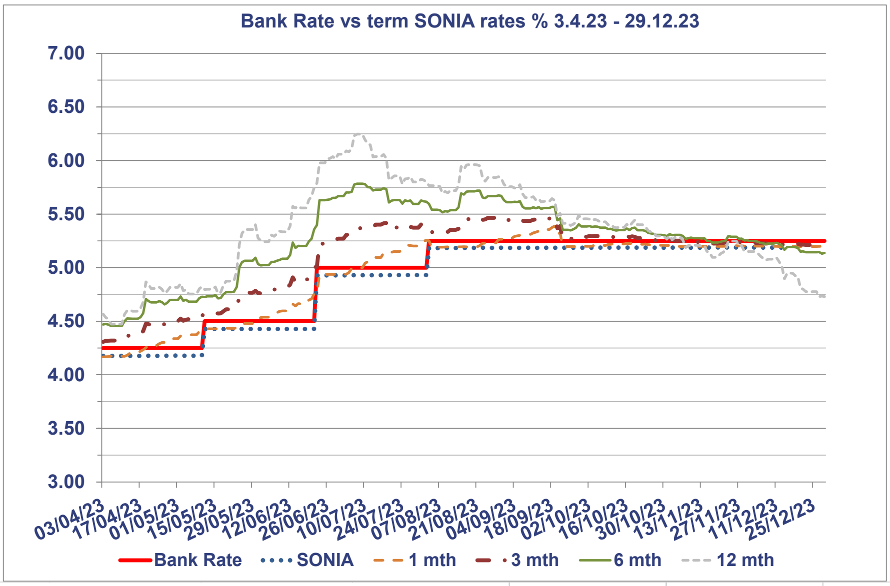
Creditworthiness.
There have been few changes to credit ratings over the quarter under review. However, officers continue to closely monitor these, and other measures of creditworthiness to ensure that only appropriate counterparties are considered for investment purposes.

Investment counterparty criteria
The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function OR i*nsert any changes to the criteria you wish to make, with supporting criteria.*

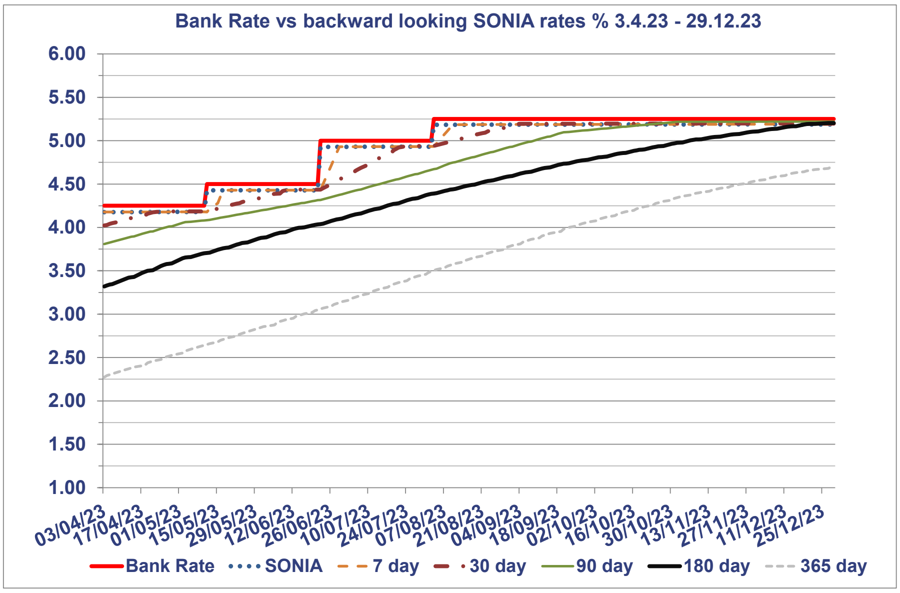
CDS prices
For UK banks, there are no underlying negative themes. Prices are not misaligned with other creditworthiness indicators, such as credit ratings. Nevertheless, it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

Investment balances
The average level of funds available for investment purposes during the quarter was **£49.6m**. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme.

Investment performance year to date 31st December 2023

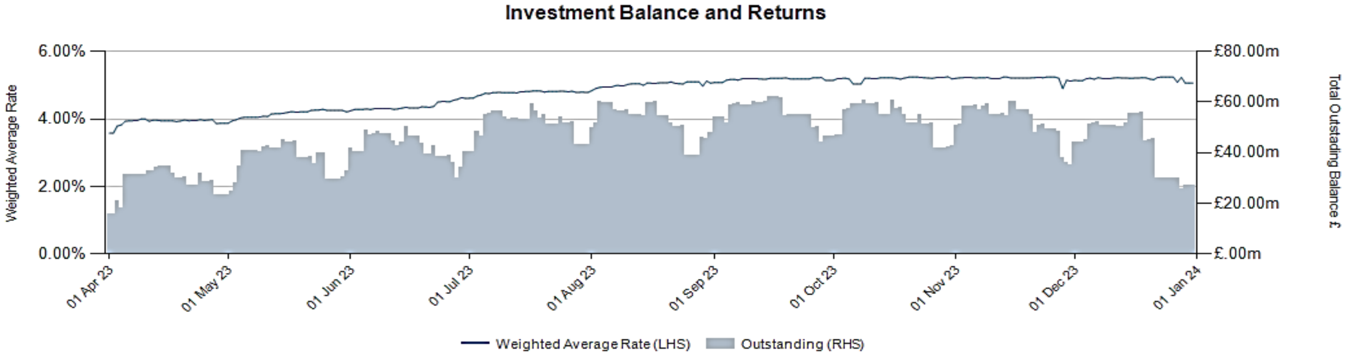


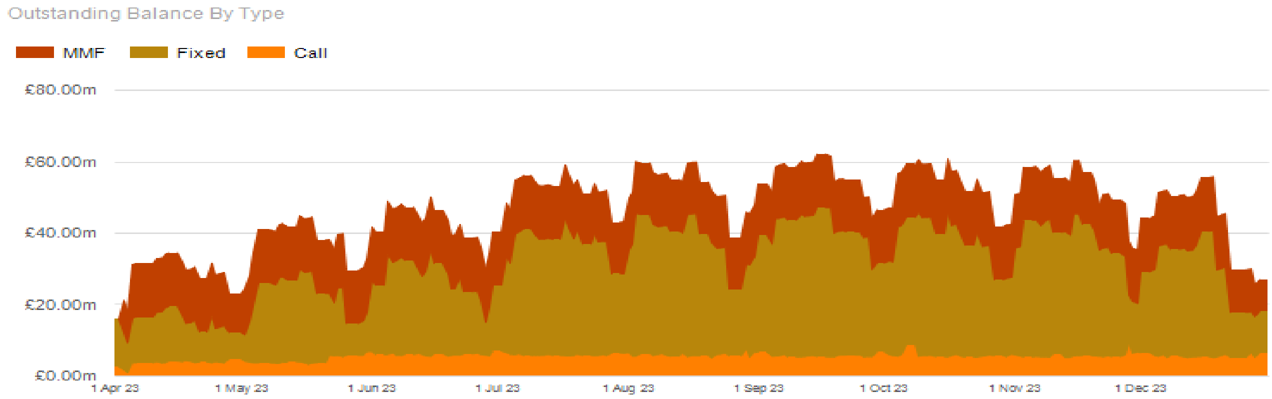
FINANCIAL YEAR TO QUARTER ENDED 29/12/2023						
	Bank Rate	**SONIA**	**1 mth**	**3 mth**	**6 mth**	**12 mth**
High	5.25	5.19	5.39	5.48	5.78	6.25
High Date	03/08/2023	24/11/2023	19/09/2023	30/08/2023	07/07/2023	07/07/2023
Low	4.25	4.18	4.17	4.31	4.46	4.47
Low Date	03/04/2023	04/04/2023	03/04/2023	03/04/2023	06/04/2023	06/04/2023
Average	4.95	4.89	4.96	5.10	5.26	5.36
Spread	1.00	1.01	1.22	1.17	1.33	1.77



FINANCIAL YEAR TO QUARTER ENDED 29/12/2023							
	Bank Rate	**SONIA**	**7 day**	**30 day**	**90 day**	**180 day**	**365 day**
High	5.25	5.19	5.19	5.20	5.22	5.20	4.70
High Date	03/08/2023	24/11/2023	27/11/2023	12/12/2023	22/12/2023	29/12/2023	29/12/2023
Low	4.25	4.18	4.18	4.02	3.81	3.32	2.27
Low Date	03/04/2023	04/04/2023	11/04/2023	03/04/2023	03/04/2023	03/04/2023	03/04/2023
Average	4.95	4.89	4.88	4.84	4.71	4.43	3.60
Spread	1.00	1.01	1.01	1.18	1.41	1.88	2.43

Investment Balances and Returns 1st April until 31st December 2023





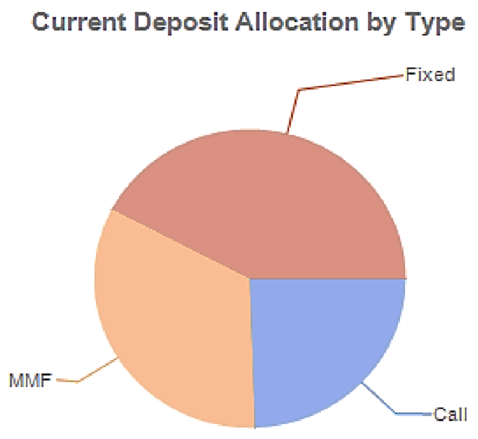
Over the period from quarter 1 to 3 the average SONIA rate was 4.88%, Council investments achieved 4.81%.

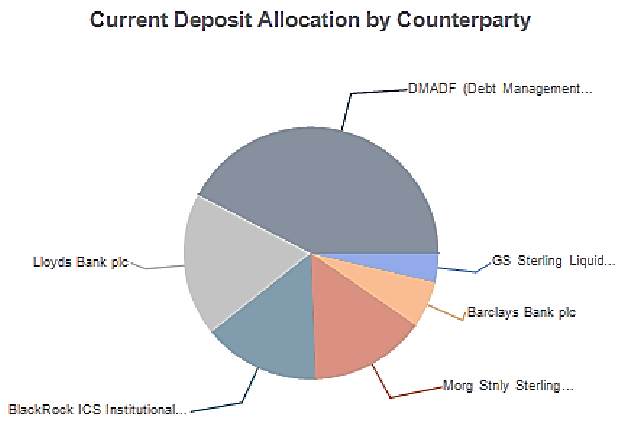
The Council's budgeted investment return for 2023/24 is **£0.525m**, the investment return to 31st December 2023 is **£1.650m** and the forecast for the year is **£1.960m.**

Fund investments as at 31st December 2023

- Money Market Funds (MMFs) £15,000,000.00
- Call Account £5,000,000
- DMO £11,450,000

Investment composition as at 31st December 2023





Approved limits
The approved limits within the Annual Investment Strategy were not breached during the quarter ended 31st December 2023.

A full list of investments held as of 31st December 2023 is in appendix 2.

4. Borrowing

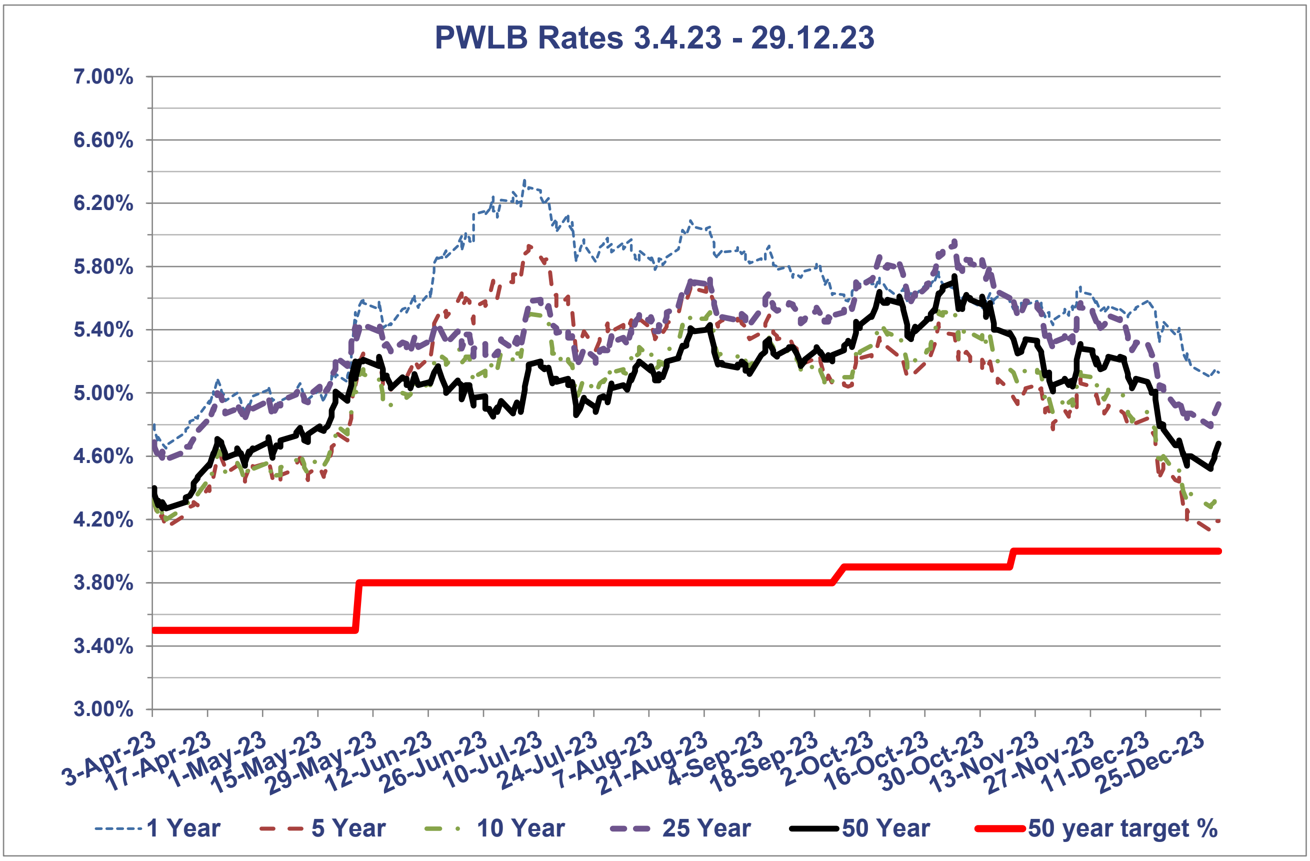
No borrowing was undertaken during the quarter ended 31st December 2023. It is anticipated that further borrowing will be undertaken during this financial year.

To minimise investment risk, the Council has reduced the overall debt liability by repaying £8.6m of external debt.

PWLB maturity Certainty Rates 3rd April to 29th December 2023
Gilt yields and PWLB rates were on a rising trend from April through to October but dropped back significantly in November and December.

The 50-year PWLB Certainty Rate target for new long-term borrowing started 2023/24 at 3.50% (the lowest forecast rate within a two-year time horizon), increasing to a peak of 4.00% in November. With rates elevated across the whole of the curve, it is advised to not borrow long-term unless the Authority wants certainty of rate and judges the cost to be affordable.

PWLB RATES 3.4.23 - 29.12.23 (note: the 1st/2nd April was a weekend)



HIGH/LOW/AVERAGE PWLB RATES FOR 3.4.23 – 29.12.23

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.65%	4.13%	4.20%	4.58%	4.27%
Date	06/04/2023	27/12/2023	06/04/2023	06/04/2023	05/04/2023
High	6.36%	5.93%	5.53%	5.96%	5.74%
Date	06/07/2023	07/07/2023	23/10/2023	23/10/2023	23/10/2023
Average	5.60%	5.09%	5.03%	5.35%	5.08%
Spread	1.71%	1.80%	1.33%	1.38%	1.47%

5. Debt rescheduling

Debt rescheduling opportunities have increased significantly in the current quarter where gilt yields, which underpin PWLB rates and market loans, have risen materially. Members will be advised if there is value to be had by rescheduling or repaying a part of the debt portfolio.

6. Compliance with Treasury and Prudential Limits

The prudential and treasury Indicators are shown in Appendix 1.

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the *quarter ended* 31st December 2023*,* the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2023/24. The Chief financial Officer reports that no difficulties are envisaged for the current or future years in complying with these indicators.

All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices.

APPENDIX 1: Prudential and Treasury Indicators for 2023-24 as of 31st December 2023

Treasury Indicators	2022/23 Actual £'000	2023/24 Forecast £'000
Authorised limit for external debt	172,671	188,876
Operational boundary for external debt	167,671	178,876
Gross external debt	144,571	144,300
Investments	15,938	10,000
Net borrowing	128,633	134,300

Maturity structure of fixed rate borrowing - upper and lower limits		
Under 12 months	10,267	10,398
12 months to 2 years	10,398	15,001
2 years to 5 years	27,473	20,644
5 years to 10 years	47,078	51,852
10 years to 20 years *1	25,482	13,240
20 years to 30 years *1	14,380	19,121
30 years to 40 years *1	9,492	4,048
40 years to 50 years *1	0	

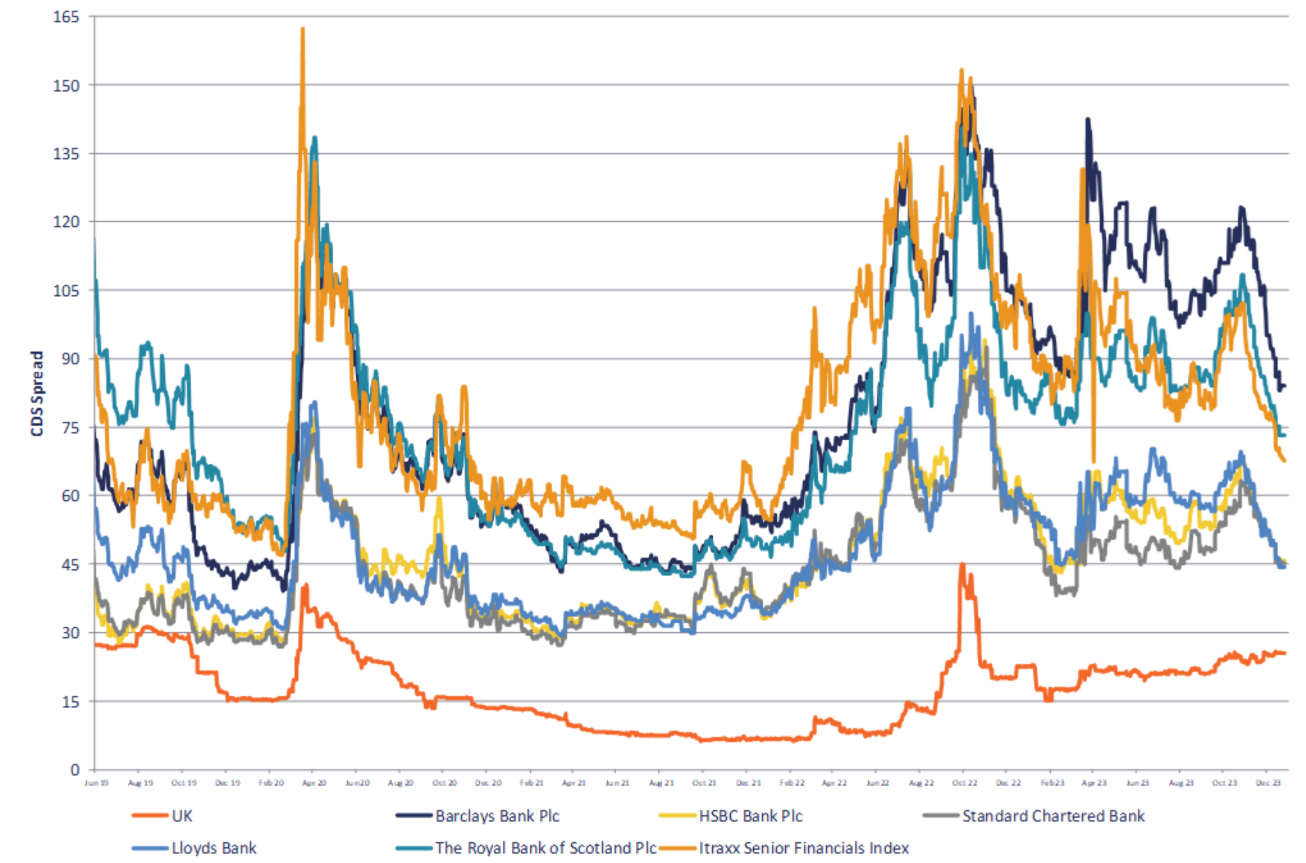
Prudential Indicators	2022/23 Actual £'000	2023/24 Forecast £'000
Capital expenditure *	39,724	46,400
Capital Financing Requirement (CFR) *	247,671	258,600
Annual change in CFR *	3,255	10,900
In year borrowing requirement	0	10,000
Ratio of financing costs to net revenue stream *	7%	6.8%

APPENDIX 2: Investment Portfolio

Investments held as of 31st December 2023 compared to our counterparty list:

Link Group investment report for 31st December 2023 – not available yet

UK Banks 5 Year Senior Debt CDS Spreads as of 31st December 2023
This is an optional graph which shows the assessment of creditworthiness risk of key banks. The cost of insuring against default is shown in basis points down the left- hand axis. Credit risk has reduced markedly in recent weeks. The cost of insuring against the prospect of default is still low in historic terms. (The chart below shows the cost in basis points of ensuring against the prospect of default on 5 year “paper” issued by major UK banks v the ITRAXX Senior Financials Index.)



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Audit Progress Report

North Lincolnshire Council

January 2024

mazars

Contents

01

Section 01:

Audit progress

1. Audit progress

Purpose of this report

This report provides the Audit Committee with an update on progress in delivering our responsibilities as your external auditors. It includes updates on the national delays in completing 2021/22 audits and how this affects the Council and the timing of our 2022/23 audit. It also includes, at Section 2, a summary of recent national reports and publications for your information.

2021/22 Audit

The position on the key elements of the 2021/22 audit is summarised below.

Financial Statements audit

We have now concluded our audit work on the 2021/22 financial statements.

Whole of government accounts

When we have issued the 2021/22 audit opinion, we will also be able to report to the NAO on WGA but once again we anticipate a delay before we can issue the audit certificate. This is because we need to wait for confirmation from the NAO about their arrangements for selecting sampled components for additional work.

Value for money arrangements

Our work for 2021/22 will be reported alongside our work for 2022/23.

2022/23 Audit

Our Audit Completion Report for the 2022/23 audit was presented to the Audit Committee on 22 November 2023. This confirmed that our audit fieldwork was substantially complete and included details of the outstanding matters at the time of issuing the report. Since issuing the Audit Completion report we have concluded our testing of cost of service expenditure and our IT audit work. The key outstanding areas are property, plant and equipment and pensions. We are aiming to complete our audit work in relation to the 2022/23 audit by the end of March 2024.

02

Section 02:

National publications

National publications

Publication / Update		Key points
National Audit Office (NAO)		
1.	Condition of school buildings, June 2023	Report which examines whether the Department for Education (DfE) is achieving its objective to ensure the school estate in England contains the safe and well-maintained school buildings that it regards as essential for a high-quality education.
2.	Whole of Government Accounts 2020/21, 20 July 2023	Publication of the Whole of Government Accounts for 2020/21, along with a qualified audit certificate and report by the Comptroller and Auditor General.
3.	Financial management in government: strategic planning and budgeting, September 2023	This guide is for senior finance leaders in government departments and other public bodies. It sets out the first stage in the financial management lifecycle: strategic planning and budgeting.
4.	Investigation into the Homes for Ukraine scheme, October 2023	This report aims to increase transparency by taking stock of what has been achieved to date, for what cost, and what can be learned.
5.	Reducing the harm from illegal drugs, October 2023	This report examines whether the government is well positioned to achieve the strategy's 10-year ambitions.
6.	Reforming adult social care in England, 10 November 2023	This report looks at how DHSC is responding to the challenges facing adult social care in England, and its progress with delivering the reforms set out in the 2021 white paper.
7.	Resilience to flooding, 15 November 2023	NAO last reported on government's management of flood risk in November 2020. In this report, we look at the government's long-term ambition "to create a nation more resilient to future flood and coastal erosion risk" and, in the more immediate term, whether Defra and EA are delivering value for money after two years of the capital programme. To do this, we have assessed Defra's progress against the backdrop of its 2020 policy statement and EA's 2020 strategy. We also assess EA's performance in maintaining existing flood defence assets.
Public Sector Audit Appointments (PSAA)		
8.	PSAA announces the number of audit opinions completed for the 2022/23 audits (10 October 2023)	At the publishing date of 30 September 2023, only 5 out of 467 local government bodies' 2022/23 audit opinions have been given. This adds to the 456 that are outstanding from previous years.
9.	PSAA October 2023 Update, 17 October 2023	This edition of our quarterly e-bulletin includes an update on the 2022/23 audit opinion delivery, news on our consultation on 2023/24 audit scale fees and a summary of local audit news from elsewhere.

National publications

Publication / Update		Key points
Chartered Institute of Finance and Accountancy (CIPFA)		
10.	Section 114s: where are we headed next? 16 August 2023	Rob Whiteman, CIPFA CEO assesses the latest position on s114 notices (where formal action needs to be taken to balance a Council's finances), what has been done to prevent further s114 notices, whether more will occur and what the sector should do. This originally appeared as an article in the Municipal Journal on 31 July 2023.
Department for Levelling Up, Housing and Communities (DLUHC)		
11.	Letter from the Parliamentary Under-Secretary of State for Local Government and Building Safety to the Chair of the Levelling Up, Housing and Communities Committee, UK Parliament, 14 July 2023	Lee Rowley MP's letter to the Chair of the Levelling Up, Housing and Communities Committee, UK Parliament on Local Audit Delays – Cross-System Statement on Proposals to Clear the Backlog and Embed Timely Audits.
12.	Municipal Journal Article by a Local Government Minister on Rebuilding Audit, 30 October 2023	An article by Lee Rowley MP in Municipal Journal and the most up-to-date statement at the current time of proposals to address the backlog of local government audits.

NATIONAL PUBLICATIONS

National Audit Office

1. Condition of school buildings – June 2023

The NAO has published its report Condition of school buildings which examines whether the Department for Education (DfE) is achieving its objective to ensure the school estate in England contains the safe and well-maintained school buildings that it regards as essential for a high-quality education. The evaluative criteria for assessing value for money include whether DfE has:

• a good understanding of the condition of school buildings

• appropriate arrangements to allocate funding for school buildings in line with need

• effective ways to support the sector.

The report covers:

• the school system and DfE's overarching school building maintenance approach (Part One)

• DfE's understanding of the condition of school buildings (Part Two)

• how DfE matches funding to need (Part Three).

Conclusions:

DfE is accountable for providing those bodies responsible for school buildings with the funding and support to enable them to meet their responsibility to ensure school buildings are safe and well maintained.

Following years of underinvestment, the estate's overall condition is declining and around 700,000 pupils are learning in a school that the responsible body or DfE believes needs major rebuilding or refurbishment.

Most seriously, DfE recognises significant safety concerns across the estate, and has escalated these concerns to the government risk register.

https://www.nao.org.uk/reports/condition-of-school-buildings/

Since NAO published their report, safety concerns about the use of re-enforced autoclaved aerated concrete (RAAC) in public buildings, especially schools, has prompted extensive school closures and expenditure on surveys and remedial work. Although we understand that the impact on the Council's schools has been limited, the issue illustrates the impact of under-investment in maintaining school buildings highlighted in the NAO report.

NATIONAL PUBLICATIONS
National Audit Office

2. Whole of Government Accounts 2020/21, 20 July 2023

Publication of the Whole of Government Accounts for 2020/21, along with a qualified audit certificate and report by the Comptroller and Auditor General.

The Whole of Government Accounts consolidates the accounts of central and local government and public corporations such as the Bank of England, to provide the most complete and accurate picture of the UK's public finances.

Whole of Government Accounts (WGA) consolidates the audited accounts of over 10,000 organisations across the UK public sector. WGA is based on International Financial Reporting Standards, the system of accounts used internationally by the private sector.

This is the twelfth year of publication of the WGA. The UK is among the most advanced countries in this regard and the WGA is a uniquely comprehensive product; as it is the only set of consolidated public sector accounts that includes both central government, local government and government owned corporations.

The WGA is independently audited by the National Audit Office providing greater confidence in the figures and supports effective scrutiny by Parliament. This scrutiny is exercised by the Public Accounts Committee who examine the accounts each year.

In the event the Comptroller and Auditor General qualified the audit certificate and report on a number of points.

Link to further information:

https://www.nao.org.uk/reports/whole-of-government-accounts-2020-21/

NATIONAL PUBLICATIONS
National Audit Office

3. Financial management in government: strategic planning and budgeting – September 2023

The guide outlines how finance leaders can plan strategically and realistically to:

• Align strategy and planning;

• Make planning inclusive;

• Plan dynamically;

• Address optimism bias; and

• Deal with risk and uncertainty.

The insights have been drawn from NAO reports, the experiences of NAO audit teams, and the thoughts of a range of senior finance decision-makers.

Financial management in government: strategic planning and budgeting - NAO insight

This guide is part of a series supporting financial management in the public sector. NAO also published the following guide in July 2023:

- Enablers to success

National Audit Office

4. Investigation into the Homes for Ukraine scheme – October 2023

The UK government launched the Homes for Ukraine scheme (the scheme) on 14 March 2022, following the Russian invasion of Ukraine in February 2022. The scheme enables people in the UK to act as sponsors for Ukrainian nationals and their families seeking refuge from the war, with individuals being granted three-year visas to stay in the UK, with full access to public services, benefits, and other support.

Any adult is able to act as a sponsor, providing they pass eligibility checks conducted by the Home Office and local authorities. Sponsors must commit to hosting for a minimum of six months and can claim thank you payments from government for providing suitable accommodation for Ukrainians to live in of £350 per month for the first 12 months, and then £500 for the next 12 months. In addition, the local authority where the sponsor is based receives a one-off payment of £10,500 per arrival (reduced to £5,900 for all arrivals after 31 December 2022) to help with support and integration needs.

The scheme is jointly run by the Department for Levelling Up, Housing & Communities (DLUHC) and the Home Office, who established a joint taskforce in March 2022. The Home Office primarily leads on operational matters relating to the processing of visas and checks on the suitability of the sponsor. DLUHC leads on all aspects of the scheme from the point of arrival of Ukrainians into the UK, working closely with local authorities and devolved governments.

Scope of the report

The first people to arrive in the UK under the scheme are now halfway through their permitted stay, and the emergency phase of the UK government's response to the Ukraine refugee crisis has come to a close. This report aims to increase transparency by taking stock of what has been achieved to date, for what cost, and what can be learned. The report sets out:

• how the scheme was set up at speed and the scheme objectives

• arrival numbers and the checks conducted on applicants and sponsors

• the funding provided

• challenges and future risks with the scheme

This investigation does not seek to examine and report on the value for money of the scheme.

https://www.nao.org.uk/reports/investigation-into-the-homes-for-ukraine-scheme/

National Audit Office

5. Reducing the harm from illegal drugs – October 2023

Scope of the report

It is almost two years since the government introduced its latest drugs strategy and less than 18 months remain in the current funding period to March 2025. This report examines whether the government is well positioned to achieve the strategy's 10-year ambitions. It covers:

- the development of the 2021 drugs strategy, its objectives and funding
- progress in implementing the strategy
- the approach to achieving the strategy's long-term outcomes

It is too early to conclude whether the 2021 strategy will reduce the harm from illegal drugs. It will take time for new funding and interventions to address a complex set of issues, and many of the indicators used to measure progress lag behind activity. This report therefore assesses whether departments are making the planned progress in implementing the strategy, and whether the JCDU has an effective approach to understanding the impact it is having and managing the risks to achieving the strategy's aims. It does not examine the effectiveness of interventions at the local level.

Conclusions

In 2021 the government estimated that the harm caused by illegal drugs costs society £20 billion each year. Its 2021 drugs strategy, led by the cross-government Joint Combating Drugs Unit, has provided new impetus to efforts to address these harms, and committed £900 million to 2024-25.

The strategy has established new partnerships across central and local government, and local authorities are taking steps to rebuild the workforce that was lost over the past decade. But these measures alone will not address all of the barriers to achieving a long-term reduction in drug use, deaths and related crime. The issues are complex and will require a sustained long-term response.

To inform government's response, the JCDU and relevant departments need to develop a deeper understanding of the impacts of government spending, working closely with local service providers to understand and help address the practical challenges they face. The JCDU and departments need to be realistic about what is achievable in the first three years and assess how to adapt their approach to achieve the strategy's 10-year outcomes.

In doing so, the JCDU should seek to provide confidence to local government that this is a long-term commitment. It must also urgently develop a plan to reduce the demand for illegal drugs. The current lack of emphasis on preventing illegal drug use means that departments risk only addressing the consequences, rather than the causes, of harm. The government will only achieve value for money if it builds on the initial momentum of the new strategy and develops a longer-term, funded plan that delivers a joined-up, holistic response.

https://www.nao.org.uk/reports/reducing-the-harm-from-illegal-drugs/

NATIONAL PUBLICATIONS
National Audit Office

6. Reforming adult social care in England, 10 November 2023

This report looks at how DHSC is responding to the challenges facing adult social care in England, and its progress with delivering the reforms set out in the 2021 white paper.

This report examined:

- key pressures and challenges in adult social care in England
- DHSC's response to increasing pressures in adult social care during 2022
- how DHSC is delivering reform and progress against its commitments

DHSC's 10-year vision for adult social care reform was broadly welcomed by the sector as a step forward. But rising inflation compounded long-standing pressures and led DHSC to reprioritise money and activity to provide local authorities and care providers with some much-needed financial stability.

The sector remains challenged by chronic workforce shortages, long waiting lists for care and fragile provider and local authority finances. Although there are some early signs of improvement in some of these, it remains to be seen whether these trends will continue and at what cost.

Two years into its 10-year plan, DHSC has delayed its charging reforms, scaled back system reform, and is behind on some aspects of its revised plan. It has a long way to go if it is to deliver its ambitions. If DHSC is to successfully reform adult social care, it will need to manage some significant risks, including its own capacity and that of local government to resume charging reform activity alongside system reform.

To maximise its chances of succeeding, DHSC will need to make sure it understands how the different strands of its reforms relate to each other, and the cumulative impact on local authorities and other stakeholders. It must be clear what the critical steps are, manage delivery against those closely and put in place governance needed to manage delivery risks effectively.

Adult social care reform has been an intractable political challenge for decades, and in 2019 DHSC raised expectations that it would be addressed. Working with the sector, DHSC now needs to demonstrate how it is delivering on these plans.

Link to further information:

https://www.nao.org.uk/reports/reforming-adult-social-care-in-england/

National Audit Office

7. Resilience to flooding, 15 November 2023

NAO last reported on government's management of flood risk in November 2020. In this report, we look at the government's long-term ambition "to create a nation more resilient to future flood and coastal erosion risk" and, in the more immediate term, whether Defra and EA are delivering value for money after two years of the capital programme. To do this, we have assessed Defra's progress against the backdrop of its 2020 policy statement and EA's 2020 strategy. We also assess EA's performance in maintaining existing flood defence assets.

The report covers:

- the government's long-term ambition and objectives and Defra's governance, understanding and management of flood risk
- progress on the capital programme to build new flood defences and risks to future delivery
- EA's performance in maintaining flood defence assets

To combat the growing dangers from flooding, the government has doubled its capital funding in England for the six years to 2027. To manage the larger capital programme and record levels of investment, Defra has intensified its scrutiny and is taking steps with EA to develop a more granular understanding of flood risk.

However, the capital funding is forecast to deliver protection to far fewer properties by 2027 than was promised when the capital programme was launched. Due to underspending in the first two years of the programme, EA will need to achieve record levels of investment in the remaining four years of the programme to spend the full £5.2 billion allocated to the programme. There is a risk that value for money will be further eroded if projects are accelerated or new projects are introduced too quickly to meet this level of investment.

On top of this, EA's maintenance of its assets is not optimising value for money. For the lack of £34 million in annual maintenance funding for 2022-23, more than 200,000 properties are at increased risk of flooding. At the same time, EA underspent by £310 million in the first two years of the capital programme. Neither Defra nor EA assessed whether using some of this underspend to meet the shortfall in its maintenance budget in 2022-23 would have provided better value for money than deferring it to later in the capital programme.

The government acknowledges that building new flood defences and maintaining existing ones is no longer enough and that a wider range of interventions is now needed to build resilience against increasing flood risk. Although the government's vision for flood resilience stretches to the year 2100 and EA has a number of strategic objectives for 2050, it has not set a target for the level of flood resilience it expects to achieve and has not mapped out any solid plans beyond 2026 to bridge the gap between its shorter-term actions and long-term objectives. This will make it difficult for the government to make rational and informed decisions about its priorities, measure its progress or plan effective investment for the long term.

Link to further information:

https://www.nao.org.uk/reports/resilience-to-flooding/

NATIONAL PUBLICATIONS

Public Sector Audit Appointments (PSAA)

8. PSAA announces the number of audit opinions completed for the 2022/23 audits (10 October 2023)

At the publishing date of 30 September 2023, only 5 out of 467 local government bodies' 2022/23 audit opinions have been given. This adds to the 456 that are outstanding from previous years.

Local government bodies are required to publish accounts with an auditor's certificate or opinion by 30 September or to explain the reasons for non-publication. At the publishing date of 30 September 2023, only 5 out of 467 local government bodies' 2022/23 audit opinions have been given. This adds to the 456 that are outstanding from previous years.

The cumulative position of 918 delayed audit opinions emphasises how important it is that there is a successful conclusion to the intensive ongoing work to find a solution to the backlog, and to ensure that it does not recur. PSAA is making every effort to support this work in collaboration with fellow members of the Local Audit Liaison Committee.

Steve Freer, PSAA's Chair said,

'The scale of the backlog of local audit opinions is becoming more and more serious. It is now very clear that an extraordinary intervention of some sort is urgently required to put the system back on track. Hopefully, current work to develop a solution can be concluded quickly, enabling details of the planned solution to be announced and implemented as soon as possible.

An important strand of any solution must be to address the root causes of so many delayed opinions so that following its implementation the delivery of timely opinions is firmly and permanently re-established.'

Link to further information:

https://www.psaa.co.uk/2023/10/psaa-announces-the-number-of-audit-opinions-completed-for-the-2022-23-audits/

Public Sector Audit Appointments (PSAA)

9. PSAA October 2023 Update, 17 October 2023

This edition of the quarterly e-bulletin includes an update on the 2022/23 audit opinion delivery, news on our consultation on 2023/24 audit scale fees and a summary of local audit news from elsewhere.

Content:

- 2022/23 audit opinion delivery
- Update on our consultation on the fee scale for 2023/24 audits
- Additional information for 2022/23 audits
- Contract Monitoring Data Pack: Quarter 1 for 2023/24
- Latest Annual Report and Accounts published
- Local audit news from elsewhere

Link to further information:

https://www.psaa.co.uk/2023/10/october-2023-update/

NATIONAL PUBLICATIONS

Chartered Institute of Finance and Accountancy (CIPFA)

10. Section 114s: where are we headed next?   16 August 2023

Rob Whiteman, CIPFA CEO assesses the latest position on s114 notices (where formal action needs to be taken to balance a Council's finances), what has been done to prevent further s114 notices, whether more will occur and what the sector should do. This originally appeared as an article in the Municipal Journal on 31 July 2023.

This is an assessment of a very topical subject given the increasing number of s114 notices in recent times.

The term 'Section 114' refers to this section of the Local Government Finance Act 1988, part (3) of which sets out the duty of the chief finance officer (CFO) to "make a report under this section if it appears to him that the expenditure of the authority incurred (including expenses it proposes to occur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure".

Issuing the notice under Section 114(3) immediately suspends all financial activity apart from that which is necessary to maintain statutory duties; it also initiates a 21-day period for full council to consider the report and agree urgent action to start to remedy the situation.

CIPFA's guidance states that the authority's external auditors and the Department for Levelling Up, Housing and Communities (DLUHC) should also be notified and 'can step in to provide advice and support'.

These cases tend to reflect situations of financial failure and / or financial collapse. All Members of authorities need to be alert to how their organisation is managing its financial risks and taking steps to avoid any form of financial distress.

The insights in this article may be of particular interest to Members.

Link to further information:

https://www.cipfa.org/cipfa-thinks/articles/section-114s-where-are-we-headed-next

Department for Levelling Up, Housing and Communities (DLUHC)

11. Letter from the Parliamentary Under-Secretary of State for Local Government and Building Safety to the Chair of the Levelling Up, Housing and Communities Committee, UK Parliament, 14 July 2023

Lee Rowley MP's letter to the Chair of the Levelling Up, Housing and Communities Committee, UK Parliament on Local Audit Delays – Cross-System Statement on Proposals to Clear the Backlog and Embed Timely Audits.

This paper sets out the detail of proposals to address to address audit delays and clear the backlog. It was provided by the Minister to the Chair of the Levelling Up, Housing and Communities Committee, after the Minister provided evidence to the Committee in Parliament at a meeting in June.

The paper sets out the issues in some detail. The item on the next page (page 21) provides a summary of the main issues from a recent Municipal Journal article on the subject.

This is a link to the detailed paper:

https://committees.parliament.uk/publications/40932/documents/199432/default/

NATIONAL PUBLICATIONS

Department for Levelling Up, Housing and Communities (DLUHC)

12. Municipal Journal Article by a Local Government Minister on Rebuilding Audit, 30 October 2023

An article by Lee Rowley MP in Municipal Journal and the most up-to-date statement at the current time of proposals to address the backlog of local government audits.

Quotes from this article include:

“The number of outstanding local audits dating back to 2015-16 is now too high, and is likely to increase further without action.

To do that, we recognise there will be hard decisions. Our proposals include setting a series of statutory deadlines for account preparers and auditors to clear the backlog. I know the setting of ‘backstop’ dates may result in some qualifications and disclaimers of opinion in the short term.

As others have noted too, clearing the backlog can’t be our sole focus. The return to timely audits must be sustained as part of an effective system underpinned by proportionate financial reporting, auditing and regulatory requirements; we cannot resolve a backlog one day only to see it starting to build again the next.

So, the second big endeavour is to ensure future local authority accounting and audit activity strikes a balance between maintaining the highest standards of financial reporting and the fundamental, day to day purpose of audit – to provide financial information and general assurance which is useful for taxpayers and others. That is why when it comes to debates on issues such as the accounting requirements for infrastructure assets, we need to consider our approach carefully. In the meantime, the Department for Levelling Up, Housing and Communities will seek to extend the legislative changes made in this area last year while the Chartered Institute of Public Finance and Accountancy (CIPFA) explores longer-term changes to reporting requirements for non-investment assets and pension valuations.”

Link to the full article:

https://www.themj.co.uk/Rebuilding-audit/233116#

03

Section 03:

Mazars public sector insights

Public Sector Insights

Click here to find and subscribe to our public and social sector articles. Or copy and paste this link: https://www.mazars.co.uk/Home/Industries/Public-Social-Sector/Public-and-Social-Sector-insights

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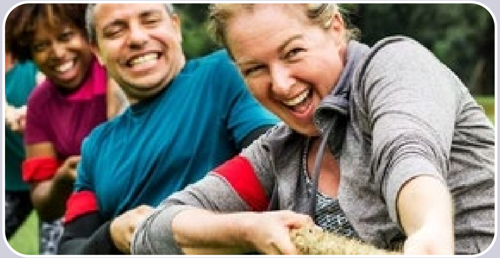

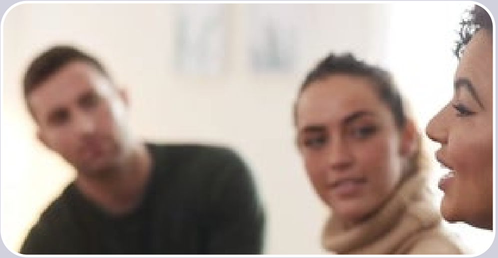

Recruitment crisis in the public sector

Insights from over 170 individuals across the UK public and social sector highlighted that the UK is on the cusp of a recruitment and retention crisis. Amid ongoing social and economic instability, how can we improve efforts to support our public sector workforce and effectively attract new talent?

Fiscal Pressure and inflation challenges

Over 300 individuals from across the UK public and social sector told us that the UK is at a critical juncture. Amid ongoing social and economic turmoil, decisive action is needed now to support those most in need.

Supporting vulnerable communities

Against a backdrop of political uncertainty, unprecedented strike action and the prevailing cost of living crisis – itself a consequence of the conflict in Ukraine among other factors – many of the UK's most vulnerable communities are at risk of becoming more marginalised and face more hardship.

A global public and social sector study (2023)

The public and social sector is in a time of transformation. Expectations of organisations in the sector are higher than ever while financial constraints and regulatory burdens are increasing.

To understand some of the challenges leaders in this sector face and the steps they are taking to tackle them, we surveyed more than 100 public sector executives in five countries.

Contact

Mazars

Partner: Mark Kirkham

Email: mark.kirkham@mazars.co.uk

Manager: Louise Stables

Email: louise.stables@mazars.co.uk

Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

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Report of the Director: Outcomes Meeting: 24 January 2024

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

ACCOUNTING POLICIES 2023-2024

1. **OBJECT AND KEY POINTS IN THIS REPORT**

1.1 To approve the accounting policies as an appropriate basis to prepare the Council's 2023/2024 financial statements.

1.2 To delegate to the Director of Finance & s151 Officer (Interim) or the Chief Finance Officer the power to make new accounting policies and amend existing policies as may become necessary in the production and audit of the financial statements.

2. **BACKGROUND INFORMATION**

2.1 The Code of Practice on Local Authority Accounting in the United Kingdom 2023/2024 (The Code) requires each local authority to adopt accounting policies that set principles for recording financial transactions within the Council's accounts.

2.2 The Code specifies the principles and practices required to prepare a Statement of Accounts to give a true and fair view of the financial position, financial performance and cash flows of the Council.

2.3 The policies proposed for North Lincolnshire are based upon guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and amended to take account of local circumstances.

2.4 The local amendments to the standard accounting policies are set out below.

a) A de minimis level has been applied to the accrual of income and expenditure. The de minimis level has been applied to reduce the administration surrounding the accrual of income and expenditure, without materially affecting the accounts. For 2023/2024 the level remains unchanged from previous years, being set at £10,000, subject to justified exceptions e.g., where grant conditions apply.

b) The council has set a de minimis level of £100,000 for inventories. Any inventories valued at less than £100,000 are not accounted for as inventories. This reduces administration and does not have a material effect on the accounts.

c) Accruals are not processed for Housing Benefit Payments, Social Services Income for Home Care, Travel payments & supply Teachers and Property Rental Income. The accounts still contain 12 months activity.

2.5 Some of the standard accounting policies within the Code are not relevant to the council and in the interest of clarity, have been removed. E.g., References to Housing Revenue Account (HRA) sales and Private Finance Initiative (PFI) arrangements.

2.6 There have been no amendments to the accounting policies this financial year.

2.7 Delegating approval to the Director of Finance & s151 Officer (Interim) or the Chief Finance Officer to amend any existing policies during the production and audit of the financial statements allows for amendments to be made which may be picked up during the audit. Any amendments to accounting policies would be reported back to this committee at the time of approving the audited version of the accounts.

3. **OPTIONS FOR CONSIDERATION**

3.1 Approve the Accounting Policies, as set out in Appendix A and delegate approval to the Director of Finance & s151 Officer (Interim) or the Chief Finance Officer to amend any existing policies as may become necessary in the production and audit of the financial statements.

3.2 Approve the Accounting Policies, as set out in Appendix A and do not delegate approval to the Director of Finance & S151 Officer (Interim) or the Chief Finance Officer to amend any existing policies as may become necessary in the production and audit of the financial statements.

3.3 Do not approve the Accounting Policies as set out in Appendix A.

4. **ANALYSIS OF OPTIONS**

4.1 Approving the Accounting Policies and delegating any amendments to be approved by the Director of Finance & s151 Officer (Interim) or the Chief Finance Officer will allow the financial statements to be produced and any minor amendments to be made during the audit process.

4.2 Approving the Accounting Polices and not delegating any amendments to be approved by the Director of Finance & s151 Officer (Interim) or the Chief Finance Officer will allow the financial statements to be produced but will not allow any amendments to be made during the audit process.

4.3 Not approving the Accounting Policies will not allow the statement of accounts to be produced in accordance with the Code.

5. **FINANCIAL AND OTHER RESOURCE IMPLICATIONS (e.g. LEGAL, HR, PROPERTY, IT, COMMUNICATIONS etc.)**

5.1 None.

6. **OTHER RELEVANT IMPLICATIONS (e.g. CRIME AND DISORDER, EQUALITIES, COUNCIL PLAN, ENVIRONMENTAL, RISK etc.)**

6.1 None.

7. **OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)**

7.1 None.

8. **OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED**

8.1 None.

9. **RECOMMENDATIONS**

9.1 That members approve the accounting policies set out in Appendix A.

9.2 That members delegate to the Director of Finance & s151 Officer (Interim) or the Chief Finance Officer the power to make new accounting policies and amend existing policies as may become necessary in the production of the accounts or during the audit of the accounts, with any such changes being reported to the next meeting of this committee.

DIRECTOR: OUTCOMES

Church Square House
30 - 40 High Street
SCUNTHORPE
North Lincolnshire
DN15 6NL

Author: Sarah Milburn
Date: 13 December 2023

Background Papers used in the preparation of this report

- The Code of Practice on Local Authority Accounting in the United Kingdom 2023/2024 (The Code)

Accounting Policies 2023/2024

i. General Principles

The Statement of Accounts summarises the council's transactions for the 2023/2024 financial year and its position at the year-end of 31 March 2024. The council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 which require it to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2023/2024, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The Statement of Accounts is produced on a Going Concern basis.

ii. Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet where individual inventory categories are above £100,000.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected. In respect of both capital and revenue transactions, the council operates on the normal accruals concept of income and expenditure above the council's de minimis threshold of £10,000. (The de minimis threshold does not apply to creditor accruals auto identified within the finance system, or where failure to accrual would result in the loss of a time limited grant.) Exceptions to this policy are:
    - Housing Benefit payments
    - Social services Income for home care
    - Travel payments and supply teachers
    - Property Rental Income

These exceptions still mean a full 12 months of income and expenditure are accounted for in a financial year.

iii. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with a low risk of change in value. Cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the council's cash management.

iv. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.
Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the council's financial position or financial performance.
Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.
Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

v. Charges to Revenue for Non-current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible assets attributable to the service.

The council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision (MRP)), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

vi. Council Tax and Non-Domestic Rates

The Collection Fund shows the transactions of the billing authority in relation to the collection from taxpayers and the distribution to local authorities, central government and precepting bodies of council tax and non-domestic rates (NDR). There is no requirement for a separate Collection Fund Balance Sheet since the assets and liabilities arising from the collecting non-domestic rates and council tax belong to the bodies (i.e. major preceptors, central government and billing authorities).

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the council's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the council's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.
The Balance Sheet includes the council's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

vii. Employee Benefits

Benefits Payable During Employment

Short-term employee benefits such as wages and salaries, paid annual leave, sick leave and expenses are paid monthly and reflected as expenditure in the relevant service line in the Comprehensive Income and Expenditure Statement.

Termination Benefits

When the council is demonstrably committed to the termination of the employment of an officer or group of officers, or making an offer to encourage voluntary redundancy, these costs are charged on an accruals basis to the respective service line in the Comprehensive Income and Expenditure Statement.

Post-employment Benefits

Employees of the council are members of three separate pension schemes:

- The Teachers' Pension Scheme administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).
- The Local Government Pension Scheme administered by East Riding of Yorkshire Council.
- The NHS Pension Scheme administered by the NHS Business Services Authority

These schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees work for the council.

However, the arrangements for the teachers' and NHS schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the council. These schemes are therefore accounted for as if they were defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Schools' service line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year. Various lines within the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to the NHS Pension Scheme in the year.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the East Riding pension fund attributable to the council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projected earnings for current employees.
- The assets of East Riding pension fund attributable to the council are included in the Balance Sheet at their fair value.

The change in the net pension liability is analysed into the following components:

Service cost comprising:

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement
- net interest on the net defined benefit liability (asset), i.e. net interest expense for the council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

Re-measurements comprising:

- the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- contributions paid to the East Riding pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The council has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

viii. Events After the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

ix. Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

The council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

Expected Credit Loss Model

The council recognises expected credit losses on all its financial assets held at amortised cost, either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Financial Assets Measured at Fair Value through Profit of Loss

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

x. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third-party contributions and donations are recognised as due to the council when there is reasonable assurance that:

- the council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor. Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-specific Grant Income and Expenditure (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.
Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

xi. Heritage Assets

The council holds several assets which are held to increase the knowledge, understanding and appreciation of the council’s history and local area. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the council’s accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below. The council’s collections of heritage assets are accounted for as follows:

Civic Regalia, Museum Collection and Memorials

The asset will be accounted for at the value used for insurance purposes or its fair value as determined by a qualified valuer.

Heritage Assets – General

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the council's general policies on impairment. The council will occasionally dispose of heritage assets which have a doubtful provenance or are unsuitable for public display. The proceeds of such items are accounted for in accordance with the council's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

xii. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase.

Intangible assets are measured initially at cost and then carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

xiii. Inventories

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The council has set a de minimis value of £100,000, below which inventories are not held on balance sheet.

xiv. Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale (in the ordinary course of operations).

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use.

Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

xv. Leases

Leases are classified as finance leases where the terms transfer substantially all the risks and rewards of ownership of the asset from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately.

The Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the council at the end of the lease period).

The council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Council as Lessor

Finance Leases

Where the council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.
Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.
The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the council grants an operating lease over an asset, this is retained on the Balance Sheet. Rental income is recognised in the Comprehensive Income and Expenditure Statement on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

xvi. Overheads and Support Services

The costs of overheads and support services are charged to service segments in accordance with the council's arrangements for accountability and financial performance.

xvii. Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the council and the cost of the item can be measured reliably and providing that the expenditure is above the council's de minimis threshold of £20,000.

Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance), is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

The council does not capitalise borrowing costs incurred while assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-specific Grant Income and Expenditure line of the Comprehensive Income and Expenditure Statement unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Highways Infrastructure assets are generally measured at depreciated historical cost. However, this is a modified form of historical cost – opening balances for highways infrastructure assets were originally recorded in balance sheets at amount of capital undischarged for sums borrowed as at 1 April 1994, which was deemed at that time to be historical cost.

Assets are then carried in the Balance Sheet using the following measurement bases:

- assets under construction and community assets (without a determinable finite useful life) – historical cost
- infrastructure, community assets (with a determinable finite useful life) – depreciated historical cost
- all other assets are measured at current value

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.
Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Surplus or Deficit on the Provision of Services where they arise from the reversal of a loss previously charged to a service.
Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.
Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all property, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Deprecation is normally charged in the first full year of operational use, except where stated, and calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer.
- vehicles, plant, furniture and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer. Depreciation is charged on vehicles from the point of initial use.
- infrastructure – straight-line allocation over its technically assessed life.

Where an item of property, plant and equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an asset held for sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any losses previously recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on assets held for sale.

If assets no longer meet the criteria to be classified as assets held for sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as held for sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as assets held for sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and

Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. The receipts are transferred to the Capital Receipts Reserve from the General Fund Balance in the Movement in Reserves Statement. The reserves can then only be used for new capital investment or set aside to reduce the council's underlying need to borrow (the capital financing requirement).

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

xviii. Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement when the council has an obligation and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the council settles the obligation.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the council.

Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

xix. Reserves

The council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then transferred back into the General Fund Balance so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, local taxation, retirement and employee benefits and do not represent usable resources for the council – these reserves are explained in the relevant policies.

xx. Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

xxi. Schools

The Code of Practice on Local Authority Accounting in the United Kingdom confirms that the balance of control for local authority maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements (and not the Group Accounts). Therefore, schools' transactions, cash flows and balances are recognised in each of the financial statements of the council as if they were the transactions, cash flows and balances of the council.

xxii. VAT

VAT payable is included as an expense only to the extent that it is not recoverable from His Majesty's Revenue and Customs (HMRC). VAT receivable is excluded from income.

xxiii. Fair Value Measurement

The council measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as bonds at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or

- in the absence of a principal market, in the most advantageous market for the asset or liability.

The council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.
When measuring the fair value of a non-financial asset, the council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.
The council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the council's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the council can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability.

Report of the Director: Outcomes Meeting: 24 January 2024

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

STRATEGIC RISK REGISTER

1. **OBJECT AND KEY POINTS IN THIS REPORT**

1.1 This report provides the Audit Committee with the newly formed Strategic Risk Register (SRR) as of 8 January 2024.

2. **BACKGROUND INFORMATION**

2.1 As previously reported at the July 2023 meeting a horizon scanning workshop, facilitated by the council's liability insurers Zurich Municipal, was held that included a cross section of managers. This resulted in the following strategic risks being identified and adopted:

- Economic disruption through the loss of key business in the area (Economic)
- Inability to strategically plan long term investments and growth due to increasing costs (Economic)
- Employee retention and attraction to critical service areas where there are key person dependencies and or a legal duty or care (Social)
- Increasing health inequalities due to socio economic conditions resulting in additional pressure on front line council staff (Social)
- Lack of investment into organisation transformation resulting in insufficient systems and processes, increasing the risk of data loss or cyber attacks (Technological)
- Lack of a cohesive strategy and required resources to achieve carbon neutral targets and the wider sustainability agenda (Environmental)

2.2 The above risks have been firmed up with some minor changes being made to the titles in some cases (Appendix 1 refers). One of the previous risks 'Failure to achieve long-term financial sustainability' has remained and subsequently reviewed. The SRR was agreed by the Corporate Assurance and Risk Board on 18 December 2023. The residual score for each of the risks are listed below:

- Failure to achieve long-term financial sustainability – 12 (high)
- Increasing Health Equalities due to socio-economic conditions resulting in additional pressure on front line services – 12 (high)

- Economic disruption through the loss of key businesses within the local economy – 9 (medium)
- Employee Retention and Recruitment into critical service areas where there are key person dependencies or a legal duty of care - 9 (medium)
- Failure to achieve net zero, nature recovery and wider sustainability targets – 6 (medium)
- Inability to strategically plan long-term investments and growth – 6 (medium)
- Lack of investment into organisation transformation resulting in insufficient systems and processes, increasing the risk of data loss or cyber attacks – 8 (medium)

2.3 Once the risks have been agreed work will commence on re-stating the council's risk appetite. Risk Appetite is defined as being the organisation's willingness to accept risk in pursuit of its business objectives. It also forms part of the overall framework around which decisions on are made.

3. OPTIONS FOR CONSIDERATION

3.1 The Committee should consider whether the SRR reflects the council's strategic risks.

4. ANALYSIS OF OPTIONS

4.1 The report is designed to provide this Committee with the assurance required to fulfil its role effectively.

5. FINANCIAL AND OTHER RESOURCE IMPLICATIONS (e.g. LEGAL, HR, PROPERTY, IT, COMMUNICATIONS etc.)

5.1 There are no direct financial implications arising from this report. However, each of the risks identified could have a potential financial impact if not addressed.

6. OTHER RELEVANT IMPLICATIONS (e.g. CRIME AND DISORDER, EQUALITIES, COUNCIL PLAN, ENVIRONMENTAL, RISK etc.)

6.1 Financial, service, personal safety and reputational issues are all considered when evaluating strategic risks.

7. **OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)**

7.1 Due to the nature of the report an Integrated Impact Assessment is not required.

8. **OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED**

8.1 There are no conflicts of interests to declare.

9. **RECOMMENDATIONS**

9.1 That the Audit Committee considers and approves the council's SRR attached at Appendix 1.

DIRECTOR: OUTCOMES

Church Square House
SCUNTHORPE
North Lincolnshire

Author: Caroline Wilson
Date: 08 January 2024

Background Papers used in the preparation of this report

Risk and Opportunity Protocol 2020

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Standard Risk Register

Strategic Risks - NL Risk Ref	Risk Name	Triggers Effects	Residual Profile	Last Review & Next	Controls In Place	Target Profile	Actions	To be implemented by	Person Responsible
1.	Failure to achieve long-term financial sustainability	1. Uncertainty on the level of national funding streams 2. Qualified Accounts or VFM Opinion 3. Unresolved in year budget pressures or frequent unplanned use of reserves 4. Budget not set or approved 5. General Reserves less than 5% of net budget 6. S114 issued 7. Unsustainable pressures in Adult Social Care system	12 High 4x3	19/09/2023 19/03/2024	01 The MTFP makes a realistic assessment of the resource that growth allows and allocates to council priorities 02 Effective financial management secured through budget planning and control using a system of devolved budget management 03 Contract Procedure Rules and Financial Regulations set out the Council's arrangements 04 Reserves Policy to cover risk is included in the MTFP Financial Strategy 05 Budget for 2023/24 approved by Full Council 06 MTFP regularly updated 07 Several transformational groups in place working on transformational savings	12 High 4x3	01 Await VfM opinion for 2021/22 and 2022/23 and act if required 02 Transformation savings to be delivered	31/03/2024 30/03/2024	Senior Leadership Executive

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Strategic Risks - NL

Risk Ref	Risk Name	Triggers Effects	Residual Profile	Last Review & Next	Controls In Place	Target Profile	Actions	To be implemented by	Person Responsible
2.	Increasing Health Inequalities due to socio-economic conditions resulting in additional pressure on front line services	1. Reduced people in work Low employment rate * Higher demand for council support and services * Increased people on benefits * Young people have lover aspirations * Increased poor Mental Health and self-harm. 2. Increase in teenage parents, Increase in children of teenage parents – more likely in populations with higher deprivation index * Increased demand for more specialist support services – schools, * Increased need for housing support * Increased child poverty rates, more smoking in pregnancy in teenage parents and less breastfeeding 3. An unhealthy population. N. Lincs failing to become a thriving centre for economic growth as it is not supported by a healthy population. * Failing to have a skilled workforce 4. Unhealthy Lifestyle increased rates of smoking and vaping, obesity and low levels of physical activity and increased substance use and gambling related harm in areas of higher deprivation. * Higher rates of poor respiratory health - poor lung health - COPD, etc - increased worklessness - more social care required - poor mental health	12 High 3x4	04/05/2024	01 Actions to reduce teenage pregnancies 02 Use of public health grant to commission external services to promoting healthy lifestyles and wellbeing 03 0-19 strategy and 0-19 service 04 Health & Wellbeing Strategy 05 Utilisation of the PH Grant for reducing health inequalities and improving health – e.g. Substance use commissioning. 06 Sexual health service commissioning to provide access to contraception for young people. Schools and RSHE 07 Resilience programme proposal 08 Community Wellbeing offer targeted prevention – PHM approach 09 Community enablement – volunteering, social connectiveness – rural transport, community transport offer 10 Supporting the workforce to be healthy. My Wellbeing conversations, health screening for workforce, wellbeing for workforce 11 Population Health Approach- targeting need. 12 Healthy Green Spaces – Our Green Futures 13 Active travel 14 Prevention Strategy 15 Tobacco Alliance Licencing - tobacco and vaping 16 Influence on the H&WB Board and the NL Place Partnership. 17 Effective use of Public Health Grant for prevention, facilitated by assurance process/internal service specs led by PH 18 Whole system working at place, community first strategy	9 Medium 3x3	01 Develop prevention strategy. Proportionate universalism approach/target resource to need/equity outcome as opposed equity input 02 Invest in prevention and population health approaches –invest to save costs proposals 03 Refresh the Health & Wellbeing Strategy with the proposals from this risk assessment 04 Whole system partnership work to Invest a %age of health and social care budget in the VCSE to build community assets/cohesion 05 Invest in a programme to build resilience in young people and parents 06 Ensure enough capacity and prioritising / transformation to meet current need 07 Invest in whole system long term sustainable health and wellbeing improvement programmes	30/10/2023 30/10/2024 30/03/2024 31/03/2025 29/11/2023 29/11/2023 31/03/2025	Public Health Consultant

Strategic Risks - NL

Risk Ref	Risk Name	Triggers Effects	Residual Profile	Last Review & Next	Controls In Place	Target Profile	Actions	To be implemented by	Person Responsible
		* Children living in smoking households - increased asthma - increased likelihood of smoking * Poor diet - is more affordable. Obesity increasing demand on services * High obesity rates - impacts on dependence on council services and higher worklessness 5. A Strategic focus on acute priorities makes it more challenging to invest in whole system long term sustainable programmes * Short term planning does not deliver sustainable whole system population improvements in health and wellbeing and a reduction in health inequalities * Whole system long term sustainable programmes that will deliver a healthier population, reduction in health inequalities and deliver savings in 10-20 years							

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Strategic Risks - NL

Risk Ref	Risk Name	Triggers Effects	Residual Profile	Last Review & Next	Controls In Place	Target Profile	Actions	To be implemented by	Person Responsible
3.	Economic Disruption Through Loss of Key Business within Local Economy	1. Administration/relocation of Large Employer Announced * Significant jobs losses * Financial risk to authority due to extra strain on services and loss of NNDR income * Supply chain impact/reduction in Financial activity * strain on health and well-being services by those impacted * Costs associated with regenerating potential vacant site 2. Legislative Change Impacting Core Industries * Changes in the way businesses can operate meaning a core sector can no longer trade without significant investment (e.g. Net Zero changes) * This could lead to job losses or economic opportunity loss as investment cannot be made for growth * Long term investment or lack of could mean we become less productive and intern leads to a contracting of the economy. 3. Macro-Economic Factors Leading to Significant Downturn * Covid 19 pandemic * War * Natural disaster * Brexit 4. New technologies/change in consumer Landscape impacting Key Employers * Potential risk would be the new technology or change in consumer behaviour impacts historic and well-established sectors locally.	9 Medium 3x3	05/03/2024	01 Key Account Management system in place to enable regular engagement with our largest businesses 02 Sector Leads for our core sectors 03 Inward Investment to attract new business to the region, to grow and help diversify our economy and maximise employment 04 Grant Support to enable the most appropriate interventions 05 Increased engagement with Higher Education and Industrial Boards 06 Multi-agency team to review impacts and take action 07 Local Resilience Forum in place	9 Medium 3x3	01 Sector Lead - Horizon Scanning to understand core sector challenges. Working with businesses to obtain intelligence 02 Economic Shock Protocol for when an economic shock occurs to enable the council to respond appropriately	04/03/2024 04/03/2024	Director: Communities

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Strategic Risks - NL

Risk Ref	Risk Name	Triggers Effects	Residual Profile	Last Review & Next	Controls In Place	Target Profile	Actions	To be implemented by	Person Responsible
4.	Employee Retention and Recruitment into critical service areas where there are key person dependencies or a legal duty of care	1. Inability to attract adequate numbers of qualified social workers to fill vacancies 2. Disruption to services provided, increased pressures on existing teams/staff members, reduced level of service provided to residents, impact on NHS partners (hospital discharges etc), increase in agency costs, cost of recruitment 3. Inability to attract adequate numbers of applications to fill social care vacancies 4. Disruption to services provided, increased pressures on existing teams/staff members, reduced level of service provided to residents, impact on NHS partners (hospital discharges etc), increase in agency costs, cost of recruitment 5. Limited succession/workforce planning undertaken 6. Reduced ability to forward plan, no career pathways identified to support career progression, inadequate workforce development opportunities and career pathways, reduced awareness of workforce demographics and potential pressure points 7. Opportunity for better pay/benefits/rewards in neighbouring councils/providers 8. Number of key staff seek to move from NLC to alternative employer, pressures on service and remaining team, loss of key skills and knowledge, cost of recruitment reputational impact	9 Medium 3x3	04/03/2024	01 Workforce planning undertaken by each function 02 Working in partnership with NHS/place partners to attract and retain key skills in North Lincolnshire 03 Working with schools, colleges and universities to raise awareness and interest in working for NLC in a range of careers 04 Attending jobs fayres to promote vacancies and apprenticeships 05 Regional MOU in relation to SW pay	9 Medium 3x3			Assistant Director Organ Development

Strategic Risks - NL			Residual Profile	Last Review & Next	Controls In Place	Target Profile	Actions	To be implemented by	Person Responsible
Risk Ref	Risk Name	Triggers Effects							
5.	Lack of investment into organisation transformation resulting in insufficient systems and processes, increasing the risk of data loss or cyber attacks	1. Phishing email, download, installation of Malware/Virus 2. Software/Hardware vulnerabilities unpatched 3. Inadequate controls to prevent unauthorised access to the corporate network 4. Use of unauthorised devices i.e. USB memory sticks, portable hard drives 5. Unauthorised access to corporate devices 6. Sustained council wide impact to council services, ICT systems, computers, applications, data and Communications 7. Significant financial impact resulting in multi million pound costs to recover and restore services 8. Loss of life due to loss of data around vulnerable customers and loss 9. Loss of credibility as a secure and reliable organisation	6 Medium 4x2	08/07/2024	01 Regular user awareness and education training 02 Regular Phishing Simulations to measure susceptibility 03 Malware protection procedure 04 04 AV updated on a daily basis 05 Technical controls (M365) SPAM filter, Firewall reducing phishing emails entering network, block known malicious links 06 Microsoft patches deployed on a monthly basis for servers and as soon as available for workstations 07 Software upgrade paths to update prior to end of life 08 Patch/vulnerability management, monthly vulnerability scans identify vulnerabilities, prioritise remediation activity 09 Corporate Device procedures 10 All media scanned before use 11 Access Control Lists 12 Third Party Software patched using Patch My PC 13 Regular review of Domain Admin Accounts 14 Logging of Network Log ins 15 PC admin rights controlled 16 Monthly security report is produced to monitor a security position to provide assurance 17 Business Continuity Process and documented procedures 18 Disaster Recovery Planning exercises and procedures 19 Regular and Offline Backups 20 Multi Factor Authentication Enabled 21 Annual Penetration Tests (External IT Health Checks) carried out by 3rd party security testers, remediation activities 22 Cyber Essentials Plus Certifications	4 Medium 4x2	01 Review Insurance offer and costings 02 Review Increased Logging and Realtime analysis of attack 03 Review contacted recovery services	31/03/2024 31/03/2024 31/03/2024	Director: Communities

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Strategic Risks - NL Risk Ref	Risk Name	Triggers Effects	Residual Profile	Last Review & Next	Controls In Place	Target Profile	Actions	To be implemented by	Person Responsible
6.	Failure to achieve net zero, nature recovery and wider sustainability targets	1. Lack of cohesive strategy 2. Lack of dedicated resource and staff to drive forward the change 3. Changes in Government policy diverting away from targets 4. Lack of funding to deliver the change 5. Sporadic spending, challenging locally applied targets	6 Medium 3x2	01/02/2024	01 Qualified and knowledge staff 02 Government New Burden funding 03 Governance arrangement in place managing the delivery of NLC Green Futures 04 NLC Green Futures 05 Local Plan 06 Local Nature Recovery Strategy 07 Green Investment in Greater Lincoln 08 Electric Vehicle Strategy 09 Sustainable Fleet Replacement Strategy. EV chargepoint infrastructure plan 10 Multiple Decarbonisation Strategies	6 Medium 3x2	01 To review the Capital Asset Management Plan and where environmental efficiencies can be made 02 To adopt the Local Plan driving forwards sustainable development 03 Secure additional resource for ecology and low carbon projects	31/03/2024 31/08/2024 31/03/2024	Director: Communities
7.	Inability to strategically plan long term investments and growth	1. Increase in service and materials costs 2. Recruitment and capacity 3. Changes in cycle patterns/trends 4. Change in government policies 5. Change in local administration - change in priorities 6. Inability to finance investment	6 Medium 3x2	02/02/2024	01 Robust business planning process 02 Robust business case process 03 Events to attract local workforce 04 Three lines of assurance around project management 05 Increase in contingency level	6 Medium 3x2			Director: Communities

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Report of the Director: Outcomes Meeting: 24 January 2024

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

INTERIM INTERNAL AUDIT REPORT 2023-24

1. **OBJECT AND KEY POINTS IN THIS REPORT**

1.1 The interim internal audit report provides an update on Internal Audit activity up to 31 December 2023.

1.2 The report highlights the risks identified to the delivery of the Internal Audit Plan, and the actions being taken to mitigate those risks, including the re-prioritisation of the audit plan.

2. **BACKGROUND INFORMATION**

2.1 It is a requirement of the PSIAS for the Audit Committee to receive regular updates on the activities of Internal Audit, in particular:

- providing assurance that sufficient work will be carried to provide a reliable risk based annual opinion on the effectiveness of the control environment and any amendments to the audit plan;
- bringing to the Committee's attention any issues identified during the 2023/24 audit period which could impact on the annual opinion; and
- providing an update on the activities which have occurred during 2023/24 in relation to quality improvement and to ensure Internal Audit's continued compliance with Public Sector Internal Audit Standards (PSIAS).

2.2 On 15 March 2023, the Audit and Governance Committee formally approved an outline plan consisting of 1100 days, whilst on 6 October 2023 it received an updated, more detailed plan. As communicated to the Committee there would potentially be ongoing amendment and re-prioritisation to the plan to reflect changes in risk. The attached report at Appendix 1 prepared by the Head of Audit and Assurance provides an update on the delivery of the audit plan up to 31 December 2023. The report highlights resourcing issues faced by Audit, and which has led to the re-prioritisation of the audit and reduction in the planned days to 900 days. Although the Head of Internal and Assurance forecasts that sufficient work should still be carried out by May 2024 to provide a reliable opinion on the Council's control environment, there remains a possibility that this would include a "limitation in scope".

2.3 A list of final reports issued up to 31 December 2023 is shown within the report. There are currently three limited assurance reports which have been issued.

2.4 The report also discusses the quality assurance activities which have taken place in 2023-24 and the provisional outcome of the 5-yearly External Quality Inspection carried out in November 2023.

3. OPTIONS FOR CONSIDERATION

3.1 In its role as the body charged with governance the Audit Committee is asked to consider the progress against the delivery of the audit plan.

4. ANALYSIS OF OPTIONS

4.1 It is a requirement of the PSIAS for the Audit Committee to receive updates on progress against the delivery of the audit plan.

5. FINANCIAL AND OTHER RESOURCE IMPLICATIONS (e.g. LEGAL, HR, PROPERTY, IT, COMMUNICATIONS etc.)

5.1 In order to ensure that sufficient coverage is carried out to provide a reliable, risk-based opinion on the Council's control environment, additional temporary resources may be required.

6. OTHER RELEVANT IMPLICATIONS (e.g. CRIME AND DISORDER, EQUALITIES, COUNCIL PLAN, ENVIRONMENTAL, RISK etc.)

6.1 The delivery of the audit plan contributes to the Council's approach to risk management by identifying and testing the design and operation of controls to mitigate risk. In addition, most audit assignments provide an opinion on the prevailing residual risk.

7. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)

7.1 An Integrated Impact Assessment is not required.

8. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

8.1 It is a requirement of the Internal Audit Code of Ethics that auditors need to declare any potential relationships or interests which could potentially impair independence. If any potential conflicts are identified, then they are not allocated assignments related to them.

9. **RECOMMENDATIONS**

9.1 That the Audit Committee is asked to consider the Interim Internal Audit Report 2023-24 as part of its responsibilities for reviewing the effectiveness of Internal Audit and consider the reductions in the size of the audit plan.

DIRECTOR: OUTCOMES

Church Square House
SCUNTHORPE
North Lincolnshire

Author: Peter Hanmer, Head of Audit and Assurance
Date: 15 January 2024

Background Papers used in the preparation of this report

Internal Audit Plan 2023-24 (March 2023)

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North Lincolnshire Council www.northlincs.gov.uk		

North Lincolnshire Council

Interim Audit Report 2023-24

Month 9

Introduction

The purpose of this briefing paper is to keep the Audit Committee Members informed in relation to the delivery of the audit plan, in particular:

- providing assurance that sufficient work will be carried out to provide a reliable risk based annual opinion on the effectiveness of the control environment.
- bringing to the Committee's attention any issues identified during the 2023-24 audit which could impact on the annual opinion: and
- providing an update on the activities which have occurred during 2023-24 in relation to quality improvement, and to ensure Internal Audit's continued compliance with Public Sector Internal Audit Standards (PSIAS).

Delivery of the Audit Plan

At the meeting of the Audit Committee held on 15 March 2023, the Head of Audit and Assurance presented the outline Internal Audit Plan 2023-24. The report provided an outline of the audit priorities and activities for 2032/24, how it will be delivered and resourced, a commentary on the methodology for its compilation, and assurance on compliance with auditing standards. The total audit days identified in the plan was 1100 days, but Members of the Committee were informed that it is subject to regular review and amendment to take account of changes in the Council's risk profiles and priorities, and the level of audit resources available.

According to PSIAS 2010 "the chief audit executive must review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programmes, systems, and controls". An update to the audit plan, providing further detail of the planned audit work, was provided to the Committee on 6 October 2023. It was reported that the delivery of the Audit Plan would be very challenging during due to various factors including:

- a key senior member of the team retired in August 2023;
- there has been greater than anticipated levels of sickness during the summer which has impacted on resources;
- due to the difficulties discussed in 2022-23 in setting up and completing audits caused, in part, by management restructures, a greater number of assignments have been carried forward from 2022-23 than originally anticipated;
- further changes in senior management personnel potentially impacting on the delivery of the audit plan; and
- in previous years due to year-end backlogs, we have delayed the production of the annual HOIA report beyond the target completion date of 31 May. This, however, has limited the time for consultation with senior officer's prior it to being considered by the Audit Committee, and therefore moving forward any work not reported by

31 May will not be included in the 2023-24 HOIA report, potentially reducing the number of assignments referred to in it.

It was reported to the Audit Committee that a number of actions were being put in place to ensure that sufficient work would be carried out by 31 May to provide a reliable year end opinion on the Council's control environment. This included the reprioritisation of audit assignments dependent on their relative importance to the Council's control environment, holding discussions with Assistant Directors to emphasise the importance of audits being delivered to schedule, increasing emphasis on the use of data analytics to obtain assurance more efficiently, and limiting the acceptance of requests for advisory work.

A breakdown of the revised budget because of the plan is shown on the table below. This generated an increased contingency of 204 days. As most of this contingency will not be required, and in any event that resources will not be available, the target planned days has been reduced to 900 days. The main adjustments to the plan are as shown below:

- A reduction in the estimated days required for strategic and operational risks. This is due to changes in the risk profile meaning that some audits identified at the planning stage can be re-prioritised and will be best carried out in 2023-24 or we can place reliance on the outcome of inspections, such as the inspection of adult services which was reported as "good". A summary of these changes is shown on Appendix 1.
- By focussing on those areas of greatest risk and continued use of data analytics, we are projecting less resource will be required in proving assurance on the fundamental financial systems than in the original plan.
- Financial systems - we are still completing all audits, but we have adopted a more risk assessed approach of looking at analytical review to gain high level assurance, and testing exceptions, changes to control and where there were issues last year.
- Schools – we have reduced the number of visits as we are not required to audit them every three years, whilst the number of schools for audit has gradually deceased due to confederation and some schools becoming Academies – in 2024/25 we will look to apply an approach similar to that of financial systems and use more local information to risk assess those that require a visit.
- In August 2023 we reported the outcome of our review of overall procurement arrangements, initially carried out as part of the 2022-23 audit. This provided "satisfactory" assurance and so there was no need carry out a further detailed audit in 2023-24.
- Based on the requests for advisory work up to month 9, we have reduced our forecast for the level of resource required for the rest of the financial year.

The revised plan, if delivered, will provide sufficient coverage to provide a reliable, risk-based, standards compliant opinion on the Council's control environment, subject to the risks identified below.

Table1: Revised Plan and days charged as of 31 December 2023

Area	Planned days as at 31 March 2023	Planned days as at 30 September 2023	Planned Days at 31 December 2023	Actual Days as at 31 December
Strategic risk/ operational risk/ governance	430	547	402	179
2022-23 work carried forward from 1 July 2023				27
Financial systems	135	123	105	38
ICT	45	43	46	11
Procurement and contract management	25	25	13	2
Schools	90	90	52	38
Grant Certification	60	38	42	32
Advisory	50	31	26	9
Follow up	40	40	40	19
Probity and Counter Fraud	75	70	65	49
Management time	75	75	75	58
Contingency	75	18	34	
Total	1100	1100	900	462

As of 31 December 2023, 462 days had been charged against the audit plan. This was against the original target of 672 days for this point in the audit cycle, or 525 when taking account of the reduction in planned days.

Since the previous update to the committee the resources available to audit have further been reduced due to two resignations in quarter three, as well as one further long-term sickness. Consequently, there remains a gap in the revised plan and the resources available to complete it by the target date of 31 May 2024. A number of mitigating actions are being put in place to reduce this gap.

These include:

- successfully securing a new ICT audit partner and agreeing a programme of work with them by 31 May 2024;
- looking at the temporary recruitment of staff; and
- engaging with other audit providers to establish whether they have any spare capacity.

We are focusing our work on those areas which will have greatest impact on the audit opinion (e.g., financial risks, strategic risks, areas of known significant operational risk, and the key components of the governance framework) but there may be areas where we may to need to provide a "limited" scope opinion. For example, each year the audit programme includes testing of a small number of contracts to confirm whether the Council's capital procedure rules (CPRs) and contract monitoring arrangements are being followed in practice. Due to other priorities this work may not take place in 2023-24 and if this was the case, though the overall opinion would not be affected, we would report that these areas of work had not been completed.

We will provide a further update at the next Audit Committee.

Audit work carried out.

A summary of audit reports issued since June 2023 is shown in Appendix 2. They include a number of audits which were largely carried out as part of the 2022-23 audit plan but were reported in 2023-24 and therefore will be considered as part of the 2023-24 opinion. 3 reports have received limited assurance, these were:

- Depot - Security of Assets
- Devolution of grass cutting to town and parish councils
- Tree safety

We have also carried out work in relation to the certification of grants, including:

- Outbreak Fund Management Fund (COMF)
- Local Transport Plan and Potholes
- Supporting Families
- Bus Services Operators Grant
- Household Support Fund
- Greens Homes Grant Phase 3
- Changing Places Grant
- Household Support Fund 3
- Housing Upgrade Grant 2
- Multiply Ring Fenced Spending
- SCITT Partnership 1 & 2

Internal Audit also follows up the implementation of previously agreed actions. This work is carried out as follows:

- sending out quarterly reminders to managers to remind them of their agreed actions and seeking confirmation as to whether they have been implemented. In 2023-24 the audit software was enhanced, and we are in the process of using it to implement a new system to allow action owners to update progress on actions themselves, and also improved reporting capabilities; and
- carrying out specific follow up audits - as of 31 December 2023, of 36 actions checked, 22 had been implemented.

Quality Assurance

As reported in previous years, Internal Audit has a Quality and Assurance Improvement Programme (QAIP). This is subject to regular review, and an update of it will be brought to the March 2024 Audit Committee alongside the 2024-25 audit plan and the updated Audit Charter.

An important element of the standards is that every five years audit teams are subject to an external inspection to assess compliance with the Public Sector Internal Audit Standards. The external Inspection was carried out in November 2023 by the Chartered Institute of Public Finance and Accountancy (CIPFA), and initial feedback was received in late December 2023. This confirmed that "the internal audit function for North and North East Lincolnshire Council generally conforms to the Public Sector Internal Audit Standards", where 'Generally conforms' is the top rating available. Feedback on the draft report has been provided and it is anticipated that the final report will be issued by 31 January 2024, and will be presented to the Committee at its March 2024 meeting.

During 2023-24 several quality review measures have been carried out to ensure compliance with the standards, including the following:

- continuing to ensure that all audit work is subject to supervision and review, with any emerging issues being discussed at monthly team meetings.
- regularly updating the Audit Manual which provides guidance to staff on how to carry out their work and team meetings to talk about the various sections of the manual.
- reminding team members of the Code of Ethics, including the consideration of ethical dilemmas at team meetings.
- monitoring the % of respondents to post audit questionnaires who thought that an audit was carried out well - as of 31 December 2023 this was 100%.
- monitoring the % of respondents to post audit questionnaires who thought that an audit added value - as of 31 December 2023 this was 100%.
- monitoring the timeliness of the completion of audits- as of 31 December 2023, against a target of 90%

- 48% of audits had been issued in draft by the date agreed in the terms of reference, compared to 74 for the 2022-23 outturn; and
- 76% were issued in final within 20 working days of the issue of the draft, compared to 75% for the 2022-23 outturn.

Further quality assurance and improvement activities to be carried out during the remainder of 2023-24 will be reported in the Annual Head of Audit Report and Opinion.

Appendix 1: summary of changes to the audit plan relating to strategic and operational risks at 31/12/23

Audits deferred or reduced scope

Assignment	Summary of planned work	Director	Reason for change
Adults Data Quality and performance management	To provide assurance that quality data is in place to inform returns and demonstrate performance and outcomes achieved	Adults and Health	Deferred to 2024-25 given that a new AD has recently appointed, and after discissions with the Interim Director of Adults and Health, Continuing Health Care was added to the plan as seen as a greater need
Asset Management - tech forge	Assurance on the systems for effective recording of assets at their correct values	Outcomes	Not seen as a priority as area subject to annual external audit
Leisure Centres, Libraries and Hubs Safety & Safeguarding	Assurance on the arrangements for safety and safeguarding, including actions taken to minimise the risk of harm to customers, visitors and staff and damage to the council's reputation	Communities	After discussions with ADs not seen as a priority and would be better to incorporate into a Council wide audit in 24/25
Customer Contact Centre	Assurance on the new system and the efficient use of centres	Communities	This is a new service to be integrated into Community Enablement and in which a new manager role is being established. Agreed to carry out in early 2024/25 once the service has been established and the new manager has been in post.
Early years	Assurance on systems in place for delivering the early years offer crosscutting all services - potentially feed into hub service and fresh start	Children and families	After discussions with the AD this was no longer considered a significant risk
Assignment	**Summary of planned work**	**Director**	**Reason for change**

Economy	Assurance for the delivery of the Council's economic strategy	Communities	Audit on the Economic strategy completed in August 2023-24 and to be reported in the 2023-24 opinion, and so audit to be undertaken in 2024-25 to provide time to test its embeddedness
Empty homes & housing enforcement	Assurance on delivery of the Council's approach to empty homes and arrangements for ensuring housing stock meets decent standards under legislation, including steps to bring long term empty homes back into use and the use of external funding	Communities	After discussions with the relevant Assistant Director, it was agreed to defer this to early 2024-25.
Independent Advocacy Service	Assurance on the delivery of the newly commissioned service	Adults and Health	Replaced by Continuing Health Care as agreed with the Interim Director that it is a bigger risk
Organisational Development	Assurance on the delivery of the Council's approach to organisational development	Outcomes	New Assistant Director appointed in Autumn, and new Chief Executive to join the Council in February 2024. Therefore, it was agreed that the audit would be of greater value once an updated Organisational Development strategy was in place. Therefore, will carry out a short audit to review progress in April/ May, and carry out full audit in 2024-25.
Preparedness for SEND and Alternative Provision	Assurance on the arrangements being developed for a revised rated inspection regime of SEND and Alternative provision	Children and families	After discussions with the AD this was no longer considered a significant risk

Assignment	Summary of planned work	Director	Reason for change
Project management	Carry out an overview, including intelligence from other planned work where relevant, of the development of the Council's project management arrangements	Outcomes	Project management arrangements still in development and therefore a full audit to be deferred until early 2024-25, but to obtain an update in April/ May to inform the 2023-24 opinion
Regulation - environmental health - food safety	Assurance on arrangements for ensuring food safety across the borough, including meeting statutory requirements, operating the Food Hygiene Rating Scheme and investigating complaints	Communities	Where possible reliance will be based on the assessments carried out by the Food Standards Agency
Section 106 agreements	Assurance that s106 developer contributions are applied fairly and used for the intended purpose	Communities	It was agreed to defer to early 2024-25 as there are already two audits in the 2023-24 in the plan related to planning
SEND	TBC after review of revised SEND inspection framework	Children and families	Deferred to 2024-25 after discussions with Director of Children and Families
Strategic housing	Assurance on the arrangements in place to ensure the delivery of the council's housing strategy, including the use of external funding	Communities	The Council is the process of adopting a new Housing Strategy and so it was agreed to defer to 2024-25 to review how it has been implemented
Waste disposal	Assurance on the arrangements for waste disposal, including contract management, environmental responsibilities and VFM	Communities	Deferred to early 2024-25 to take account that some of the contracts are currently being renewed

New Audits or widened scope

Assignment	**Summary of planned work**	**Director**	**Reason for change**
Continuing Health Care	Application of the toolkit and guidance for the referral to health of packages of care that could potentially be health funded	Adults and Health	added 12/12 after discussion with the relevant AD
ASC deferred payments	Assurance that those wishing to defer payment of care do so through robust arrangements that secure the charge for the council and payment is prompt	Outcomes	Increased budget to reflect issues identified
ASC financial assessment and capital deprivation	Provide assurance on the processes in place to ensure that all clients are financially assessed for their contribution to care and that such charges are collected systems are robust and would highlight capital deprivation	Outcomes	Increased budget to reflect issues identified
Tree Safety	Assurance that arrangements are in place to manage the risk from falling trees or branches or hazards from tree roots	Outcomes	Increased budget to reflect issues identified

Audits deferred from the previous year and added to the 2023-24 plan (as reported on 6 October 2023

Assignment	**Summary of planned work**	**Director**	**Reason for change**
Baths Hall & Plowright Theatre)	Assurance on the operation of the venues following transfer in-house from the external management company	Communities	Deferred from 2022-23
Commercial Assets / Estates)	Assurance on the maintenance of the commercial portfolio, purchases / disposals, leasing arrangements and charging process. To include consideration of any issues coming out of public reports from other councils	Communities	Deferred from 2022-23
Event Planning	Assurance on the effectiveness of arrangements for managing potential risks around events, including the role of the Event Safety Advisory Group (ESAG)	Communities	Deferred from 2022-23
Neighbourhood Services - Devolution of verge cutting and public rights of way)	Assurance on how any potential risks resulting from the devolution of verge cutting and public rights of way to town and parish councils are being managed	Communities	Deferred from 2022-23

Appendix 2: Summary of Completed Audit work as of 31 December 2023

See attachment.

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Appendix 2 : Summary of Completed Audit work as at 31 December 2023

Audit Assignments 2023/24	Director	Assurance	Residual Risk	Comments
Delivery of strategic outcomes and good governance				
Adults Workforce Recruitment/ development and retention	Adults and Health	Substantial	Medium	
Attendance Management - schools	Children and families	Satisfactory	Medium	
Community Asset Transfers	Communities	Satisfactory	Low	
Devolution of grass cutting to town and parish councils	Communities	Limited	Medium	Although processes are in place to manage the scheme, the assurance level is due to the lack of clarity relating to the documentation of some decisions related to it

Audit Assignments 2023/24	Director	Assurance	Residual Risk	Comments
Professional subscriptions	Outcomes	**Satisfactory**	**Low**	
Sexual Health (joint with NELC)	Public Health	**Substantial**	**Low**	
Town Funds- North Lincolnshire Community Energy	Communities	**Substantial**	**Medium**	
Tree Safety	Communities	**Limited**	**Medium**	The reasons for this judgement are that not all trees have been identified, risk assessed and recorded, work is not always done within the timescale framework, there is backlog of work to be carried out and it is not clear that schools are fulfilling their obligations regarding tree safety.
Financial systems				
Duplicate payments	Outcomes	**Satisfactory**	**Medium**	
Income (c/f from 2023/23)	Outcomes	**Substantial**	**Medium**	
Payroll (c/f from 2022/23)	Outcomes	**Substantial**	**Low**	
ICT				

Audit Assignments 2023/24	Director	Assurance	Residual Risk	Comments
Cloud Computing Follow Up	Outcomes			Six of the original recommendations have been implemented and the other four are no longer applicable. However, the risk around cloud computing are consistently changing and so an overall opinion has not been provided and will depend on the outcome of the next full audit
Procurement and contract and contract monitoring				
Central Procurement Arrangements (c/f from 2022/23)	Outcomes	**Satisfactory**	**Medium**	We have assessed the residual risk as medium. We have made this judgement because there is potential for financial, service provision and reputational risks in procurements where Strategic Procurement and Contracts Team are not engaged. Procurements completed using the support of the Team represent a lower risk to the Council whilst ensuring they are completed in line with the relevant guidance.
Probity and counter fraud				
Community Grants	Communities	**Substantial**	**Low**	
Depot- Security of Assets	Communities	**Limited**	**Medium**	We can only provide limited assurance on the effectiveness of the control environment for vehicles, plant and equipment. Although some progress has been made on improving the security of equipment, there remain key issues that need to be resolved.

Audit Assignments 2023/24	Director	Assurance	Residual Risk	Comments
Depot-Stock Control	Communities	**Satisfactory**	**Low**	
Follow up				
Emergency Planning	Communities	**Satisfactory**	**Low**	Eleven agreed actions have been fully or substantially implemented, five have not been implemented and three are no longer applicable.
Schools capital programme	Children and families	**Satisfactory**	**Medium**	Two of the four original agreed actions have been implemented and the remaining two are in the process of being implemented

Audit Assignments 2023/24	Director	Assurance	Residual Risk	Comments
Schools				
Althorpe and Keady Primary	Children and families	**Satisfactory**	**Low**	
Frodingham Road Infants	Children and families	**Satisfactory**	**Low**	
St Hugh's School	Children and families	**Satisfactory**	**Low**	
Winterton Federation		**Satisfactory**	**Low**	

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