



**North East
Derbyshire**
District Council

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Date: Tuesday, 4 January 2022

To: **All Members of the Audit & Corporate Governance Scrutiny Committee**

Please attend a meeting of the Audit & Corporate Governance Scrutiny Committee to be held on **Wednesday, 12 January 2022 at 3.00 pm in the Council Chamber**, District Council Offices, 2013 Mill Lane, Wingerworth, Chesterfield, S42 6NG.

Yours sincerely

A handwritten signature in black ink, reading 'Sarah Steuberg'.

Assistant Director of Governance and Monitoring Officer

Conservative Group	Labour Group	Liberal Democrat Group
Cllr W Armitage Cllr S Clough Cllr M Roe Cllr K Tait Cllr M E Thacker	Cllr N Barker Cllr P R Kerry Cllr G Morley	Cllr R Shipman

A G E N D A

1 Apologies for Absence

2 Declarations of Interest

Members are requested to declare the existence and nature of any disclosable pecuniary interest and/or other interest, not already on their register of interests, in any item on the agenda and withdraw from the meeting at the appropriate time.

3 Minutes of Last Meeting (Pages 4 - 10)

To approve as a correct record and the Chair to sign the Minutes of the Audit and Corporate Governance Scrutiny Committee held on 1 December 2021.

4 Report of the External Auditors - Mazars

- a. Audit Certificate/Annual Auditors Report (Pages 11 - 30)

5 Reports of the Internal Audit Consortium Manager

- a. Summary of Progress on the Internal Audit Plan (Pages 31 - 50)
- b. External Review of Internal Audit - Action Plan Progress (Pages 51 - 63)

6 Reports of the Assistant Director - Finance and Resources (Section 151 Officer)

- a. Medium Term Financial Plan 2021/22 - 2025/26 (Pages 64 - 88)
- b. Treasury Management Strategies 2021/22 - 2025/26 (Pages 89 - 135)

7 Report of the Director of Growth

- a. Scrutiny of the Growth Directorate Revised Budgets 2021/22 (Pages 136 - 139)

8 Report of the Assistant Director of Governance and Monitoring Officer

- a. Committee Work Programme 2021-2022 (Pages 140 - 144)

9 Forward Plan of Executive Decisions

To consider the Forward Plan of Executive Decisions. The most up-to-date Forward Plan of Executive Decisions can be accessed via the following link:

<https://democracy.ne-derbyshire.gov.uk/mgListPlans.aspx?RPId=1137&RD=0&bcr=1>

10 To consider any other items which the Chair is of the opinion should be considered as a matter of urgency.

11 Date of Next Meeting

The next meeting of the Audit and Corporate Governance Scrutiny Committee is scheduled to take place on 23 February 2022.

We speak your language



North East
Derbyshire
District Council

Polish

Mówimy Twoim językiem

Romanian

Vorbim limba dumneavoastră

Urdu

ہم آپ کی زبان بولتے ہیں

Chinese

我们会说你的语言



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AUDIT & CORPORATE GOVERNANCE SCRUTINY COMMITTEE

MINUTES OF MEETING HELD ON WEDNESDAY, 1 DECEMBER 2021

Present:

Councillor Martin E Thacker MBE JP (Chair) (in the Chair)

Councillor Michael Roe (Vice-Chair)

Councillor Stephen Clough
Councillor Nigel Barker

Councillor William Armitage
Councillor Pat Kerry

Also Present:

L Hickin	Managing Director
J Dethick	Assistant Director - Finance and Resources (Section 151 Officer)
J Williams	Head of the Internal Audit Consortium
N Calver	Governance Manager
A Bond	Governance Officer
N Astle	Joint ICT Service Delivery Manager
K Drury	Information Engagement & Performance Manager

AUD Apologies for Absence

60/2

1-22 Apologies for absence were received from Mike Norman (Mazars) and Councillors K Tait and G Morley.

AUD Declarations of Interest

61/2

1-22 Members were requested to declare the existence and nature of any disclosable pecuniary interest and/or other interest, not already on their register of interest, in any item on the agenda and withdraw from the meeting at the appropriate time.

No declarations were made at this meeting.

AUD Minutes of Last Meeting

62/2

1-22 RESOLVED – That the Minutes of the meeting of the Audit and Corporate Governance Scrutiny Committee held on 3 November 2021 be approved as a correct record and signed by the Chair.

AUD Change of Order of the Agenda

63/2

1-22 RESOLVED - It was agreed by the Chair that the order of the Agenda be changed and that the Risk Management report be taken next on the Agenda.

AUD Risk Management

64/2

1-22 Members received an update on the current position regarding Risk

management arrangements and the Strategic Risk Register as at November 2021.

Committee heard that the last meeting of the Risk Management Group had been held on 8th November 2021. The Managing Director updated Members on what had been discussed at the meeting. This included the costs associated with Covid-19, the EDPB Data Breach Mitigation Summary, and the project risks for the Clay Cross Town Deal.

Members discussed the report. In particular they asked to view the “bigger picture” of the Council projects and financial considerations. It was agreed that this would be added to the work programme.

Committee considered whether Climate Change should be considered on the Strategic Risk Register. It was noted that Chesterfield Borough Council and Derbyshire Dales District Council had both included climate change as a risk. Members considered that the District Council should investigate how these Councils had implemented this. The Managing Director would report back on this as progress was made.

Members questioned why only three areas of the Strategic Risk Register included information in the final column on: Potential Further Action / Action Planning / When By Date. Members also considered that risk should be reviewed on a more agile ongoing basis.

Committee heard that significant progress would be made on the Strategic Risk Register by the time of the next meeting. They were also given assurance that risk was managed on a daily basis but Committee only commented on the risk at every quarter. A new mechanism for reviewing risk that would allow Committee to comment on a more regular basis was being investigated.

Members noted Strategic Risk five; an increasing difficulty in recruiting to key posts or in replacing key staff who leave. Members heard that it was important to maintain moral amongst staff, especially during times of change.

RESOLVED – That the Audit and Corporate Governance Scrutiny Committee noted the report and Strategic Risk Register as at November 2021 as set out in Appendix 1.

AUD **Summary of Internal Audit Reports**

65/2

1-22

The Head of the Internal Audit Consortium presented a progress report in respect of the 2021/22 Internal Audit Plan for Members’ information.

Committee received a summary of the reports issued between the end of August and the middle of November 2021. In this period, five reports had been issued. Three of these reports had substantial assurance and two had reasonable assurance.

Members were also provided with the full details of the audits completed and the audits in progress in respect of 2021/22.

The Officer informed Members that no fraud had been identified.

RESOLVED – That the report be noted.

AUD **Performance Management - Quarter 2**

66/2

1-22

The Information Engagement & Performance Manager delivered a report on the Quarter 2 outturns for the Council plan 2019-23 targets. Members heard that out of the 80 targets; 45 were on track; five had been affected by Covid 19; six had been achieved in the quarter; 18 had been achieved previously; three were overdue and another three had been placed on alert as they may not achieve their yearly outturn.

SER 18 – Review the Council's Petition Scheme by Annual Council 2020 was overdue as the September Standards meeting had been cancelled and it was not ready to bring to the November meeting due to changes in structure within the MO's team. The Governance Manager informed Committee that the petitions scheme had been prepared and would be presented to the next meeting of the Standards Committee.

ENV 01 – Adopt a Local Plan and associated policies was overdue. It was planned for the final report for the adoption of the Plan to be presented at Full Council on 29th November.

ENV 08 – Develop a Climate Change Communications Strategy by April 2021 was on hold until wider details were available.

Committee had a wide ranging discussion over the report. Members enquired as to when the car park parking patrols could be expected to restart and why they had not done so already.

Members also discussed the alert system in the report and the process of reducing targets.

Committee discussed the need for more precise and detailed targets and deadlines to keep projects on track.

RESOLVED – That the quarterly outturns against the Council Plan 2019-2023 targets be noted.

AUD **Ethical Investments Review**

67/2

1-22

The Section 151 Officer presented a report to update the Audit and Corporate Governance Scrutiny Committee on ethical fund management.

At its meeting in April, the Committee considered a report on ethical fund management and resolved to consider undertaking a further review once the outcome of the results from the Bank of England's biennial review were available.

Members heard that the Covid pandemic had delayed the start of this work,

but in June the Bank of England published their Climate Biennial Exploratory Scenario (CBES) to assess the nature and severity of risks faced by the UK financial system as a result of climate change.

Committee heard that CBES would not disclose the results of individual firms but would instead disclose system-level results of the financial sectors resilience to climate change. Results would be expected in May 2022.

Members noted that when possible the Council invested with money market funds that demonstrated that they were integrating, or were working towards integrating sustainable investments in their portfolios. The Council had also been investing with more registered providers and local authorities. At present the Council still had to prioritise governance and the security of the investment to protect public funds due to the volatility and credibility of “ESG” investments and the lack of regulation and a standardised approach.

The Council's treasury advisors, Arlingclose, have an ESG and Responsible Investment in Local Authority Treasury Management Service, and have offered to attend a future meeting of the Committee.

RESOLVED – That the Audit and Corporate Governance Scrutiny Committee noted the update on ethical fund management.

AUD **Financial Resilience Benchmarking**
68/2

1-22 The Section 151 Officer presented Committee with a report that highlighted benchmarking information on the Council's financial resilience.

The Committee received a report in July that outlined the requirements of CIPFA's Financial Management Code. One of the key areas of focus in the code was Financial Performance Monitoring, demonstrated through benchmarking.

In order for the Council to meet this requirement and measure resilience, a benchmarking tool was being utilised. This would allow for scrutiny of the Council's financial health against other similar local authorities.

The metrics focussed on three main areas; revenue health; capital health; and funding.

The benchmarking results showed that the Council's revenue and capital health were healthy and improving, with significant revenue reserves to cover net expenditure requirements and a CFR that was in proportion to asset values. Members heard that the risk to financial resilience was from the current national funding assessment as the Council's low tax base limited the ability to generate additional income through council tax.

Members discussed the report and considered that more work needed to be done to either generate different business rates or consult with a Business Minister over the funding mechanism.

RESOLVED That the Audit and Corporate Governance Scrutiny Committee

noted the report.

AUD 68/2 **PSAA Contract for External Audit Services**

1-221 Committee received an update on the request to be made to Council on 31 January 2022 to accept Public Sector Appointments' (PSAA) invitation to become an opted in authority for the appointment of external auditors for five consecutive financial years commencing April 2023.

The external auditor for the audit of the 2023/24 accounts has to be appointed before the end of December 2022. PSAA has been confirmed in the role of appointing person for the period commencing April 2023 and have invited eligible bodies to opt into their national scheme for auditor appointments.

Should the Council choose to opt to join the national scheme, formal acceptance must be received by the PSAA by 11 March 2022.

RESOLVED – That the Audit and Corporate Governance Scrutiny Committee noted the request to Council on 31 January 2022.

AUD 69/2 **Evaluation of Added Value of Audit Committee**

1-22 The Section 151 Officer presented Committee with a report that followed on from the self-assessment performed in the November meeting, to evaluate whether and how the Committee adds value to the Council.

The Committee discussed the evaluation form at Appendix E. Using the assessment key they agreed to award themselves the following ratings:

- On promoting the principles of good governance and their application to decision making, Committee assessed themselves as a four.
- On contributing to the development of an effective control environment, Committee assessed themselves as a three.
- On supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks, Committee assessed themselves as a four.
- On advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively, Committee assessed themselves as a four.
- On supporting the quality of the internal audit activity, particularly by underpinning its organisational independence, Committee assessed themselves as a four.
- On aiding the achievements of the authority's goals and objectives through helping to ensure appropriate governance risk, control and assurance arrangements, Committee assessed themselves as a four.
- On supporting the development of robust arrangements for ensuring value for money, Committee assessed themselves as a three.
- On helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks, Committee assessed themselves as a four.
- On promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and

accountability, Committee assessed themselves as a three.

RESOLVED – That the Audit and Corporate Governance Scrutiny Committee evaluated their added value to the Council to complete the annual self-assessment review.

AUD **Committee Work Programme 2021-2022**

70/2

1-22

The Governance Manager presented the Audit and Corporate Governance Scrutiny Committee Work Programme for the remainder of the municipal year 2021/2022.

It was agreed that an overview of the Council's projects and financial considerations, and the updated risk register would be brought to the meeting of Committee due to be held in February 2022.

An update on the progress made implementing the action plan arising from the external review of Internal Audit would be added to the Work Programme for the January meeting.

RESOLVED – That the Committee noted and approved the Audit and Corporate Governance Scrutiny Work Programme for the remainder of the 2021/2022 municipal year as set out in Appendix 1.

AUD **Forward Plan of Executive Decisions**

71/2

1-22

RESOLVED – That the Forward Plan of Executive Decisions be noted.

AUD **To consider any other item which the Chair is of the opinion should be considered as a matter of urgency.**

72/2

1-22

No urgent items were discussed at this meeting.

AUD **Date of Next Meeting**

73/2

1-22

The date of the next meeting was scheduled to take place on 12 January 2022.

AUD **Exclusion of Public**

74/2

1-22

RESOLVED – That the public be excluded from the meeting during the discussion of the following item of business to avoid the disclosure to them of exempt information as defined Paragraph 7, Part 1 of schedule 12A to the Local Government Act 1972, (as amended by the Local Government (Access to Information) (Variation) Order 2006).

AUD **Cybersecurity**

75/2

1-22

The Joint ICT Service Delivery Manager presented Committee with an update on the Council's current Cyber Security Resilience.

RESOLVED – That the audit and Corporate Governance Scrutiny Committee

noted the information provided in the report on the Council's Cyber Security.

Auditor's Annual Report

North East Derbyshire District Council –
year ended 31 March 2021

December 2021



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01

Section 01: **Introduction**

1. Introduction

Purpose of the Auditor’s Annual Report

Our Auditor’s Annual Report (AAR) summarises the work we have undertaken as the auditor for North East Derbyshire District Council (‘the Council’) for the year ended 31 March 2021. Although this report is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice (‘the Code’) issued by the National Audit Office (‘the NAO’). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.



Opinion on the financial statements

We issued our audit report on 30 September 2021. Our opinion on the financial statements was unqualified.



Value for Money arrangements

In our audit report issued we reported that we had not completed our work on the Council’s arrangements to secure economy, efficiency and effectiveness in its use of resources and had not issued recommendations in relation to identified significant weaknesses in those arrangements at the time of reporting. Section 3 confirms that we have now completed this work and provides our commentary on the Council’s arrangements.



Wider reporting responsibilities

We have not yet received group instructions from the National Audit Office confirming their requirements in relation to the Council’s Whole of Government Accounts. We are unable to issue our audit certificate until this is formally confirmed.

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts. We did not receive any questions or objections in respect of the Council’s financial statements.

02

Section 02:

Audit of the financial statements

2. Audit of the financial statements

The scope of our audit and the results of our opinion

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs).

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2021 and of its financial performance for the year then ended. Our audit report, issued on 30 September 2021 gave an unqualified opinion on the financial statements for the year ended 31 March 2021.

Qualitative aspects of the Council's accounting practices

We reviewed the Council's accounting policies and disclosures and concluded they comply with the 2020/21 Code of Practice on Local Authority Accounting, appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council well in advance of the revised statutory deadline and were of a good quality. The accounts were supported by high quality working papers and we received full cooperation from the Finance team in responding to our queries on a prompt basis.

Significant difficulties during the audit

During the course of the audit we had the full co-operation of management. The audit was again carried out remotely but there were no significant difficulties in carrying out our normal audit procedures and obtaining the audit evidence required to complete the audit. We are grateful for the co-operation and support provided by management.

Internal Control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. Based on the audit work carried out this year, we have not identified any significant control deficiencies in 2020/21

03

Section 03:

Commentary on VFM arrangements

3. VFM arrangements – Overall summary

Approach to Value for Money arrangements work

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:

- **Financial sustainability** - How the Council plans and manages its resources to ensure it can continue to deliver its services
- **Governance** - How the Council ensures that it makes informed decisions and properly manages its risks
- **Improving economy, efficiency and effectiveness** - How the Council uses information about its costs and performance to improve the way it manages and delivers its services

At the planning stage of the audit, we undertake work so we can understand the arrangements that the Council

has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements.

Where we identify significant risks, we design a programme of work (risk-based procedures) to enable us to decide whether there is a significant weakness in arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses.

Where our risk-based procedures identify actual significant weaknesses in arrangements, we are required to report these and make recommendations for improvement.

The table below summarises the outcomes of our work against each reporting criteria. We did not identify any risks of significant weakness, or actual significant weakness, in the Council's arrangements. On the following page we outline further detail of the work we have undertaken against each reporting criteria, including the judgements we have applied.

Reporting criteria	Commentary page reference	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability	9	No	No
Governance	11	No	No
Improving economy, efficiency and effectiveness	14	No	No

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

Background to the Council’s operating environment in 2020/21

The Council entered 2020/21 at the start of the national lockdown, and faced a significant operational impact from the effects of the pandemic. In response to the Covid-19 pandemic, central government made a series of policy announcements, a number of which have impacted on local authorities such as North East Derbyshire. During the 2020/21 year the Council dealt with a wide range of issues to support local residents and businesses.

Some of the Government’s initiatives in response to the Covid-19 pandemic have been backed by additional funding, and the Council received a range of government grants during 2020/21 to either support local businesses/individuals or meet the Council’s own costs. The Council received £1.4m of Covid-19 Response funding to cover the Council’s extra costs. The Council also received around £1.1m relating to income compensation scheme for the sales, fees and charges income lost during the lockdown periods.

2020/21 Financial statement performance

We have carried out a high level analysis of the audited financial statements, including the Balance Sheet and Movement in Reserves Statement and the Balance Sheet.

The Council’s balance sheet does not give us cause for concern relating to financial stability. Net current assets have increased from £24.4m to £31.5m, with cash and cash equivalents increasing by £10.4m. Short term creditors have increased from £10.6m to £15.2m, which as at other councils this year is largely due to deferred Covid-19 government grants.

The most significant change in the balance sheet relates to movements in the Council’s share of the pension fund net liability (being a deficit position) of £58.2m, up from £39.8m in the prior year. It is not unusual to see material movements in the net pension liability and this is consistent with our experience at other local authorities. The deficit position is not unusual and is a recognised area of financial challenge for local authorities.

The Council’s useable reserves have increased from £57.1m to £69.4m in 2020/21, with:

- General Fund and Earmarked Reserves of £22.5m, up from £15.4m in 2019/20;

- Capital Receipts and Grants Reserves of £7.0m, up from £5.1m in 2019/20; and
- Housing Revenue Account Balances of £37.7m, up from £36.3m in 2019/20.

These reserves provide some mitigation against future financial challenges, and include specific reserves (Invest to Save Reserve £3.4m, Resilience Reserve £2.3m and Business Rates Reserve £6.8m) to address future volatility and support savings and efficiencies plans. The Council will need to continue to ensure that any use of reserves to smooth the financial position over the next few years is properly planned and the use of reserves cannot be relied on to provide a long term solution to funding gaps.

Notwithstanding this, our work has not highlighted a risk of significant weakness in the Council’s arrangements for ensuring financial sustainability.

Financial planning and monitoring arrangements

In February 2020 the Council set balanced General Fund and Housing Revenue Account budgets for the 2020/21 financial year. During the year the Council reported its financial position through the quarterly financial performance reports, and carried out a thorough mid-year review before agreeing the revised budget in October 2020. We reviewed a sample of reports presented for 2020/21, which contain detail on any significant variances to budget and an update on performance against savings targets. The reports also contain information on progress against the approved capital programme and reasons for over or underspends against the budget profile to provide adequate scrutiny and oversight.

The Council reported the final revenue outturn position for the 2020/21 year as in-year saving of £627k against the budgeted total General Fund spend of £8,627k and a £115k deficit against the budgeted Housing Revenue Account budget of £12,399k. The main savings were in relation to staff (£349k) and transport costs (£101k) related budgets. We have considered the arrangements in place in respect of budget management as part of the Governance criteria on page 11.

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria (continued)

Arrangements for the identification, management and monitoring of funding gaps and savings

The Medium Term Financial Plan (MTFP) is a current plus four year plan which sets out the Council's commitment to provide services that meet the needs of people locally and that represent good value for money within the overall resources available to it. A key part of the strategy is to highlight the budget issues that will need to be addressed by the Council over the coming financial years, by forecasting the level of available resources from all sources and budget pressures relating to both capital and revenue spending as well as assessing sufficient reserves and provisions are held for past and unknown events which may impact on the Council's resources. The MTFP is prepared alongside other plans and strategies (for example the workforce planning and Capital and Investment Strategies). There is a process in place for challenging any growth items and agreeing the achievability of planned savings.

Arrangements and approach to 2021/22 financial planning

The arrangements for the 2021/22 budget setting process have largely followed the arrangements in place for 2020/21 but with a better understanding based on the experiences during the year of the impact of Covid-19 on the Council's services. There were still though a number of unavoidable uncertainties regarding likelihood and impact of any future lifting of restrictions or lockdowns, and the availability of any further government support.

Balanced General Fund and Housing Revenue Account budgets for 2021/22 were approved at the February 2021 Council meeting with any required savings confidently expected to be covered by actions in hand. The Cabinet approved the revised 2021/22 budgets in November 2021, following review by the Audit and Corporate Governance Scrutiny Committee. We reviewed the report and confirmed there were few significant changes on the original estimates, with most new growth items being accommodated within existing budgets. The unavoidable £465k cost pressure arising from the necessary changes to the waste recycling arrangements, following the contractor's default, is to initially be met through the Resilience Fund with the medium term funding to be confirmed.

There was an acknowledgement that the roll over of the Local Government Funding Settlement meant that some of the expected changes the Fair Funding Review and in relation to New Homes Bonus and any Business Rates reset were not enforced. Changes in these areas were regarded as a risk through expected loss of funding so their deferral represented a gain to the Council's immediate financial position. The continuing uncertainty does make though strategic financial planning difficult for Councils, particularly in relation to its General Fund services. The MTFP approved in February 2021 forecast a balanced budget for 2021/22 but

shortfalls for 2022/23 onwards rising to £1.6m in 2024/25. To mitigate any losses caused by funding changes and to balance its budget the Council has, as described above, established reserves to support its planned transformation and savings process and to address volatility in funding.

Based on the above considerations we are satisfied there is not a significant weakness in the Council's arrangements in relation to financial sustainability.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria

Risk management and monitoring arrangements

The Council has an established risk management framework and systems in place which are built into the governance structure of the organisation. There is an updated and approved Risk Management Strategy which includes the Council's approach, guidance, the Council's risk appetite and roles and responsibilities. There is a member led Corporate Risk Management Group in place, with input from relevant senior managers. The Group oversees all the Council's operational and strategic risk registers and provides challenge as part of the process. The Group provides regular reports to the Audit and Corporate Governance Scrutiny Committee, Cabinet and the Performance Reporting Group (includes senior managers and cabinet members) to provide assurance on the risk management arrangements in place and confirm that they are regularly reviewed and are working effectively. These arrangements are consistent with what we would expect at a local authority and are adequate for the Council's purposes.

In order to provide assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud, the Council is a member of the Internal Audit Consortium which is a shared service with neighbouring councils. The Consortium Manager acts as Head of Internal Audit and the service has been externally assessed as meeting the Public Sector Internal Audit Standards. The annual Internal Audit plan is agreed with management at the start of the financial year and is reviewed by the Audit and Corporate Governance Scrutiny Committee prior to final approval.

The audit plan is based on an assessment of risks the Council faces and is designed to ensure there is assurance on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. The planned work can be supplemented if necessary by ad hoc reviews in respect of suspected irregularities and other work commissioned by Officers and Members of the Council where relevant to respond to emerging risks and issues. We have reviewed the Internal Audit plans for 2020/21 and 2021/22 and confirmed they are consistent with the risk based approach.

Internal Audit progress reports are presented to each Audit and Corporate Governance Scrutiny Committee meeting including follow up reporting on recommendations from previous Internal Audit reports. From our attendance at meetings, we are satisfied this allows the Committee to effectively hold management to account. At the end of each financial year the Head of Internal Audit provides an opinion based on the work completed during the year. For 2020/21 the Head of Internal Audit concluded that a reasonable level of assurance could be provided on the overall adequacy and effectiveness of the Council's framework for governance, risk

management and control.

Throughout the year we have attended Audit and Corporate Governance Scrutiny Committee meetings. Through attendance at these meetings we have confirmed that the committee receive regular updates on both internal audit progress and risk management in the form of risk registers. We have seen active Member engagement from the Audit and Corporate Governance scrutiny Committee who challenge the papers and reports which they receive from officers, internal audit and external audit.

Arrangements for budget setting and budgetary control

The Council has an established set of arrangements in place for budget setting and control. The process is set out and approved through the Constitution, which encompasses the budget setting rules and financial procedures. The framework includes:

- Clear responsibilities, including the role of the Section 151 Officer in leading the budget setting process and providing professional advice, and the reservation of the approval of the Budget to the Council
- Budget setting guidance to managers, with the process normally starting in August to get an early understanding of the key relevant factors and future budget requirements. Although existing budgets are in most cases used as a basis determining the next year's estimates they are not merely rolled forward with early challenge to staff number assumptions and growth and savings proposals.
- Close working between the finance team and with external advisors and neighbouring councils to agree the key budget assumptions, which are challenged and agreed through the budget review process by the Senior Management Team, Audit and Corporate Governance Scrutiny Committee, Cabinet and Council.

Following approval of the budget, budget monitoring commences to monitor progress against targets. Budget monitoring responsibilities of budget holders are documented and they are supported in this role by the finance team. Budget monitoring reports are produced on a monthly basis and there are regular meetings held, including finance team members, to discuss the financial performance and forecasts. There are rules in place regarding the reporting of budget variances and budget changes. The financial management system (FMS) has an e-purchasing module which ensures orders can only be placed where there is a budget in place. This 'commitment accounting' ensures as soon as an order is placed that the available budget is reduced.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria (continued)

There are similar processes and controls in place for development and control of the capital programme alongside the revenue budget setting. The Treasury Strategy reports (encompassing the Treasury Management, Capital and Corporate Investment Strategies) are approved at the same time as the revenue budgets and monitored and reported on throughout the year.

There are the rules in place regarding changes to the original budget, with Cabinet approval required for any revisions. The opportunity to review the budget was especially important in 2020/21 given the likely impact of Covid-19 was largely unknown at the time the original budget was approved. The updated 2020/21 budget was approved by the Cabinet, following review by the Audit and Corporate Governance Scrutiny Committee, in October 2020.

Quarterly Financial performance monitoring reports are presented to the Performance Reporting Group, Cabinet and Audit and Corporate Governance Scrutiny Committee. The reports cover General Fund and Housing Revenue Account spend and income to date and forecast against budget, Capital Programme progress and Treasury Management activities, and forecast significant variations are investigated and reported on, together with any corrective action being taken. Our review of the relevant meeting minutes confirmed there was challenge and scrutiny of the process. The impact of Covid-19 on financial performance is apparent from the reports through 2020/21 and any material budget variances were identified and explained at an appropriate stage. There were no significant unexpected over or underspends reported at the year-end.

The Chartered Institute of Public Finance and Accountancy (CIPFA) has published its Financial Management (FM) Code to provide guidance for good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The first full year of compliance with the FM code is 2021/22. The Audit and Corporate Governance Scrutiny Committee received in July 2021 a report from the Head of Finance and Resources summarising Internal Audit’s assessment of the Council’s compliance with the standards set out in the Code. Internal Audit found that the Council complied with the majority of the Code requirements already and management is working to address the small number of areas for improvement identified.

Decision making arrangements and control framework

The Council has an established governance structure in place which is set out within its Annual Governance Statement (AGS). We reviewed the AGS and observed the Audit and Corporate Governance Scrutiny Committee’s review of the AGS and monitoring of actions throughout the year in relation to any significant governance issues.

The governance structure, as described in the AGS includes the Council’s Corporate Governance Code, the Constitution and the scheme of delegation which shows the levels of authority required for all key decisions.

The Council’s Corporate Governance Code sets out the governance principles which the Council are committed to and within which the Council conducts its business and affairs. The Local Code identifies the arrangements in place to enable the Council to meet the good governance principles identified.

The required Standards Committee arrangements are in place designed to promote and maintain high standards of conduct by members and co-opted Members of the District Council and of the Town and Parish Councils within the District. We have reviewed the Committee’s minutes in the year and not identified any matters of concern.

The Constitution is kept under review and updated as required. The Constitution sets out how the Council operates, how decisions are made and the procedures to support the Council’s aims of being transparent and accountable. The Constitution includes the Budget and Policy Framework Rules, Finance Rules and Contract Rules, Member and Officer codes of conduct. There are arrangements in place for the Scrutiny Committees to be made aware of ‘Key Decisions’ taken by the Cabinet or planned, as well as defining what a Key Decision is. The Constitution sets out the rules and process for Decisions to be ‘called in’ by Committees. No Key Decisions have been ‘called in’ during 2020/21.

The Scrutiny Committee arrangements have been shaped to reflect Council priorities with there being three themed Committees (Communities, Growth and Organisation) to support the work of the Cabinet and the Council as a whole. The Audit and Corporate Governance Scrutiny Committee provides further focus on risk, governance and control matters. The Scrutiny Committees have work programmes in place to steer their coverage of services and Cabinet key decisions. There is also a Shared Services Scrutiny Committee in place which scrutinises the joint working arrangements with neighbouring councils. We have reviewed the Scrutiny Committees’ minutes throughout the year and not identified any concerns.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria (continued)

Regulators

There are few external regulators for district councils and we have not identified any matters reported which indicate significant weaknesses in the Council's governance arrangements. We reviewed the Local Government and Social Care Ombudsman's (LGSCO) 2020/21 report which was considered by the Standards Committee at its November 2021 meeting. The Committee report summarised management's response to the matters raised by LGSCO and the further strengthening of the Compliments, Comments and Complaints process.

Based on the above considerations we are satisfied there is not a significant weakness in the Council's arrangements in relation to governance.

3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria

Performance Management

The 2019-23 Council Plan set out the Council's priorities in relation to Economy, Environment, Residents and Services. The Council has identified the key performance indicators, and target levels of performance, in relation to these priorities. The performance targets are informed by national standards, local benchmarking and experience and subject to initial challenge and confirmation.

The Council has in place a performance management framework which includes identified responsibilities of managers and processes for regular performance reporting and corrective action if required. Portfolio Holders meet regularly with Heads of Service and Directors to discuss, amongst other things, the performance of services against targets. There is quarterly reporting to the Performance Reporting Group, Audit and Corporate Governance Scrutiny Committee and the Cabinet. These quarterly reports take the form of a dashboard and identify whether the performance is achieved or on/off track, including whether the performance is affected by Covid-19. The quarterly reports include an appropriate commentary to explain any significant factors which are affecting performance and actions being taken to correct performance.

On an annual basis, the Council's overall performance is summarised in the Narrative Report as part of the Statement of Accounts. This outlines the Council's progress against its ambitions, highlighting key successes and risk areas. The Narrative Report also includes an agreed plan for subsequent years, including any areas for improvement. This provides the public with an overall assessment of the Council activities for the financial year

We have reviewed a sample of the managers' detailed performance reports and observed the Audit and Corporate Governance Scrutiny Committee's review and challenge of the quarterly reports. The quarterly reports demonstrate that performance has been managed throughout the 2020/21 year and any significant variances have been justified, with no major unexpected gaps in performance at the year end. The process has continued in the first half of 2021/22. Overall, we believe there is sufficient evidence to demonstrate adequate arrangements for performance monitoring and management at the Council.

Partnerships

There are a number of significant partnership arrangements in place, through which the Council works to deliver services in line with its ambitions and priorities. These include:

- The Strategic Alliance with Bolsover East Derbyshire District Council which saw the two Council's for a number of years sharing a number of senior manager posts. Although this has become less so in 2021/22 with both Council's appointing its own Corporate Directors and Head of Paid Service, the Monitoring Officer post continues to be a joint appointment.
- Shared service and joint arrangements with other local authorities covering Environmental Health, ICT, Payroll, Procurement, Internal Audit and the Chesterfield Crematorium.
- The Local Strategic Partnership for the District and comprises partners from the public, private, community and voluntary sectors with the aim of promoting the social, economic and environmental well-being of the area.
- The Local Enterprise Partnership, D2N2.

There are relevant governance frameworks in place for these arrangements and the Council continues to keep its role in these activities under review. The Council has also since 2017/18 been party to a joint venture through Northwood Group Limited, with the objective of providing more housing and commercial developments on the Council's land in the area. The Council's total investment in this venture at the end of 2020/21 was around £1.7m.

The Council established Rykneld Homes Limited in 2007 to act as an Arms Length Management Organisation for the management and maintenance of its housing stock. There is a governance and performance management framework in place, with a review of the management agreement in progress to ensure the arrangement continues to be fit for purpose.

3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria (continued)

Procurement

The Council has a Procurement Strategy and set of Contract Procurement Rules which outlines how the procurement of goods, works and services is achieved. These documents take into account latest legislative and operational changes at the Council, and provide a corporate framework for the procurement of goods, works and services. There are also controls in place designed to ensure that all procurement activity is conducted with openness, honesty and accountability.

There is a specialist Procurement unit which is a shared service with Bolsover District Council as part of the strategic alliance arrangement. The Unit also provides a service under a service level agreement to another Borough Council and supports parish council's in their procurement. The Council has specific arrangements through standing financial instructions and purchase order controls and our work on the financial statements has not identified any significant internal control deficiencies in these areas.

Based on the above considerations we are satisfied there is not a significant weakness in the Council's arrangements in relation to improving economy, efficiency and effectiveness.

04

Section 04:

Other reporting responsibilities and our fees

4. Other reporting responsibilities and our fees

Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to the law; and
- issue an advisory notice.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

We have not yet received group instructions from the National Audit Office confirming their requirements in relation to the Council’s Whole of Government Accounts. We are unable to issue our audit certificate until this is formally confirmed.

4. Other reporting responsibilities and our fees

Fees for work as the Council’s auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum and Audit Completion Report presented to the Audit and Corporate Governance Scrutiny Committee in April and September 2021 respectively. Our current fees estimate is set out below. We will agree the final fee, and any further variations, with management prior to reporting to the Audit and Corporate Governance Scrutiny Committee.

Area of work	2019/20 fees	2020/21 fees
Scale fee in respect of our work under the Code of Audit Practice	£43,510	£43,510
Additional testing as a result of changes arising from increased audit quality expectations involving the work on the valuation of land and buildings and on the local government pension scheme	£7,067	£7,067
Additional testing as a result of the implementation of new auditing standards	-	£2,016
Other additional testing - new significant audit risks for 2020/21 (Covid-19 grant recognition) and additional testing and reporting in 2019/20 on uncertainties in key estimates as a result of Covid-19	£5,032	£1,188
Additional work as a result of the new Code of Audit Practice and VFM reporting	-	TBC*
Total fees	£55,609	£53,781*

* The original estimate reported in our Audit Strategy Memorandum for this work was at least £10,000 or 20% of the revised fee. The final fee estimate for the work, and total fees, have not yet been confirmed, but are estimated to be £0,000 - £10,000.

4. Other reporting responsibilities and our fees

Fees for other work

We confirm that we undertook the following non-audit services for the Council in the year.

Certification of the 2019/20 Housing Benefit Subsidy Claim	£7,000
Pooling of Housing Capital Receipts Return	£4,000

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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.

*where permitted under applicable country laws.

North East Derbyshire District Council

Audit and Corporate Governance Scrutiny Committee

12th January 2022

Summary of Progress on the 2021/22 Internal Audit Plan

Report of the Head of the Internal Audit Consortium

Classification: This report is public

Report By: Jenny Williams: Head of the Internal Audit Consortium

Contact Officer: Jenny.Williams@ne-derbyshire.gov.uk

PURPOSE / SUMMARY

- To present, for members' information, a progress report in respect of the 2021/22 Internal Audit Plan.
-

RECOMMENDATION

1. That the report be noted.
-

IMPLICATIONS

Finance and Risk: Yes ☒ No ☐

Details:

Internal audit reviews help to ensure that processes and controls are operating effectively thereby contributing to ensuring that value for money is obtained.

On Behalf of the Section 151 Officer

Legal (including Data Protection): Yes ☒ No ☐

Details:

The core work of internal audit is derived from the statutory responsibility under the Accounts and Audit Regulations 2015 which requires the Council to "undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking in to account the Public Sector Internal Audit Standards or guidance".

On Behalf of the Solicitor to the Council

Staffing: Yes ☐ No ☒
Details:

On behalf of the Head of Paid Service

DECISION INFORMATION

Decision Information	
Is the decision a Key Decision? A Key Decision is an executive decision which has a significant impact on two or more District wards or which results in income or expenditure to the Council above the following thresholds: BDC: Revenue - £75,000 <input type="checkbox"/> Capital - £150,000 <input checked="" type="checkbox"/> NEDDC: Revenue - £100,000 <input type="checkbox"/> Capital - £250,000 <input type="checkbox"/> <input checked="" type="checkbox"/> Please indicate which threshold applies	No
Is the decision subject to Call-In? (Only Key Decisions are subject to Call-In)	No
District Wards Significantly Affected	None
Consultation: Leader / Deputy Leader <input type="checkbox"/> Cabinet / Executive <input type="checkbox"/> SAMT <input type="checkbox"/> Relevant Service Manager <input checked="" type="checkbox"/> Members <input type="checkbox"/> Public <input type="checkbox"/> Other <input type="checkbox"/>	Yes Details:

Links to Council Plan priorities or Policy Framework including Climate Change, Equalities, and Economics and Health implications.

Internal audit reviews help to ensure that the Council is delivering high quality, cost effective services.

REPORT DETAILS

1 Background

- 1.1 The Public Sector Internal Audit Standards require that the Head of the Internal Audit Consortium reports periodically to the Audit and Corporate Governance Scrutiny Committee in respect of performance against the audit plan. Significant risk and control issues should also be reported.

2. Details of Proposal or Information

- 2.1 Appendix 1 is a summary of reports issued between the middle of November and the end of December 2021. The Appendix shows for each report the level of assurance given and the number of recommendations made / agreed where a full response has been received. This provides an overall assessment of the system's ability to meet its objectives and manage risk. The definitions of the assurance levels used can be seen at Appendix 2.
- 2.2 In this period 3 reports have been issued one with substantial assurance and two with reasonable assurance.
- 2.3 At its December meeting this Committee requested sight of the Internal Audit Report in relation to Section 106 Agreements so the report is attached at Appendix 3.
- 2.4 Reports are issued as Drafts with five working days being allowed for the submission of any factual changes, after which time the report is designated as a Final Report. Fifteen working days are allowed for the return of the Implementation Plan.
- 2.5 Appendix 4 provides full details of the audits completed and audits in progress in respect of 2021/22. I am currently in the process of planning which audits we will prioritise January – March 2022 and which we will defer. In doing this consideration will be given to the level of risk and the work needed in order to be able to provide an unlimited internal audit opinion at the year end.

3 Reasons for Recommendation

- 3.1 To inform Members of progress on the 2021/22 Internal Audit Plan and to provide details of the Audit Reports issued to date.
- 3.2 To comply with the requirements of the Public Sector Internal Audit Standards.

4 Alternative Options and Reasons for Rejection

- 4.1 Not Applicable

DOCUMENT INFORMATION

Appendix No	Title
Appendix 1	Summary of Internal Audit reports issued in respect of the 2021/22 Internal Audit Plan between the middle of November and the end of December 2021
Appendix 2	Assurance Definitions
Appendix 3	Section 106 Report
Appendix 4	Progress on the 2021/22 Internal Audit Plan
Background Papers (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)	

NORTH EAST DERBYSHIRE DISTRICT COUNCIL

Summary of Internal Audit Reports Issued between the middle of November and end of December 2021

Report Ref No.	Report Title	Scope and Objectives	Assurance Provided	Date		Number of Recommendations	
				Report Issued	Response Due	Made	Accepted
N008	Homelessness	To review and assess operational procedures and compliance with legislation	Reasonable	25/11/21	16/12/21	4 (1M 3L)	Note 1
N009	Disaster Recovery Arrangements	To review and assess the Council's ICT Disaster Recovery Arrangements	Substantial	30/11/21	21/12/21	3L	Note 1
N010	Section 106	To review the arrangements in place for collecting and spending Section 106 monies	Reasonable	20/12/21	26/01/22	4 (3M 1L)	Note 1

H = High Priority M = Medium Priority L = Low Priority

Note 1 Response not due at time of writing report

Current Assurance Levels

Assurance Level	Definition
Substantial Assurance	There is a sound system of controls in place, designed to achieve the system objectives. Controls are being consistently applied and risks well managed.
Reasonable Assurance	The majority of controls are in place and operating effectively, although some control improvements are required. The system should achieve its objectives. Risks are generally well managed.
Limited Assurance	Certain important controls are either not in place or not operating effectively. There is a risk that the system may not achieve its objectives. Some key risks were not well managed.
Inadequate Assurance	There are fundamental control weaknesses, leaving the system/service open to material errors or abuse and exposes the Council to significant risk. There is little assurance of achieving the desired objectives.

:

Control levels that were used until end March 17

Control Level	Definition
Good	A few minor recommendations (if any).
Satisfactory	Minimal risk; a few areas identified where changes would be beneficial.
Marginal	A number of areas have been identified for improvement.
Unsatisfactory	Unacceptable risks identified, changes should be made.
Unsound	Major risks identified; fundamental improvements are required.

Appendix 3

**Bolsover, Chesterfield and North East Derbyshire District
Councils'**

Internal Audit Consortium

Authority:	North East Derbyshire District Council
Subject:	Section 106 Agreements Report Reference: N010
Date of Issue:	20th December 2021
Assurance Level	Reasonable
Report Distribution:	Planning Manager (Development Control), Assistant Director – Planning, Assistant Director - Finance (S151), Managing Director. C.c. Head of Service – Governance & Monitoring Officer.



INTERNAL AUDIT REPORT
DEVELOPMENT MANAGEMENT
SECTION 106 AGREEMENTS (S106)

Introduction

In accordance with the 2021/22 annual audit plan a review of the processes and controls in respect of Section 106 Agreements (S106) has been undertaken.

The previous audit was finalised in April 2019, resulting in an overall audit opinion of 'Reasonable' assurance with 4 recommendations made for improvement.

Scope and Objectives

To ensure that:

- Previous audit recommendations have been addressed
- Comprehensive records of all agreements exist and are well maintained
- Adequate monitoring of agreements, monies and conditions is undertaken
- Payments are made in line with agreements on a timely basis
- Funding is appropriately and timely spent in line with agreements
- Budget monitoring procedures are robust
- Effective reporting mechanisms are in place.

Conclusion

The conclusion of the audit was that the reliability of the controls was assessed as giving '**Reasonable**' assurance. The majority of controls are in place and operating effectively, although some control improvements are required. The system should achieve its objectives. Risks are generally well managed. (*See Appendix A for audit assurance definitions*).

Some process controls require improvement to ensure that future S106 contributions can be identified and collected promptly. It is important to note that at the point of testing, there are no contributions held which are at immediate risk of repayment to developers through lack of action by the Council.

The onus is on the developer to pay over contributions due at agreed points which they covenant to do; however, in some cases payments are not forthcoming and as a result, the Planning and Legal teams, on behalf of the Council also have a responsibility to chase any outstanding payments due.

A back log of site monitoring visits delayed due to the Covid pandemic requires progressing and the process of collecting sums due requires formalising to ensure that prompt action can be taken where appropriate.

Significant improvements to the control and monitoring of contributions, once received, have been evidenced through the creation of a joint monitoring group ensuring that the risk of repayments to developers through lack of prompt action is low.

The assistance of Planning, Finance and Legal teams was appreciated during the course of the audit.

Findings and Recommendations

Previous Recommendations

1. Of the 4 recommendations made during the previous audit review, 1 has been confirmed as implemented. This was in relation to ensuring a member of the Legal team regularly attends the S106 monitoring group meetings.
2. Two recommendations in relation to site monitoring visits and the issuing of reminder letters to developers have been re-stated with an update noted within the relevant sections of this report. (New recommendations 2 and 3).
3. The remaining recommendation in respect of providing Planning Committee with 6 monthly updates has now been superseded. At the Planning Committee of October 2021, a request was made by Elected Members to provide quarterly S106 updates.

Central Records

4. Once sealed, S106 agreements are held centrally by the Councils Legal team. Copy agreements are also available to the public accessible via the online planning portal.
5. Comprehensive spreadsheets are in use for the recording and monitoring of S106 agreements including; associated trigger points for contributions due from developers as well as progress updates and expiry dates for the use of contributions received.
6. Checks of a sample of 10 S106 agreements published on the Planning Portal found that details had been accurately transferred to the central monitoring spreadsheet.
7. Unilateral agreements (also section 106 but agreements submitted by the applicant and not otherwise “agreed” with the Council are also retained by the Legal team, copies are provided for public access on the online planning portal and the nature of the agreements are recorded on the Uniform system.
8. The last 3 Unilateral Agreements raised were examined and it was confirmed that the controls in place to ensure related land charges had been applied to the register, were operating well.

Monitoring Arrangements

9. Written procedures are in place; however, these are in need of review to ensure that revised processes are included and all relevant parties adopt a consistent approach to the S106 process.

As necessary, and when payments aren't delivered as agreed by the developer, Planning Officers will visit the site in question and assess if the relevant trigger points

have been reached. Current procedures state that sites will be visited on a 6 monthly basis.

10. Checks of the central monitoring spreadsheet and the October 2021 report to Planning Committee highlighted a number of developments which have not been visited in recent times; some of which were noted as last visited in April 2019. In one instance, it has been noted that Committee were informed of a site visit in April 2019; however the spreadsheet was noted as last visited in April 2021.
11. Information received suggests that the Covid pandemic has played a part in the reduction of site visits undertaken, as has the current workload of the team. Although the reintroduction of site visits is now progressing, a consistent approach, in particular to recording and reporting site visits should be applied.
12. The previous audit recommendation '*to ensure that S106 contributions due can be collected promptly, a consistent approach to recording when Planning Officer site monitoring visits have been undertaken should be introduced*' has been re-stated, albeit updated for current relevance.
13. At the point a trigger has been reached, instruction is given to the Development Management Administration team to pursue the sums due. It should be noted that more recently generated agreements now place the onus on the developer to pay 3rd party beneficiaries such as Derbyshire County Council, directly; in effect reducing NEDDC administrative time.
14. A standard 'reminder' letter has been devised, advising the developer that a payment is required. A follow up letter in the same format as the first reminder is also in place. Failure to pay results in a referral to the Council's Legal team for further action.
15. Normal procedure includes the issuing of a follow up reminder approximately 8 weeks after the first. However, checks found that this timescale isn't always applied.
16. It was also identified that referrals to and action by the Legal team were not always prompt.
17. It would therefore be beneficial to review the process of issuing reminders; a suggested approach would be to issue only 1 reminder, setting out a date payment is expected and where it is not forthcoming, immediate referral for enforcement action to the Legal team takes place.
18. The previous audit recommendation '*the Legal and Planning teams should formalise a consistent approach to the process of issuing reminders and / or carrying out legal enforcement to applicants who have not paid over S106 contributions due. A structured timetable should be introduced into S106 procedures for clarity*' has been re-stated.

19. In some instances, a developer may ask that a sundry debtor invoice is raised prior to payment being raised. Recovery of sums due will then fall in line with normal Sundry Debtor Recovery Procedure; however, it is important to stress that the Development Management Administrative Team should liaise with the Debtors team to ensure that the reminder process is not extended or delayed and to ensure that there is a prompt referral to the Legal team should payment not be forthcoming.
20. It was identified that a sundry debtor invoice had been raised in June 2021 for a contribution of £302,100. This was recorded on the central monitoring spreadsheet as payment received, prior to actual receipt of the sums due. It should be pointed out that this is also used to support final accounts and associated working papers and therefore has to comply with CIPFA Accountancy practice.
21. As a result, this contribution was not reported as outstanding to Planning Committee in October 2021. It should be noted for reference that this contribution has since been received (12th November 2021). Future contributions to be collected via the sundry debtor process should still be reported as outstanding until the total amount due has been credited to the Council's bank account.
22. A S106 monitoring group comprising of Planning, Financial Services, Legal, Housing and Streetscene team members have been meeting on a 6 monthly basis to keep abreast of S106 activity. A representative from Derbyshire County Council also attends.
23. Monitoring meetings ensure that the S106 obligations and timescales for the use of contributions are appropriately met, this ensures the Council remains at low risk of repayments to developers through lack of prompt action.
24. Monitoring meetings should be minuted to ensure progress, decisions and responsibilities are clear to all parties involved. Minutes for the October 2020 meeting have not been located; however April 2021 minutes have been confirmed as in place. The minutes of the latest meeting (November 2021) have not yet been produced.
25. It is clear that team members from other services areas, in particular Strategic Housing and Streetscene, are invited to attend when the responsibility for utilising the contributions received dictates.
26. Income and expenditure as reported through General Ledger (GL) codes B397-9257 and B397-4699 were traced to the central monitoring spreadsheet satisfactorily; related procedures have been confirmed as operating well.

Recommendations	
R1	Written S106 procedures should be updated and circulated to relevant parties to ensure that a consistent approach is taken by all throughout. (Priority: Low)
R2	Re-statement To ensure that S106 contributions due can be collected promptly, a consistent approach to undertaking and recording when Planning Officer site monitoring visits have been undertaken should be introduced. Records should be verified to ensure that accurate information is provided to the Planning Committee. (Priority: Medium)
R3	Re-statement The Legal and Planning teams should formalise a consistent approach to the process of issuing reminders and / or carrying out legal enforcement to applicants who have not paid over S106 contributions due. A structured timetable should be introduced into S106 procedures for clarity. (Priority: Medium)
R4	To ensure that the process of collecting sums due via the Sundry Debtor process does not extend or delay the recovery process, the DM Admin. team should liaise with the Sundry Debtor team to arrange prompt referral to the Council's Legal team for further action. Financial contributions pursued through the Sundry Debtor process should continue to be reported to the S106 Monitoring Group and Planning Committee as outstanding until the payment has been credited to the Council's bank account. (Priority: Medium)

Governance & Reporting

27. It was noted in the previous audit report that S106 reporting over the previous year had shown little movement in cases for examination by Elected Members. It was therefore recommended that consideration should be given to reducing the reporting process to twice yearly, subject to the option of reporting ad-hoc issues when required and subject to Elected Member approval.

28. There were no progress reports submitted to Planning Committee between November 2020 and October 2021 for various reasons including the capacity of the Planning Committee during the pandemic to receive reports and the cancellation of meetings.

29. During the Planning Committee of October 2021, Elected Members requested quarterly S106 updates to be provided and as such, the previous audit recommendation has now been superseded.
30. The report pack submitted to the October 2021 Planning Committee has been examined and is shown to be comprehensive; included within the pack are details in respect of ongoing case monitoring (last site visits noted), payments due but not collected (with any action taken noted) and sums collected which are due to be spent.
31. The accuracy of these reports should be verified prior to submission, in particular relating to contributions due, but not paid. Implementation of recommendation 4 above will ensure this control is reintroduced.

Appendix A

Assurance Level	Definition
Substantial Assurance	There is a sound system of controls in place, designed to achieve the system objectives. Controls are being consistently applied and risks well managed.
Reasonable Assurance	The majority of controls are in place and operating effectively, although some control improvements are required. The system should achieve its objectives. Risks are generally well managed.
Limited Assurance	Certain important controls are either not in place or not operating effectively. There is a risk that the system may not achieve its objectives. Some key risks were not well managed.
Inadequate Assurance	There are fundamental control weaknesses, leaving the system/service open to material errors or abuse and exposes the Council to significant risk. There is little assurance of achieving the desired objectives.

Internal Audit Report – Implementation Schedule

Report Title:	Section 106 Agreements	Report Date:	20th December 2021
		Response Due By Date:	26th January 22

Recommendations		Priority (High, Medium, Low)	Agreed	To be Implemented By:		Disagreed	Further Discussion Required	Comments
				Officer	Date			
R1	Written S106 procedures should be updated and circulated to relevant parties to ensure that a consistent approach is taken by all throughout.	Low						
R2	Re-statement To ensure that S106 contributions due can be collected promptly, a consistent approach to recording when Planning Officer site monitoring visits have been undertaken should be introduced. Records should be verified to ensure that accurate information is provided to the Planning Committee.	Medium						

Recommendations		Priority (High, Medium, Low)	Agreed	To be Implemented By:		Disagreed	Further Discussion Required	Comments
				Officer	Date			
R3	Re-statement The Legal and Planning teams should formalise a consistent approach to the process of issuing reminders and / or carrying out legal enforcement to applicants who have not paid over S106 contributions due. A structured timetable should be introduced into S106 procedures for clarity.	Medium						
R4	To ensure that the process of collecting sums due via the Sundry Debtor process does not extend or delay the recovery process, the DM Admin. team should liaise with the Sundry Debtor team to arrange prompt referral to the Council's Legal team for further action. Financial contributions pursued through the Sundry Debtor process should continue to be reported to the S106 Monitoring Group and Planning Committee as outstanding until the payment has been credited to the Council's bank account.	Medium						

Please tick the appropriate response (✓) and give comments for all recommendations not agreed.

Signed Head of Service:		Date:	
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Note: In respect of any High priority recommendations please forward evidence of their implementation to the Internal Audit team as soon as possible.

North East Derbyshire District Council Progress on the Internal Audit Plan 2021/22

	Complete
	In progress

	2021/22 Days
Main Financial Systems	
Main Accounting / Budgetary Control / MTFP	15
Creditor Payments (key controls)	10
Debtors (key controls)	10
Treasury Management	15
Council Tax (key controls)	10
NNDR	20
Housing Benefits	18
Payroll	15
Business Grants	15
Total Main Financial Systems	128
Other Operational Audits	2021/22
Committee Processes	8
Food Hygiene	12
Grounds Maintenance	8
Homelessness	12
Insurance	10
Killamarsh Leisure Centre	13
Section 106	12
Total Operational Areas	75
Rykneld Homes	97
IT Related	

Disaster Recovery	6
IT Transformation Programme / Digital Agenda	8
Total IT	14
	2021/22
Fraud and Corruption	
National Fraud Initiative	5
Total Fraud & Corruption	5
Corporate / Cross Cutting Issues	
Business Continuity	8
Corporate Governance / Assurance Statement	2
Corporate Targets	10
Financial Advice / working groups	12
Safeguarding	8
Ethics	10
Health and Safety	12
Risk Management	7
Transformation Agenda	10
Total Corporate/Cross Cutting Issues	79
Special Investigations / Contingency	43
Apprenticeships / training	30
Audit Committee / Client Liaison	15
Grand Total	486

Reserve Areas

Taxi Licences

VAT

Sickness absence

Leisure financial

Cemeteries

IT Disposal of old equipment

*******Waste Management – requested by NEDDC Audit Cttee to complete this year in respect of new recycling arrangements**

North East Derbyshire District Council

Audit and Corporate Governance Scrutiny Committee

12th January 2022

External Review of Internal Audit – Action Plan Progress

Report of the Head of the Internal Audit Consortium

Classification: This report is public

Report By: Jenny Williams: Head of the Internal Audit Consortium

Contact Officer: Jenny.Williams@ne-derbyshire.gov.uk

PURPOSE / SUMMARY

- To present, for members' information, a progress update in respect of implementing the recommendations arising from the external review of internal audit.
-

RECOMMENDATION

1. That the report be noted.
-

IMPLICATIONS

Finance and Risk: Yes ☒ No ☐

Details:

The action plan attached to this report addresses the recommendations arising from the external review of internal audit thereby minimising the risk that internal audit is not operating in accordance with the Public Sector Internal Audit Standards.

On Behalf of the Section 151 Officer

Legal (including Data Protection): Yes ☐ No ☒

Details:

On Behalf of the Solicitor to the Council

Staffing: Yes ☐ No ☒
Details:

On behalf of the Head of Paid Service

DECISION INFORMATION

Decision Information	
Is the decision a Key Decision? A Key Decision is an executive decision which has a significant impact on two or more District wards or which results in income or expenditure to the Council above the following thresholds: BDC: Revenue - £75,000 <input type="checkbox"/> Capital - £150,000 <input checked="" type="checkbox"/> NEDDC: Revenue - £100,000 <input type="checkbox"/> Capital - £250,000 <input type="checkbox"/> <input checked="" type="checkbox"/> Please indicate which threshold applies	No
Is the decision subject to Call-In? (Only Key Decisions are subject to Call-In)	No
District Wards Significantly Affected	None
Consultation: Leader / Deputy Leader <input type="checkbox"/> Cabinet / Executive <input type="checkbox"/> SAMT <input type="checkbox"/> Relevant Service Manager <input checked="" type="checkbox"/> Members <input type="checkbox"/> Public <input type="checkbox"/> Other <input type="checkbox"/>	Yes Details:

Links to Council Plan priorities or Policy Framework including Climate Change, Equalities, and Economics and Health implications.

An effective Internal audit service helps to ensure that the Council is delivering high quality, cost effective services.

REPORT DETAILS

1 Background

- 1.1 The Public Sector Internal Audit Standards require that the internal audit service must have an external review at least every 5 years. In May 2021 an external review of the Internal Audit Consortium was undertaken the results of which were reported to this Committee. Although the results of the review were positive and the service is deemed to be compliant with the Standards, some recommendations were made to help aid further improvement of the service. This report is to detail the progress made to date in implementing the recommendations to date.

2. Details of Proposal or Information

- 2.1 Appendix 1 details the recommendations made by the external reviewer, the proposed action and an update of the progress achieved so far.
- 2.2 Some recommendations have already been implemented and others are in progress. A number of the recommendations will be implemented from the 2022/23 financial year in order that we are not changing procedures mid –year and to have time to train staff.
- 2.3 The main focus of the recommendations relates to ensuring that internal audit continues to increase their focus on risk and aligns to the Council's risk appetite. In order to do this we are going to align our assurance levels and recommendation priorities to the risk appetite defined within the Council's risk management Strategy. The likely impact of this is that there will be more low priority recommendations as the Council's risk appetite is higher than our current recommendation priority definitions. A medium internal audit recommendation will therefore be more significant then at present.
- 2.4 All of our documentation has been reviewed and improvements made to our scoping document, audit test schedule and report template to embed risk management throughout the audit process.
- 2.5 A further update on progress will be brought to this committee as part of the 2021/22 Internal Audit Annual Report.

3 Reasons for Recommendation

- 3.1 To provide members with the assurance that the Internal Audit Consortium is continually looking to improve and is actively implementing the recommendations arising from the external review.

4 Alternative Options and Reasons for Rejection

- 4.1 Not Applicable

DOCUMENT INFORMATION

Appendix No	Title
Appendix 1	External Review of Internal Audit – Action Plan Progress
Background Papers (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)	

External Review May 2021 - Action Plan Progress Update December 2021

The grading of recommendations is intended to reflect the relative importance to the relevant standard within the Public Sector Internal Audit Standards (PSIAS).

Recommendation Grading	
Enhance	The internal audit service must enhance its practice in order to demonstrate transparent alignment with the relevant PSIAS standards in order to demonstrate a contribution to the achievement of the organisation's objectives in relation to risk management, governance and control
Review	The internal audit service should review its approach in this area to better reflect the application of the PSIAS
Consider	The internal audit service should consider whether revision of its approach merits attention in order to improve the efficiency and effectiveness of the delivery of services

No	Issue Identified	Recommendations	Action	Progress
1	Internal Audit Charter Whilst the Charter requires that the HoIA's Annual Opinion is correctly expressed in relation to Risk Management, Governance and Internal Control – there are references in the Charter and other documentation which simply relate to 'internal control' or the 'control environment'.	When the Internal Audit Charter and other documentation is next revised update the requirement for the HoIA to provide an Annual Opinion in the consistent form of Risk Management, Governance and Internal Control.	The Audit Charter was revised in September 21 and updated to use the term Risk Management, Governance and Control.	Complete
2	2020/21 engagement completion Current year provision has been impacted by Covid and the team holding a number of vacancies.	Where these events impact upon completion of the internal audit plan and therefore the content of the Head of Internal Audit Annual opinion, a reflection on the advice	The CIPFA advice re the Head of Internal Audit Annual Opinion had already been taken to each Audit Committee.	Complete

No	Issue Identified	Recommendations	Action	Progress
	<p>At the time of the review, internal audit plan outcomes for 2020/21 were not available other than in the case of Derbyshire Dales DC, where reference has been made to the internal auditor being required to undertake other duties in relation to COVID-19 business grants processes, queries and government returns.</p>	<p>provided by CIPFA could be beneficially referred to explain the context and advice provided by the professional body.</p>	<p>The advice has since been re-iterated in DDDC annual report as the scope of the opinion was limited and partial assurance given. This did not impact on the consortium members</p>	
3	<p>Audit Planning The HoIA maintains a spreadsheet-based approach to the conduct of an audit needs assessment which supports the development of the annual plan. This recognises the teams' judgement of factors relating to Materiality, Control Environment, Sensitivity, Management Concern and time since last audit. None of these factors relates directly to the organisations risk appetite as expressed in each clients' risk management system.</p>	<p>Whilst it is recognised that client risk registers contain varying levels of detail regarding controls and assurances and certainly may not be comprehensive in terms of covering all risks. Conformance with the PSIAS would be enhanced by formally recognising the risk appetite of each client in internal audit planning, particularly where the concept of 'Control Risk' (the assessed difference between Inherent and Residual risk) is identified.</p>	<p>To be implemented for the 2022/23 internal audit plan. To look at how the spreadsheet can be updated to increase the emphasis on each client's risk appetite as per their risk registers – i.e., bring in a risk weighted column</p>	<p>In progress</p>

No	Issue Identified	Recommendations	Action	Progress
4	Management Objectives The Internal Audit service currently specifies the Audit Objective as part of the Scoping Document for engagements although there is inconsistency. PSIAS 2201 provides advice regarding planning considerations for engagements and states that: "In planning the engagement, internal auditors must consider - The objectives of the activity being reviewed and the means by which the activity controls its performance and the significant risks to the activity, its objectives, resources and operations and the means by which the potential impact of risk is kept to an acceptable level".	The Internal Audit Service should consider focusing each audit on agreed Management Objectives for the area for review as this would help structure the engagement on significant risks and align the review with the associated controls that are designed to mitigate this risk. In this respect, this may allow greater focus to be provided on 'what matters most' and attention being given to selected controls testing currently contained within established 'controls check-lists'.	Management Objectives are discussed during the scoping meeting for each audit and it is ensured that these are incorporated into testing. Testing is often broader than just focusing on these objectives which is deemed appropriate as most areas are not reviewed on an annual basis.	Complete
5	Grading of recommendations Issues on which the audit opinion is based currently reflect High, Medium or Low ratings for which internal audit has defined what it considers as events which merit concern at these levels. The definitions are not currently contained within the internal audit manual or are included in internal audit reports to support gradings. This is inconsistent with terminology used by each Council in their Risk Management Policies where definitions	a) It would be beneficial to align future grading of recommendations with those impact definitions used within the risk management process relating to each clients' risk appetite. Existing clients appear to use either a 4x4 or 5x5 risk matrix and therefore inclusion within internal audit reports as to how consistent alignment is achieved would assist in both agreeing the specific risk focus of each engagement as well in assessing the relative importance of	Internal audit definitions of High, Medium and Low recommendations will be aligned to each Council's risk management strategy. These definitions will be adopted from the 2022/23 financial year and appended to each internal audit report for transparency. Staff training on the use of these revised definitions and the potential impact on	In progress

No	Issue Identified	Recommendations	Action	Progress
	<p>of impact are contained to varying levels of detail.</p> <p>The PSIAS uses consistent terminology relating to the identification and reporting on 'significant' risk. And it may therefore be beneficial for internal audit to align its understanding of significance with that of each client.</p>	<p>findings at the exit meeting and in determining an opinion within assurance reports through use of a consistent understanding and application of risk.</p> <p>A simple matrix may be:</p> <p>b) Include appropriate explanation of alignment of gradings within the internal audit manual and provide appropriate training to staff regarding how this should be implemented.</p>	<p>assurance levels will be delivered at a team meeting in February 2022</p> <p>The audit manual will be reviewed and updated in the summer of 2022 to incorporate all the changes made as a result of the external review</p>	
6	<p>Quality Assurance Improvement Programme (QAIP)</p> <p>The HoIA currently undertakes an annual self-assessment process and reports a summary of matters arising to Audit Committees in the Annual Report.</p> <p>The current process considers matters such as issues arising from PDR's, client surveys, ideas from team members and training requirements in addition to matters arising from external quality assessments.</p> <p>At present, each element is maintained separately.</p>	<p>It would be beneficial to consider drawing together the various elements of review in a formal QAIP policy and presenting this to Audit Committees, as such in the Annual Report as required in the PSIAS.</p> <p>An example policy has been provided.</p>	<p>A Quality Assurance Improvement Programme has been written and this will be appended to the annual report for 2021/22.</p>	In progress

No	Issue Identified	Recommendations	Action	Progress
7	<p>Risk-based internal audit</p> <p>The emphasis of the PSIAS concerns significance. Earlier observations referred to the benefit which may be obtained by increasing alignment with each Councils risk management processes.</p> <p>In this respect current practice:</p> <ul style="list-style-type: none"> a) Includes low risk audits in annual audit plans b) Utilises 'Control Checklists' as the basis for audits, and c) Has a tendency to produce reports that are 'controls based' rather than focusing on risks to achievement of identified management objectives. 	<p>Ensure that in all aspects of the internal audit methodology there is transparent consideration of the significant risks that may impact upon successful delivery of management objectives.</p> <p>At an Engagement level this should include identification and focus on particular risks, to the exclusion of others, where risk management policies or discussions identify issues of a potentially catastrophic nature such as safeguarding, health and safety, legislative compliance, failure to deliver statutory services or reputational damage.</p>	<p>Agree need to spend most focus on higher risks but not necessarily at the exclusion of others. I believe lower risk audits should continue to be included in the audit plan - these are at much less frequency than high risk audits</p> <p>Risks are discussed at scoping meetings and reference is made to strategic and operational risk registers. Test schedules are updated to reflect the risks identified during scoping meetings.</p> <p>From 2022/23 audit reports will be updated to detail the risks considered.</p> <p>From 2022/23 test schedules will be updated as audits become due to detail the risks identified at scoping and to link these to the identified control objective and corresponding audit tests.</p>	<p>In progress</p>

No	Issue Identified	Recommendations	Action	Progress
8	Code of Ethics Internal Audit reports currently state that the audit has been conducted in accordance with the Public Sector Internal Audit Standards.	Increasingly best practice also states that the audit has been conducted in accordance with the Institute of Internal Auditors Code of Ethics	This will be included in the 2021/22 annual reports	In progress
9	Working papers The file review exercise identified different practices in relation to how the audit working papers were constructed with some focusing on risks and other more reflective of controls.	Establishing the 'Golden Thread' between Management Objectives, significant risks and key controls should be the basis of each audit as this would allow the development of a consistent approach to the conduct of audit engagements and ensure a focus on significance.	As above – from 2022/23 there will be a stronger thread in terms of objectives and risk from the scoping document to the test schedules and end reports	In progress
10	IA Opinions Internal Audit currently uses four levels of opinion – Substantial, Reasonable, Limited and Inadequate – definitions of expectations is provided clarifying the differences between the levels, although this uses general terminology regarding risk rather than relating specifically to the risk appetite of each client. The PSIAS as stated previously emphasises the requirement to focus on what is 'significant' to the achievement of Management Objectives.	The HoIA should consider rewording basis of overall opinions to provide increasing clarity regarding how internal auditors should assess the assurance level provided based on the significance of the risks identified and the recommendations made. Where a risk/recommendation of a 'Critical, Catastrophic or Severe' nature is identified this would indicate that at best a 'Limited Assurance' opinion should be used.	From 2022/23 internal audit assurance definitions will be linked to risk management strategy definitions. The assurance given relates to the priority of recommendations – the revised definitions of these directly relates to the risk management strategy.	In progress

No	Issue Identified	Recommendations	Action	Progress
11	<p>Head of Internal Audit Annual Report</p> <p>The Annual Report provides an evidenced approach regarding the basis upon which the opinion regarding risk management, governance and control has been reached and compares favourably with other practice in the sector.</p> <p>This includes increasing recognition of significant risk and those wider sources of assurance that are available to the HoIA in reaching this opinion.</p> <p>Whilst risk management systems do not consistently include a comprehensive analysis of the sources of assurance as a second line of defence, the internal audit team has made good progress in identifying routine sources of assurance that are available as well as compiling a Fraud Risk Assessments for each client.</p>	<p>The Head of Internal Audit should continue to develop the formality of the Annual Report process building the links between this report and the Annual Governance Statement.</p> <p>Inclusion of references to significant risks currently faced by each client will be of benefit to all stakeholders.</p> <p>Further consideration should be given to inclusion other sources of assurances that are available such as that relating to independent assurance regarding PSN, where these are relevant to providing evidence regarding the significant risks faced by each client.</p>	<p>CBC 2020/21 Annual Report includes links to Significant issues in the annual governance statement. A timing difference makes it harder in respect of the other Council's as the internal audit annual report is completed prior to the AGS.</p> <p>Other sources of assurance used have been included in the 2020/21 Annual Reports</p> <p>To be further considered for the 2021/22 Annual Reports</p>	In progress
12	<p>Exit meeting template</p> <p>Discussions with management regarding the findings identified within engagements are discussed with management and based upon a first draft of the report.</p> <p>A summary of the discussion is then recorded in a narrative note, which is then used to produce the final report.</p>	<p>It is recognised that the HoIA prefers to use the draft report as the basis for conducting the exit meeting however it may be beneficial to introduce a standard template on which to record findings/recommendations along with draft management reactions as the audit progresses, as this will both formalise the approach to</p>	<p>Disagreed</p> <p>Draft audit reports to continue to be used to conduct an exit meeting – there should not be any surprises in the draft report as findings will have been discussed with managers as an audit progresses and the working papers will also have</p>	Complete

No	Issue Identified	Recommendations	Action	Progress
	Draft reports can contain misunderstandings or factual inaccuracies which may detract from the value of a report and which may be better clarified before time is incurred constructing a report and recommendations.	arriving at the draft report stage, as well as support timely feedback and verify any misunderstandings or factual inaccuracies. This may represent a more efficient and effective use of time by all parties rather than wait for production of a draft report to correct misunderstandings.	been subject to a quality review so findings will be supported by the testing undertaken. There is no indication that this is a problem, usually only minor word changes to the draft report following exit meetings	
13	Client surveys Progress has been made in obtaining feedback from auditees following each audit.	The level of response is similar to that seen in other organisations and therefore Internal Audit may find it useful to utilise an application such as Microsoft Forms or Survey Monkey for collecting feedback, as this can prove to be an efficient means which helps achieve an early response.	CBC does not permit the use of survey monkey etc. This was discussed a few years ago and the cost was prohibitive given the small number of surveys involved. In 2020/21 57% of surveys were returned which is considered to be a good response rate	Complete
14	Working Paper review record Current practice is to evidence supervision of an engagement using a working paper review template which reflects good practice. Other evidence of review is contained on pre-engagement documentation and at report stage.	It may be beneficial to extend the use of the existing template to include evidence of the review of pre-audit involvement of the nominated supervisor as well as approval of the review and release of draft and final reports.	An audit progress log has been introduced for each audit assignment tracking an audit from start to finish at all stages	Complete

No	Issue Identified	Recommendations	Action	Progress
15	HOI Performance Development Review The current process is managed as required by the policy at CBC with the review being completed by the Service Director Finance, the Chief Executive reviews and comments as managers manager. The Standards suggest that it is good practice for feedback to also be received from the Chair of the Audit Committee	As the IA Consortium provides a service to four other organisations it would be constructive to also invite feedback on an annual basis from the Chief Executive and Chairs of Audit Committee from these clients.	The Service Director - Finance to invite feedback from the other council's Chief Executives and Chairs of Audit Committee for the next round of PDR's in May 22	In progress

North East Derbyshire District Council

Audit and Corporate Governance Scrutiny Committee

12 January 2022

Medium Term Financial Plan 2021/22 to 2025/26

Report of the Assistant Director of Finance and Resources (S151 Officer)

Report By: Jayne Dethick, Assistant Director - Finance and Resources
(S151 Officer)

Contact Officer: as above

PURPOSE/SUMMARY

To enable the Audit and Corporate Governance Scrutiny Committee to consider the attached report concerning the Medium Term Financial Plan (MTFP) 2021/22 to 2025/26 prior to the report being taken to Cabinet and Council.

RECOMMENDATIONS

1. That the Audit and Corporate Governance Scrutiny Committee note the report and make any comments that they believe to be appropriate with regards to the attached report which will be taken to Cabinet on 27 January 2022.

IMPLICATIONS

Finance and Risk

Yes ✓

No

These are detailed in the attached report.

On Behalf of the Section 151 Officer

Legal including Data Protection

Yes ✓

No

These are detailed in the attached report.

On Behalf of the Solicitor to the Council

Staffing

Yes

No ✓

There are no staffing issues arising directly from this report.

DECISION INFORMATION

Is the decision a Key Decision? A Key Decision is an executive decision which has a significant impact on two or more District wards or which results in income or expenditure to the Council above the following thresholds: <i>BDC:</i> <i>Revenue - £75,000</i> <input type="checkbox"/> <i>Capital - £150,000</i> <input type="checkbox"/> <i>NEDDC:</i> <i>Revenue - £100,000</i> <input checked="" type="checkbox"/> <i>Capital - £250,000</i> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <i>Please indicate which threshold applies</i>	No
Is the decision subject to Call-In?(Only Key Decisions are subject to Call-In)	No
Has the relevant Portfolio Holder been informed	N/A
District Wards Affected	All
Links to Corporate Plan priorities or Policy Framework	All

1 REPORT DETAILS

- 1.1 To update Members of the Audit and Corporate Governance Scrutiny Committee to ensure they are kept informed of the Council's financial position as set out in the MTFP 2021/22 to 2025/26. Any comments expressed by the Audit and Corporate Governance Scrutiny Committee will be taken into account in the report, or reported verbally to Cabinet.
- 1.2 The appendices providing details of the financial plans that will be taken to Cabinet on 27 January 2022 and to Council on the 31 January 2022 are attached to this report.
- 1.3 The main variations in the MTFP are reported below.

General Fund

- 1.5 The proposed budget for 2022/23 currently shows a shortfall of £0.111m. Further shortfalls are also budgeted for future years being £1.505m in 2023/24, £1.716m in 2024/25 and £1.921m in 2025/26. It is important to ensure these savings are secured by underlying reductions in expenditure or increases in income and this is considered in the efficiencies action plan detailed in the Cabinet report at **Appendix 3**. The main factors taken into account in developing the Council's financial plans are:

- 1.6 Government Funding - The settlement for 2022/23 is a single year settlement again and is largely a roll forward of 2021/22. This is the fourth consecutive one year settlement which does provide a lack of certainty beyond 2022/23, making forecasting for future years incredibly challenging especially with such major funding reforms likely.
- 1.7 New Homes Bonus - The rollover of the current settlement for a further year means that New Homes Bonus will once again be awarded in 2022/23 generating income of £0.609m. This is the result of considerable growth in new homes during the reporting year to Oct 2021. This is in addition to the final legacy payment of £0.111m so the total grant due is £0.720m.
- 1.8 New Homes Bonus is not confirmed beyond 2022/23 and the Government has been clear that it will not continue into the next spending review period. So, estimates for 2023/24 onwards exclude any new allocations for new homes bonus. This loss of funding creates a significant budget pressure in the future years of the medium term financial plan.

Other Grants

- 1.9 Lower Tier Services Grant (LTSG) has been paid again in 2022/23. This is for one year only and the allocation is £0.126m. A new one-off services grant has also been paid in 2022/23 based on the existing Settlement Funding Assessment and the award is £0.193m.
- 1.9 “Updating the System” - The Government will consult over the next year about “updating the system” (the new working title for the Fair Funding Review). This is likely to encompass a response to the review of New Homes Bonus that was undertaken earlier this year. It is unclear whether the business rates reset will still go ahead but we can expect there to be a comprehensive review of the distribution of local government funding. There has been a change in emphasis in the Government’s calculation of spending need this year with what appears to be a genuine attempt at “levelling up” to address some of the funding issues that some councils have been experiencing since the last major reform in 2012. This gives some optimism that the “updating the system” review will continue with this approach.
- 1.9 Business Rates Reset – it remains unclear whether the business rates reset will proceed as part of the national funding review but it still a subject of debate nationally. The reset will mean that any growth gained since 2013/14 (the last reset) will be built into a new baseline, effectively wiping it out. The further delay to the spending review because of the pandemic means that the impact of the reset will not now affect the 2022/23 budget but has been included from 2023/24.
- 1.10 Expenditure, income levels and efficiencies – a pay award of 2% in 2022/23 and 1% thereafter have been included in staffing budgets and inflation specific budgets such as energy costs have been amended to reflect anticipated price changes. Increases to service specific budgets, as agreed by Members, have also been reflected in the MTFP.

Housing Revenue Account (HRA)

- 1.12 The proposed budget for 2022/23 currently shows a balanced position. The HRA budget makes the same assumptions as the General Fund budget for staff costs and inflation.

- 1.13 Rents - In April 2020 the new Social Housing Rent Standard came into force. It is externally regulated by the Housing Regulator and applies to all registered providers of social housing. The Government has directed the Regulator to apply the rent standard to all registered providers and this includes local authorities. The Standard confirms that rent increases of up to CPI + 1% will be permitted, until it is reviewed in 2025. In line with the standard an increase of 4.1% is being recommended in the budget for 2022/23. Future year rent increases will be considered as part of the annual refresh of this plan each year.
- 1.14 Fees and Charges - These charges are set on the principle that wherever possible charges for services should reflect the cost of providing those services.

Capital Programme

- 1.15 The proposed Capital Programme for the General Fund £5.92m for 2022/23; £2.93m for 2023/24, £3.12m for 2024/25 and £1.89m for 2025/26. The budget in 2022/23 includes the carbon efficiency works at Dronfield Sports Centre and the profile of the vehicle replacement programme. The remainder of the programme is relatively static including the asset management programme of £0.500m per annum.
- 1.16 The proposed Capital Programme for the HRA totals £18.80m in 2022/23 which includes £4.60m for additional eco works. The programme totals £18.12m in 2023/24, £18.12m in 2024/25 and £18.12m in 2025/26.

2 Reasons for Recommendation

- 2.1 These are detailed in the attached report.

3 Alternative Options and Reasons for Rejection

- 3.1 These are detailed in the attached report.

DOCUMENT INFORMATION

Appendix No	Title
1	Medium Term Financial Plan 2021/22 to 2025/26 and Appendices 1-5
Background Papers	
Report Author	Contact Number
Jayne Dethick – Assistant Director - Finance and Resources (S151 Officer)	(01246) 217078

North East Derbyshire District Council

Cabinet

27 January 2022

Medium Term Financial Plan 2021/22 to 2025/26

Report of the Portfolio Holder with Responsibility for Finance

Classification: This report is public

Report By: Jayne Dethick, Assistant Director - Finance and Resources
(S151 Officer)

Contact Officer: as above

PURPOSE/SUMMARY

To seek approval of the Current Budget for 2021/22 and Original Budget for 2022/23 for the General Fund, Housing Revenue Account and Capital Programme as part of the Council's Medium Term Financial Plan covering the years 2021/22 to 2025/26.

To provide Elected Members with an overview of the Council's financial position in order to inform the decision making process.

RECOMMENDATIONS

1. That all recommendations below are referred to the Council meeting of 31 January 2022.

The following recommendations to Council are made:

2. That the view of the Assistant Director – Finance & Resources, that the estimates included in the Medium Term Financial Plan 2021/22 to 2025/26 are robust and that the level of financial reserves are adequate at this time, be accepted.
3. That officers report back to Cabinet and the Audit and Corporate Governance Scrutiny Committee on a quarterly basis regarding the overall position in respect of the Council's budgets. These reports to include updates on achieving the savings and efficiencies necessary to secure a balanced budget over the life of the medium term financial plan.

General Fund

4. A Council Tax increase of £4.99 will be levied in respect of a notional Band D property (2.58%).

5. The Medium Term Financial Plan in respect of the General Fund as set out in **Appendix 1** of this report be approved as the Current Budget 2021/22, as the Original Budget 2022/23, and as the financial projections in respect of 2023/24 to 2025/26.
6. That any under spend in respect of 2021/22 be transferred to the Resilience Reserve to provide increased financial resilience for future years of the plan.

Housing Revenue Account (HRA)

7. That Council sets its rent levels for 2022/23 in line with the Social Housing Rent Standard increasing rents by 4.1% from 1st April 2022.
8. That all other charges be implemented in line with the table shown at 1.43 below with effect from 1 April 2022.
9. The Medium Term Financial Plan in respect of the Housing Revenue Account as set out in **Appendix 4** of this report be approved as the Current Budget in respect of 2021/22, as the Original Budget in respect of 2022/23, and the financial projection in respect of 2023/24 to 2025/26.
10. That the Management Fee for undertaking housing services at £9.751m and the Management Fee for undertaking capital works at £1.100m to Rykneld Homes in respect of 2022/23 be approved.
11. That Members endorse the section in the current Financial Protocol which enables the Council to pay temporary cash advances to Rykneld Homes in excess of the Management Fee in order to help meet the cash flow requirements of the company should unforeseen circumstances arise in any particular month.
12. That Members note the requirement to provide Rykneld Homes with a 'letter of comfort' to the company's auditors and grant delegated authority to the Council's Assistant Director – Finance & Resources in consultation with the Portfolio Member for Finance to agree the contents of that letter.

Capital Programme

13. That the Capital Programme as set out in **Appendix 5** be approved as the Current Budget in respect of 2021/22, and as the Approved Programme for 2022/23 to 2025/26.

Approved by the Portfolio Holder – Yes

IMPLICATIONS

Finance and Risk

Yes ✓

No

The issue of financial risk and resilience is covered throughout the report. In addition, it should be noted that not achieving a balanced budget is outlined as a key risk within the Council's Strategic Risk Register. While officers are of the view that these risks are being appropriately managed it needs to be recognised that the continued budget pressures on the Council's financial position need careful consideration when approving the Medium Term Financial Plan.

The capital programme identifies and recognises the need to maintain the Council's assets in a fit for purpose state and to retain and attract income streams for the Council. The financing of the capital programme is secured for 2022/23 thus minimising the risk of any additional unplanned borrowing.

All other financial implications are covered in the relevant sections throughout the report.

On Behalf of the Section 151 Officer

Legal including Data Protection

Yes ✓

No

The Council is legally obliged to approve a budget prior to the commencement of the new financial year, 1 April 2022. This report together with the associated budget timetable has been prepared in order to comply with our legal obligations.

The recommended budget for the General Fund, Housing Revenue Account and Capital Programme complies with the Council's legal obligation to agree a balanced budget.

There are no Data Protection issues arising directly from this report.

On Behalf of the Solicitor to the Council

Staffing

Yes

No ✓

There are no staffing issues arising directly from this report.

On Behalf of the Head of Paid Service

DECISION INFORMATION

<p>Is the decision a Key Decision?</p> <p>A Key Decision is an executive decision which has a significant impact on two or more District wards or which results in income or expenditure to the Council above the following thresholds:</p> <p><i>NEDDC: Revenue - £100,000</i> <input checked="" type="checkbox"/></p> <p><i>Capital - £250,000</i> <input checked="" type="checkbox"/></p> <p><input checked="" type="checkbox"/> Please indicate which threshold applies</p>	<p>Yes</p>
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Is the decision subject to Call-In?(Only Key Decisions are subject to Call-In)	Yes
Has the relevant Portfolio Holder been informed	Yes
District Wards Affected	All
Links to Corporate Plan priorities or Policy Framework	All

REPORT DETAILS

1 Introduction

- 1.1 This report presents the following budgets for Members to consider:
- General Fund – **Appendix 1 and 2**
 - General Fund Efficiencies Action Plan - **Appendix 3**
 - Housing Revenue Account (HRA) – **Appendix 4**
 - Capital Programme – **Appendix 5**
- 1.2 In particular financial projections are provided for:
- 2021/22 Current Budget – this is the current year budget, revised to take account of any changes during the financial year that will end on 31 March 2022.
 - 2022/23 Original Budget – this is the proposed budget for the next financial year starting 1 April 2022. For the General Fund, this is the budget on which the Council Tax will be based. The HRA budget also includes proposals on increases to rents and charges.
 - 2023/24 to 2025/26 Financial Plan - In accordance with good practice the Council agrees its annual budgets within the context of a Medium Term Financial Plan (MTFP). This includes financial projections in respect of the next three financial years for the General Fund, HRA and Capital Programme.
- 1.3 Once Cabinet has considered this report and the appendices, the recommendations agreed will be referred to the Council meeting of 31 January 2022 for members' consideration and approval.

General Fund Revenue Account

2021/22 Current Budget

- 1.4 In February 2021, Members agreed a budget for 2021/22 to determine Council Tax. At this time there was a requirement to achieve efficiencies of £0.016m to balance the budget.
- 1.5 The impact of the Covid-19 pandemic is still having a detrimental impact across some of the Council's services. Loss of income from fees and charges within Leisure Services continued throughout the first few months of 2021 but has been improving as the year progresses. The Government's sales, fees and charges compensation scheme continued to operate until 30 June 2021 providing financial assistance to the leisure service for that period. Additional expenditure is still being incurred for

cleaning, protective clothing and equipment and ICT. These budget pressures can be met from the Covid Assistance grant already received so do not put an additional pressure on the budget.

- 1.6 The Revised Budget was considered by Cabinet at its meeting on 25 November 2021. There have been no material changes to the budget position since this time.
- 1.7 The final position will clearly be dependent on the actual financial performance out-turning in line with the revised budgets and there may be further budget changes required as the year progresses.

2022/23 Original Budget and 2023/24 - 2025/26 Financial Plan

- 1.8 The proposed budget for 2022/23 currently shows a shortfall of £0.111m before any council tax increase (see 1.35 below). If the council tax increase recommended in the report is approved then a balanced position is achieved. However, the challenges that faces the Council in future years mean it is important to ensure that ongoing savings are achieved and this is considered in the efficiencies plan detailed at **Appendix 3**. Table 1 below summarises the detail provided in **Appendix 3**:

Table 1

	2022/23	2023/24	2024/25	2025/26
	Original Budget	Planning Budget	Planning Budget	Planning Budget
	£000's	£000's	£000's	
Efficiency Target/Budget Shortfall MTFP Jan 2022	111	1,505	1,716	1,921
Efficiencies Plan (App 3):				
Corporate	(300)	(380)	(460)	(540)
Digital Transformation	(58)	(98)	(98)	(98)
Income Generation	(20)	(96)	(170)	(182)
Service Review/Cost Reduction	(35)	(240)	(255)	(270)
Target Budget (Surplus)/Shortfall before council tax increase	(302)	691	733	831
Council Tax Increase (* indicative 2% from 23/24)	-160	-282	-406	-532
Target Budget (Surplus)/Shortfall after council tax increase	(462)	409	327	299
Contribution to (from) Resilience Reserve	462	(409)	(327)	(299)
Target Budget (Surplus)/Shortfall	0	0	0	0

* Council Tax increases are indicative as the final decision is taken by Council each year.

- 1.9 The efficiencies identified in the table above and in Appendix 3 are supported by a detailed plan which will be regularly reviewed and updated. Inevitably there will be changes needed over the medium term and the plan will be flexible enough to adapt to changing circumstances over this time. Progress against the plan will form part of the quarterly monitoring to Cabinet and the Audit and Corporate Governance Scrutiny Committee.
- 1.10 The Resilience Reserve is being utilised from 2023 to provide financial resilience to the General Fund in future years, however as the efficiency plan evolves it is anticipated that further efficiencies will be identified, reducing this need.

- 1.11 The Net Cost of Services detailed in **Appendix 1** is further analysed in Table 2 below:

Table 2 Net Cost of Services

	Current Budget 2021/22	Original Budget 2022/23	Planning Budget 2023/24	Planning Budget 2024/25	Planning Budget 2025/26
	‘£000	‘£000	‘£000	‘£000	‘£000
Employee related costs	16,994	17,858	18,069	18,273	18,491
Premises related costs	1,632	1,692	1,722	1,752	1,782
Vehicle related costs	548	541	541	541	541
Supplies & services	14,099	6,471	6,404	6,434	6,414
Rent Rebates/Allowances	17,614	17,614	17,614	17,614	17,614
Income	(38,066)	(32,039)	(32,472)	(32,558)	(32,658)
Savings Target (Appendix 3)	0	(111)	(1,505)	(1,716)	(1,921)
Net cost of services	12,821	12,026	10,373	10,340	10,263

- 1.12 The main factors taken into account in developing the Council's financial plans are set out below.

Local Government Finance Settlement

- 1.13 The settlement for 2022/23 is again a single year settlement and is largely a roll forward of 2021/22. This is the fourth consecutive one year settlement which does provide a lack of certainty beyond 2022/23, making forecasting for future years incredibly challenging especially with such major funding reforms likely.
- 1.14 The Government will consult over the next year about “updating the system” (the new working title for the Fair Funding Review). This is likely to encompass a response to the review of New Homes Bonus that was undertaken earlier this year. It is unclear whether the business rates reset will still go ahead but we can expect there to be a comprehensive review of the distribution of local government funding. The Government have stated that there will be transitional protections to accompany any funding reforms which is promising but the nature and extent of this support is still to be explored.
- 1.15 There has been a change in emphasis in the Government’s calculation of spending need this year with what appears to be a genuine attempt at “levelling up” to address some of the funding issues that some councils have been experiencing since the last major reform in 2012. This gives some optimism that the “updating the system” review will continue with this approach.
- 1.16 The funding settlement and specifically the award of New Homes Bonus for a further year (see 1.18 below) relieves the pressure on the 2022/23 budget. However, forecasting for future years is challenging whilst little is known about the planned reforms. Assumptions have continued to be made where sufficient information is available to do so as follows:

New Homes Bonus

- 1.17 The rollover of the current settlement for a further year means that New Homes Bonus will once again be awarded in 2022/23 generating income of £0.609m. This is the result of considerable growth in new homes during the reporting year to Oct 2021. This is in addition to the final legacy payment of £0.111m so the total grant due in 2022/23 is £0.720m.
- 1.18 New Homes Bonus is not confirmed beyond 2022/23 and the Government has been clear that it will not continue into the next spending review period. So, estimates for 2023/24 onwards exclude any new allocations for new homes bonus. This loss of funding creates a significant budget pressure in the future years of the medium term financial plan.

Other Grants

- 1.19 Lower Tier Services Grant was introduced for the first time last year has been awarded again in 2022/23. The settlement information is clear that this is for one year only. The Council's allocation is £0.126m.
- 1.20 A new one-off services grant has been awarded in 2022/23 based on the existing Settlement Funding Assessment. Again the settlement information is clear that this is for one year only. The Council's allocation is £0.193m.

National Funding Review "Updating the System"

- 1.21 Due to the high level of uncertainty at this stage, the impact of the national "Updating the System" review has not been included in the medium term financial plan at this time. There has been a change in emphasis in the funding calculations this year with what appears to be a genuine attempt at "levelling up". This gives some optimism that the review will benefit those Councils who have been most detrimentally affected over recent years but it really is too early to forecast with any accuracy or certainty.

Business Rates Retention

- 1.22 Members will be aware that the Council has been a member of the Derbyshire Business Rates Pool since its establishment in 2015/16. Being a member of the pool allows us to retain more of our Business Rates income locally. Income from the Pool has been removed from the budgets in recent years as uncertainty over growth continues post Covid -19. Furthermore, growth has not been included in future years due to continued uncertainty surrounding proposed changes to business rates and the reset (see 1.23 below).

Business Rates Reset

- 1.23 It remains unclear whether the business rates reset will proceed as part of the national funding review but it still a subject of debate nationally. The reset will mean that any growth gained since 2013/14 (the last reset) will be built into a new baseline, effectively wiping it out.
- 1.24 The further delay to the national review means that the impact of the reset will not now affect the 2022/23 budget but has been included from 2023/24. It must be stressed these are early estimates and therefore subject to change, but the expected impact of the reset is significant for the Council (2023/24 £1.1m, 2024/25 £1m and 2025/26 £1m). To help

mitigate against these losses transfers from the NNDR Growth Protection Reserve into the General Fund have been made.

General Assumptions

- 1.25 In developing the financial projections covering the period 2022/23 -2025/26, a number of assumptions have been made:
- A pay award of 2% has been included in 2022 pay budgets and 1% thereafter.
 - Inflation specific budgets such as energy costs and fuel have been amended to reflect anticipated price changes.
 - Fees and charges – service specific increases as agreed by Members.

Appendix 2 provides further analysis for each budget area.

Impact of the Covid Pandemic

- 1.26 The Covid-19 will still have some impact on 2022/23 and the budgets have been produced to reflect this. The main area of risk is income from leisure and particular care has been taken to produce forecasts that reflect the post pandemic world. It is pleasing to note that activity levels are promising and increasing week on week. Additional expenditure is still being incurred for cleaning, protective clothing and equipment and ICT, however these budget pressures can be met from the Covid Assistance grant received during 2020/21.

Reserves

- 1.27 The Council's main uncommitted Financial Reserves are the General Fund Working Balance and the uncommitted element of the Invest to Save Reserve.
- 1.28 The level of General Fund Balances has been maintained at £2.000m in this budget. The General Fund balances are considered to be at an acceptable level rather than generous. The General Fund balance needs to be considered against the background of ongoing reductions in the level of Government funding together with the range of risks facing the Council. With only a limited level of General Fund reserves it is crucial that the Council continues to maintain robust budgetary control while securing its ongoing savings targets in order to safeguard both its reserves and its financial sustainability.
- 1.29 Given the current level of general balances, the Council has a period of time in which to recover the situation. In a situation in which the Council were operating at a lower level of balances and an overspend or an under achievement of income occurred which took balances to below minimum level then immediate 'crisis' remedial action would need to be considered. Such a response is not conducive to sound financial management but more importantly would have a significant detrimental impact upon the Council's ability to deliver the planned and agreed level of services to local residents. However, Cabinet will recognise that given a level of General Fund Balances of £2.000m, against the savings requirement in the Medium Term Financial Plan, the need to continue to tackle the underlying forecast budget deficit remains.
- 1.30 The Invest to Save Reserve had an opening balance of £3.411m at 1 April 2021. Commitments already made against this reserve for 2021/22 and future years amount to £1.314m leaving £2.097m uncommitted.

- 1.31 The Resilience Reserve had an opening balance of £2.320m at 1 April 2021 and after accounting for grants received and contributions made to the General Fund for 2021/22 and future years the estimated balance is predicted to be £1.697m. This reserve will continue to be utilised to provide financial resilience to the General Fund in future years as required by Medium Term Financial Plan. Ongoing pressures arising from the Covid pandemic will also continue to be met from this reserve.

The forecast reserves position can be analysed as:

	Current Budget 2021/22	Original Budget 2022/23	Planning Budget 2023/24	Planning Budget 2024/25	Planning Budget 2025/26
	£'000	£'000	£'000	£'000	£'000
Transfers to Reserves:					
Covid grants	6,081	0	0	0	0
Other revenue grants	109	20	20	20	20
Total	6,190	20	20	20	20
Transfers from Reserves:					
Covid grants	6,419	76	54	54	0
Revenue grants	754	153	48	36	36
Resilience reserve	491	0	0	0	0
Business rates reserve	824	0	551	403	248
Invest to save reserve	432	71	0	0	0
Other earmarked reserves	105	62	19	0	0
Total	9,025	362	672	493	284

Council Tax Implications

Council Tax Base

- 1.32 In preparation for the budget, the Assistant Director – Finance & Resources under delegated powers has determined the Tax Base at Band D for 2022/23 as 32,079.63.

Council Tax Options

- 1.33 The Council's part of the Council Tax bill in 2021/22 was set at £193.35 for a Band D property. This was an increase of 1.95%
- 1.34 The Council has a range of options when setting the Council Tax. The Government indicate what upper limit they consider acceptable. For 2022/23, District Councils are permitted to increase their share of the Council Tax by 1.99% or £5, whichever is the greater, without triggering the need to hold a referendum. The Table below shows increase options and the extra revenue this would generate:

Increase %	New Band D £	Annual Increase £	Weekly Increase £	Extra Revenue £
0%	193.35	0	0	0
1.00%	195.28	1.93	0.04	62,026

1.50%	196.25	2.90	0.06	93,039
2.00%	197.20	3.85	0.07	123,432
£5 (2.58%)	198.34	4.99	0.10	160,027

- 1.35 The level of increase each year affects the base for future years and the proposed increase for 2022/23 is 2.58%, generating additional revenue of £160,027.

Housing Revenue Account (HRA)

2021/22 Current Budget

- 1.36 In February 2021, Members agreed a budget for 2021/22 including setting of rent levels in line with Government regulations. HRA fees and charges were also set, effective from the same date.
- 1.37 The Revised Budget was considered by Cabinet at its meeting on the 25 November 2021. There have been no material changes to the budget position since this time.
- 1.38 The estimated surplus in the year will be dependent on the actual financial performance out-turning in line with the revised budgets. The surplus will be utilised to fund additional homes and/or improved services to tenants' in future financial years so all surpluses will be transferred to reserves.
- 1.39 The HRA balance is being maintained at £3m in line with the level of financial risk facing the HRA. Maintenance of this balance is necessary as it will help ensure the financial and operational stability of the HRA which is essential if we are to maintain the level of services and quality of housing provided to our tenants. Given the changes to the rent setting process together with the increasing numbers of houses lost under Right to Buy the Council and Rykneld Homes will need to continue to work closely together in order to ensure the continued sustainability of the HRA over the life of the 30 year Business Plan.

2022/23 Original Budget and 2023/24 to 2025/26 Financial Plan

- 1.40 The proposed budget for 2022/23 currently shows a balanced position. (**Appendix 4**). The HRA budget makes the same assumptions as the General Fund budget for staff costs and inflation. There are however, some additional assumptions that are specific to the HRA. The main factors taken into account in developing the Council's financial plans for the HRA are set out within the sections below.

Level of Council Dwelling Rents

- 1.41 In April 2020 the new Social Housing Rent Standard came into force. It is externally regulated by the Housing Regulator and applies to all registered providers of social housing. The Government has directed the Regulator to apply the rent standard to all registered providers and this includes local authorities. The Standard confirms that rent increases of up to CPI + 1% will be permitted, until it is reviewed in 2025. In line with the standard an increase of 4.1% is being recommended in the budget for 2022/23. Future year rent increases will be considered as part of the annual refresh of this plan each year.

Fees and Charges

- 1.42 Although the main source of income for the HRA is property rents, the HRA is also dependent for its financial sustainability on a range of other charges. Heating charges are set on the principle that wherever possible they will reflect the cost of providing those services.
- 1.43 The schedule of proposed charges is set out below:

	Weekly Charge 2021/22	Proposed Weekly Charge 2022/23
	£	£
Heating:		
Marx Court	7.95	8.11
Church Avenue	5.68	5.79
Garages:		
Private	14.00	16.00
Tenants - new	10.00	11.00
Tenants - existing	10.00	11.00
Garage Plots:		
Plots - Annual	230.00	260.00
Plots – Per Week	4.00	4.50

Rykneld Homes Ltd Management Fee

- 1.44 The majority of the funding available to Rykneld Homes is provided by way of a management fee from the Council for delivery of services in line with the Management Agreement. Whilst it is intended that this payment will form a regular source of income for Rykneld Homes against which it can effectively budget to meet its expenditure commitments it is recognised that on occasions the Council as sole shareholder may be required to contribute funds in order to help it manage any adverse cash flow issues which might arise.
- 1.45 It is recommended that the management fee for 2022/23 will be £9.751m. This is contained within two budgets on the HRA – Repairs and Maintenance (£4.769m) and Supervision and Management (£4.982m).
- 1.46 A further issue needs to be brought to the attention of Cabinet which concerns the fact that Rykneld Homes is a company wholly owned by the Council. As such the company's external auditors seek from the Council on an annual basis at the time of the audit of the Company's accounts a Letter of Comfort from the Council as the parent company. That letter of comfort fundamentally seeks reassurance regarding the fact that the Council will continue to provide financial support to the company over the coming financial year (which in the case of the 2021/22 accounts will be the 2022/23 financial year). On the basis that this report is approved then it is reasonable to provide such a letter of comfort from the Council. In addition it may be the case that specific representations are required in order to support the Auditors view that the Company remains a going concern. The reasonableness of providing such assurances will need to be considered at that point in time when the Company's auditors approach the Council, and it is therefore

recommended that delegated powers be granted to the Assistant Director – Finance & Resources in consultation with the Portfolio Member for Finance to provide a response on behalf of the Council.

Financial Reserves – HRA

- 1.47 The Council's main uncommitted Financial Reserve for the Housing Revenue Account is the working balance of £3.00m. In addition to the Working Balance there are further reserves for the HRA specifically used to fund the Council's HRA capital programme. These are the Major Repairs Reserve and the Development Reserve. There is also an Insurance Reserve held.

Capital Investment Programme

- 1.48 There will be a separate report to Council on 31 January 2022 concerning the Council's Treasury Strategies. The report will consider capital financing such as borrowing which enables the proposed capital programme budgets to proceed.

2021/22 Current Budget

- 1.49 In February 2021, Members approved a Capital Programme in respect of 2021/22 to 2024/25. Scheme delays and technical problems can often cause expenditure to slip into future years and schemes can be added or extended as a result of securing additional external funding. All slippage from 2020/21 has been accounted for in the 2021/22 revised position.
- 1.50 The Revised Capital Programme was considered by Cabinet at its meeting on the 25 November 2021. There has been one addition since this time, which is the inclusion of £0.525m for essential refurbishment works on Eckington Depot, funded from borrowing.

General Fund Capital Programme 2022/23 to 2025/26

- 1.51 The proposed Capital Programme for the General Fund totals £5.92m for 2022/23; £2.93m for 2023/24, £3.12m for 2024/25 and £1.89m for 2025/26. The budget in 2022/23 includes the carbon efficiency works at Dronfield Sports Centre and the profile of the vehicle replacement programme. The remainder of the programme is relatively static including the asset management programme of £0.500m per annum.

HRA Capital Programme 2022/23 to 2025/26

- 1.52 The proposed programme for HRA capital works totals £10.82m for 2022/23; £10.44m for 2023/24; £10.44m for 2024/25 and £10.44m for 2025/26.
- 1.53 The proposed programme for HRA capital works on the non-traditional stock reflects the latest stock condition survey. The programme totals £4.60m for 2022/23; £4.37m for 2023/24; £4.37m for 2024/25 and £4.37m for 2025/26. The capital fee paid to RHL for delivering the HRA programmes is £1.10m.
- 1.54 Programmes remain for parking solutions (£0.29m per annum), garage demolitions (£0.02m per annum) and Pine View (£0.07m).

- 1.55 In addition, £3.00m per annum has been included to fund the ongoing commitment to purchasing affordable houses in the district to replace those lost through right to buy sales.
- 1.56 An analysis of all the schemes and associated funding are attached at **Appendix 5** to this report.

Robustness of the Estimates

- 1.57 Under the provisions of the Local Government Act 2003, the Council's Section 151 Officer is required to comment on the robustness of the estimates made and on the adequacy of the financial reserves.
- 1.58 The Council's Section 151 Officer (The Assistant Director - Finance and Resources) is satisfied that the estimates are considered to be robust, employee costs are based on the approved establishment, investment income is based on the advice of the Council's Treasury Management Advisors and income targets are considered to be achievable.
- 1.59 Likewise, the Section 151 Officer is satisfied that the levels of reserves are considered to be adequate to fund planned expenditure and potential issues and risks that face the Council.

Financial Resilience

- 1.60 Financial Resilience has become a significant issue for local authorities over recent years. CIPFA issued their Financial Management Code in 2019 designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. One of the key areas of focus in the Code is financial performance monitoring and demonstrating that the Council's financial resilience is being assessed on an ongoing basis. Three key areas are analysed to aid this:
- Revenue Health
 - Capital Health
 - Funding Sensitivities
- 1.61 Performance against these metrics is monitored on a regular basis and reported to the Audit and Corporate Governance Scrutiny Committee for scrutiny. The latest analysis shows healthy results for both revenue and capital health but that the real risk to financial resilience for the Council comes from changes to the national financial settlement (see 1.21 above).

2 Reasons for Recommendation

- 2.1 This report presents a budget for consideration by Cabinet. It seeks to secure approval to recommend budgets to Council in respect of the General Fund, the Housing Revenue Account and the Capital Programme.

3 Alternative Options and Reasons for Rejection

- 3.1 The Council is required to set a budget each year. There are no alternative options being considered at this time.

DOCUMENT INFORMATION

Appendix No	Title
1	General Fund MTFP - Summary 2021/22 to 2025/26
2	General Fund MTFP - Detail 2021/22 to 2025/26
3	General Fund MTFP – Efficiencies Plan
4	HRA MTFP 2021/22 to 2025/26
5	Capital Programme 2021/22 to 2025/26
Background Papers	
Budget working papers	
Report Author	Contact Number
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	Current Budget 2021/22 £	Original Budget 2022/23 £	Planning Budget 2023/24 £	Planning Budget 2024/25 £	Planning Budget 2025/26 £
Operations Directorate	8,428,650	8,582,683	8,425,726	8,514,798	8,556,233
Growth Directorate	1,903,407	1,434,041	1,397,016	1,417,960	1,439,454
Transformation Directorate	3,059,634	2,721,056	2,655,916	2,723,844	2,788,868
Recharges to Capital and HRA	(570,500)	(600,500)	(600,500)	(600,500)	(600,500)
Savings Target (Appendix 3)	0	(111,412)	(1,504,615)	(1,716,323)	(1,920,684)
Net Cost of Services	12,821,191	12,025,868	10,373,543	10,339,779	10,263,371
Investment Properties	(458,797)	(424,175)	(421,925)	(420,720)	(419,590)
Bad Debt Provision	40,000	40,000	40,000	40,000	40,000
Interest	(110,572)	(114,010)	(94,075)	(92,213)	(70,935)
Debt Repayment Minimum Revenue Provision	56,000	56,000	56,000	56,000	56,000
Parish Precepts	3,386,780	3,386,780	3,386,780	3,386,780	3,386,780
Transfer To Earmarked Reserves	6,189,619	20,000	20,000	20,000	20,000
Transfer From Earmarked Reserves	(9,024,719)	(362,181)	(672,147)	(493,450)	(284,250)
Total Spending Requirement	12,899,502	14,628,282	12,688,176	12,836,176	12,991,376
Business Rates	(2,826,100)	(4,000,000)	(3,098,800)	(3,246,800)	(3,402,000)
New Homes Bonus	(360,439)	(720,063)	0	0	0
Lower Tier Services Grant	(205,095)	(125,686)	0	0	0
Services Grant	0	(193,157)	0	0	0
Collection Fund (Surplus)/Deficit - Council Tax	0	0	0	0	0
Collection Fund (Surplus)/Deficit - NNDR	0	0	0	0	0
NEDDC Council Tax Requirement	(6,121,088)	(6,202,596)	(6,202,596)	(6,202,596)	(6,202,596)
Parish Council Council Tax Requirement	(3,386,780)	(3,386,780)	(3,386,780)	(3,386,780)	(3,386,780)
Council Tax Requirement	(12,899,502)	(14,628,282)	(12,688,176)	(12,836,176)	(12,991,376)

		Current Budget 2021/22 £	Original Budget 2022/23 £	Planning Budget 2023/24 £	Planning Budget 2024/25 £	Planning Budget 2025/26 £
	<u>Operations Directorate</u>					
	Director of Operations & Head Of Paid Service					
1283	Emergency Planning	16,000	16,000	16,000	16,000	16,000
4500	Managing Director - Operations & Head of Paid Service	90,814	130,788	131,966	133,156	134,358
5700	Joint Strategic Director - Environment & Enforcement	19,199	0	0	0	0
5720	Supporting PA's	123,998	127,408	128,732	130,072	131,423
		250,011	274,196	276,698	279,228	281,781
	Assistant Director Environmental Health					
3400	Environmental Protection	86,701	108,353	111,933	115,700	118,699
3401	Food, Health & Safety	123,970	122,311	125,610	129,110	132,131
3402	Environmental Enforcement	97,499	106,552	111,801	114,520	117,316
3404	Licensing	6,845	799	12,655	15,275	4,255
3405	Pollution	110,687	121,387	123,184	125,016	127,491
3407	Pest Control	32,329	20,050	21,018	22,015	23,043
3409	EH Technical Support & Management	237,787	258,978	263,117	266,157	269,246
3410	Private Sector Housing	73,241	79,775	80,973	82,194	83,844
3419	Destitute Funerals	1,500	1,500	1,500	1,500	1,500
3420	Fly Tipping	3,000	3,000	3,000	3,000	3,000
3423	Air Quality Feasibility Study	23,900	0	0	0	0
3425	Covid-19 Fines	(260)	0	0	0	0
3426	Covid Enforcement Team	59,407	0	0	0	0
		856,606	822,705	854,791	874,487	880,525
	Assistant Director Streetscene					
3174	Street Scene	341,276	419,185	424,148	429,156	432,984
3227	Materials Recycling	598,859	446,467	485,890	531,145	516,193
3244	Parks Derbyshire County Council Agency	(360,000)	(360,000)	(360,000)	(360,000)	(360,000)
3282	Eckington Depot	105,580	99,880	101,705	103,590	105,409
3285	Dronfield Bulk Depot	3,495	3,565	3,635	3,710	3,785
3511	Hasland Cemetery	(51,915)	(45,850)	(45,785)	(45,725)	(45,650)
3513	Temple Normanton Cemetery	(7,405)	(8,080)	(8,070)	(8,065)	(8,055)
3514	Clay Cross Cemetery	(59,685)	(59,685)	(59,685)	(59,685)	(59,685)
3516	Killamarsh Cemetery	(22,015)	(18,260)	(18,245)	(18,225)	(18,210)
3918	Dog Fouling Bins	(57,150)	(57,150)	(57,150)	(57,150)	(57,150)
3921	Street Cleaning Service	615,802	544,242	551,538	556,886	562,681
3943	Transport	118,824	405,971	148,363	158,667	160,147
3944	Grounds Maintenance	612,521	524,419	512,121	512,572	506,456
3945	Domestic Waste Collection	1,566,566	1,418,804	1,454,644	1,444,501	1,462,062
3946	Commercial Waste Collection	(215,980)	(218,426)	(217,848)	(217,265)	(216,677)
		3,188,773	3,095,082	2,915,261	2,974,112	2,984,290
	Assistant Director Planning					
4111	Applications And Advice	(588,400)	(588,400)	(588,400)	(588,400)	(588,400)
4113	Planning Appeals	37,600	0	0	0	0
4116	Planning Policy	277,520	306,870	310,788	314,776	318,848
4311	Environmental Conservation	14,220	20,815	20,965	20,965	20,965
4511	Assistant Director Planning	63,079	64,794	65,439	66,090	66,748
4513	Planning	697,583	840,140	790,876	792,140	803,826
4515	Building Control	58,000	58,000	58,000	58,000	58,000
		559,602	702,219	657,668	663,571	679,987
	Assistant Director Governance					
1121	Member's Services	430,613	440,045	440,045	434,185	440,045
1123	Chair's Expenses	12,120	6,700	6,700	6,700	6,700
1231	Corporate Training	38,480	41,980	41,980	41,980	41,980
1259	Corporate Groups	6,000	1,000	6,000	1,000	1,000
1311	Human Resources	196,645	203,137	207,719	212,488	214,976
3121	Health & Safety Advisor	80,127	97,738	84,902	86,951	88,677
5273	Brass Band Concert	5,000	5,000	5,000	5,000	5,000
5313	Register Of Electors	160,036	160,716	162,083	163,472	164,889
5321	Assistant Director Governance	41,760	80,053	83,002	85,943	88,934
5353	Legal Section	158,002	165,492	170,126	174,667	178,013
5354	Land Charges	(8,653)	(7,795)	(7,424)	(7,049)	(6,670)
5392	Scrutiny	52,274	53,763	54,314	54,871	55,432
5711	Democratic Services	209,075	246,267	251,714	256,578	260,945
0001	Recharges to Capital and HRA	1,381,479	1,494,096	1,506,161	1,516,786	1,539,921
	Assistant Director Finance					
1312	Payroll	57,217	58,700	59,713	60,745	60,972
3176	Pool Car	0	360	0	0	0
5113	Unison Duties	16,891	17,346	17,524	17,704	17,888
5611	External Audit	105,490	105,490	105,490	105,490	105,490
5615	Bank Charges	95,500	95,500	95,500	95,500	95,500
5621	Contribution to/from HRA	(185,600)	(185,600)	(185,600)	(185,600)	(185,600)
5713	Audit	104,160	111,835	110,945	110,030	109,085
5714	Financial Support Services	3,500	3,500	3,500	3,500	3,500
5715	Procurement	47,667	49,650	51,598	52,912	54,256
5721	Financial Services	371,445	360,854	372,833	379,696	384,453

		Current Budget 2021/22	Original Budget 2022/23	Planning Budget 2023/24	Planning Budget 2024/25	Planning Budget 2025/26
		£	£	£	£	£
5724	Insurance	321,000	351,000	351,000	351,000	351,000
5725	Apprenticeship Levy	45,000	45,000	45,000	45,000	45,000
5727	Cost Of Ex-Employees	864,000	829,000	794,000	754,000	714,000
5728	Covid-19 Response	(422,334)	0	0	0	0
5729	Additional Restrictions Grant	586,693	0	0	0	0
5741	Housing Benefit Service	(74,996)	12,195	41,511	51,895	60,004
5745	Covid New Burdens	(56,800)	0	0	0	0
5747	Debtors	51,149	54,456	55,028	55,606	56,189
5751	NNDR Collection	(11,437)	(6,635)	(5,095)	(3,517)	(2,820)
5759	Council Tax Administration	258,764	291,734	302,200	312,653	320,813
5781	Village Hall Grants	14,870	0	0	0	0
		2,192,179	2,194,385	2,215,147	2,206,614	2,189,730

Total for Operations Directorate	8,428,650	8,582,683	8,425,726	8,514,798	8,556,233
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Growth Directorate

Director of Growth

1143	Director of Growth	51,941	54,935	57,030	59,161	59,748
1218	Community Safety	38,739	42,820	43,083	43,342	43,603
3512	CBC Crematorium	(173,000)	(173,000)	(173,000)	(173,000)	(173,000)
		(82,320)	(75,245)	(72,887)	(70,497)	(69,649)

Assistant Director Property, Estates & Assets

3135	Drainage	36,240	28,368	26,706	24,015	21,721
3172	Engineers	87,546	100,893	101,966	102,313	102,091
3241	Car Parks	50,945	47,300	48,020	48,755	49,495
3247	Street Names/Lights	5,000	5,000	5,000	5,000	5,000
3249	Footpath Orders	(900)	(400)	(400)	(400)	(400)
3265	Dams And Fishing Ponds	3,550	(450)	(450)	(450)	(450)
3281	Clay Cross Depot	1,000	0	0	0	0
4412	Midway Business Centre	(69,145)	(61,275)	(61,085)	(60,890)	(60,745)
4425	Coney Green Business Centre	(160,945)	(127,190)	(124,307)	(121,311)	(118,477)
4519	The Avenue, Wingerworth	20,664	0	0	0	0
4523	Estates Administration	417,487	355,724	360,551	365,302	369,451
5204	Assistant Director Property, Estates & Assets	114,000	70,645	73,534	76,475	79,466
5205	Mill Lane	274,643	268,405	272,277	276,284	280,084
5209	Facilities Management	54,610	51,770	51,930	55,090	55,090
5210	Pioneer House	(31,528)	(28,824)	(28,553)	(28,890)	(30,267)
		803,167	709,966	725,189	741,293	752,059

Assistant Director Economic Development, Regeneration & Housing

3165	Housing Options Team	210,437	196,951	199,633	202,371	205,161
3740	Strategic Housing	71,288	90,573	93,052	95,286	96,213
3746	Homelessness Prevention Grant	(124,973)	16,500	0	0	0
3747	Homeless Temp Accomodation	(14,625)	(35,818)	(34,928)	(34,017)	(33,090)
3748	Homelessness Grant	128,037	111,000	62,000	62,000	62,000
3749	Empty Properties	2,000	2,000	2,000	2,000	2,000
3750	Housing Growth	15,239	15,681	11,931	0	0
3754	Rough Sleepers	139,469	0	0	0	0
3759	Emergency Welfare Assistance Grant	38,000	10,000	10,000	10,000	10,000
4211	Tourism Promotions	51,284	45,561	46,575	47,623	48,701
4238	Working Communities Strategy	72,743	74,902	75,653	76,411	77,175
4512	Growth Agenda	21,385	16,000	16,000	16,000	16,000
4517	Economic Development	162,617	217,299	222,661	227,861	230,844
4520	Eckington Killamarsh OPE	17,794	0	0	0	0
4524	New Towns Fund - Clay Cross	350,000	0	0	0	0
4527	Dronfield Civic Centre	34,200	0	0	0	0
5750	Assistant Director Economic Development, Regeneration & Housing	7,665	38,671	40,137	41,629	42,040
		1,182,560	799,320	744,714	747,164	757,044

Total for Growth Directorate	1,903,407	1,434,041	1,397,016	1,417,960	1,439,454
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Transformation Directorate

Director of Transformation

4600	Director of Transformation	37,918	105,661	109,820	114,051	118,356
5215	Telephones	38,220	29,220	29,220	29,220	29,220
5216	Mobile Phones and Ipads	23,110	23,110	23,110	23,110	23,110
5701	Joint ICT Service	0	14,686	6,554	(3,553)	10,457
5734	NEDDC ICT Service	515,688	572,430	585,523	597,707	598,582
5735	Cyber Security	3,040	0	0	0	0
5736	Business Development	92,621	118,380	119,346	120,331	120,616
5737	Corporate Printing Costs	15,610	15,890	15,890	15,890	15,890
		726,207	879,377	889,463	896,756	916,231

Assistant Director Leisure

4561	Leisure Centre Management	467,144	155,201	158,444	161,742	165,093
4724	Walking into Communities	11,000	11,000	0	0	0

		Current Budget 2021/22 £	Original Budget 2022/23 £	Planning Budget 2023/24 £	Planning Budget 2024/25 £	Planning Budget 2025/26 £
4731	Promotion Of Recreation And Leisure	30,335	31,363	31,686	32,012	32,342
4736	Derbyshire Sports Forum	14,450	14,450	14,450	14,450	14,450
4742	Arts Development	2,530	2,530	2,530	2,530	2,530
8441	Eckington Swimming Pool	334,039	118,337	108,481	113,019	124,371
8445	Eckington Pool Cafe	(9,069)	(20,046)	(22,861)	(24,675)	(24,487)
8451	Dronfield Sports Centre	104,867	(45,184)	(74,690)	(72,664)	(56,938)
8455	Dronfield Café	11,413	(8,588)	(7,976)	(7,357)	(6,732)
8461	Sharley Park Sports Centre	379,399	349,650	366,941	382,111	397,007
8465	Sharley Park Sports Centre Outdoor	(3,090)	(3,700)	(3,700)	(3,700)	(3,700)
8471	Killamarsh Leisure Centre	(39,498)	60,401	52,420	75,794	61,173
8475	Killamarsh Outdoors	(9,389)	(17,000)	(17,000)	(17,000)	(17,000)
8476	Killamarsh Café	4,548	112	(4,276)	(3,657)	(3,032)
		1,298,679	648,526	604,449	652,605	685,077
	Assistant Director Transformation & Communication					
1255	Strategy and Performance	105,410	111,945	114,523	117,078	119,061
1256	Corporate Consultation	4,653	14,592	15,025	15,469	15,921
1315	Design & Print	109,234	111,576	112,508	113,453	114,408
1321	Communications & Marketing	91,645	101,236	104,292	106,084	107,918
1323	NEDDC News	26,400	27,000	27,000	27,000	27,000
1329	Corporate Web Site	1,000	1,000	1,000	1,000	1,000
1331	Strategic Partnerships	172,392	204,585	207,016	209,482	211,982
1332	Strategic Partnership Projects	(71,566)	0	0	0	0
1333	Healthy North East Derbyshire	46,481	49,000	0	0	0
3408	Home Improvement	20,985	21,491	21,674	21,857	22,043
4443	Elderly Peoples Clubs	4,000	4,000	4,000	4,000	4,000
5221	Customer Services	339,729	362,438	370,771	374,963	380,227
5223	Franking Machine	58,400	58,400	58,400	58,400	58,400
5785	Contributions	136,085	136,085	136,085	136,085	136,085
5825	Concessionary Bus Passes	(10,100)	(10,195)	(10,290)	(10,388)	(10,485)
		1,034,748	1,193,153	1,162,004	1,174,483	1,187,560
	Total for Transformation Directorate	3,059,634	2,721,056	2,655,916	2,723,844	2,788,868
	Corporate Charges					
5790	Savings Target	0	(111,412)	(1,504,615)	(1,716,323)	(1,920,684)
0001	Recharges to Capital and HRA	(570,500)	(600,500)	(600,500)	(600,500)	(600,500)
	Total for Corporate Charges	(570,500)	(711,912)	(2,105,115)	(2,316,823)	(2,521,184)
	Net Cost of Services	12,821,191	12,025,868	10,373,543	10,339,779	10,263,371
	Investment Properties					
4411	Stonebroom Industrial Estate	(57,670)	(41,465)	(41,375)	(41,285)	(41,190)
4413	Clay Cross Industrial Estate	(81,325)	(79,690)	(79,645)	(79,585)	(79,530)
4415	Norwood Industrial Estate	(231,590)	(226,500)	(226,380)	(226,265)	(226,140)
4417	Eckington Business Park	(6,200)	(6,200)	(6,200)	(6,200)	(6,200)
4418	Rotherside Court Eckington Business Unit	(17,835)	(9,785)	(9,180)	(8,980)	(8,895)
4423	Pavillion Workshops Holmewood	(90,620)	(86,865)	(86,760)	(86,690)	(86,615)
4432	Miscellaneous Properties	26,443	26,330	27,615	28,285	28,980
	Total for Investment Properties	(458,797)	(424,175)	(421,925)	(420,720)	(419,590)

	Timeline of Planned Savings:			
	2022/23	2023/24	2024/25	2025/26
	£000's	£000's	£000's	£000
Efficiency Target/Budget Shortfall MTFP Jan 2022	111	1,505	1,716	1,921
Efficiencies Plan -				
Corporate:				
Vacancy Management	(300)	(300)	(300)	(300)
Taxbase growth (forecast)		(80)	(160)	(240)
Digital Transformation				
Organisational review of printing usage	(13)	(38)	(38)	(38)
Planned digitisation projects	(10)	(25)	(25)	(25)
Hybrid Mail solutions	(35)	(35)	(35)	(35)
Income Generation (including self financing initiatives):				
Self financing Initiatives	0	(19)	(26)	(33)
Selling Services Opportunities	(20)	(45)	(65)	(65)
Fees and Charges Reviews	0	(17)	(61)	(61)
Annual inflationary increases not added to base (assume 2%)		(15)	(18)	(23)
Service Review/Cost Reduction:				
Spend to Save - Eckington Depot	(5)	(5)	(5)	(5)
Accommodation review	0	(80)	(80)	(80)
Service Reviews	(30)	(95)	(110)	(125)
Joint working projects	0	(60)	(60)	(60)
Target Budget (Surplus)/Shortfall before council tax increase	(302)	691	733	831
Council Tax Increase (* indicative 2% from 23/24)	-160	-282	-406	-532
Target Budget (Surplus)/Shortfall after council tax increase	(462)	409	327	299
<i>Contribution to/(from) Resilience Reserve</i>	<i>462</i>	<i>(409)</i>	<i>(327)</i>	<i>(299)</i>
Target Budget (Surplus)/Shortfall	0	0	0	0

	Current Budget 2021/22 £	Original Budget 2022/23 £	Planning Budget 2023/24 £	Planning Budget 2024/25 £	Planning Budget 2025/26 £
INCOME					
Dwelling Rents	(31,042,483)	(32,130,380)	(32,023,403)	(31,916,425)	(31,809,448)
Non-Dwelling Rents	(428,422)	(432,222)	(436,022)	(437,022)	(438,022)
Charges for Services and Facilities	(127,639)	(150,426)	(150,033)	(149,641)	(149,251)
Contributions Towards Expenditure	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)
INCOME TOTAL	(31,648,544)	(32,763,028)	(32,659,458)	(32,553,088)	(32,446,721)
EXPENDITURE					
Repairs & Maintenance	5,164,109	5,169,479	5,174,999	5,180,689	5,186,554
Supervision & Management	6,318,001	6,425,009	6,460,433	6,496,820	6,530,010
Rents, Rates & Taxes	110,000	110,000	110,000	110,000	110,000
Depreciation	7,764,937	7,737,791	7,737,791	7,737,791	7,737,791
Provision for Doubtful Debts	250,000	250,000	250,000	250,000	250,000
Debt Management Expenses	11,500	11,500	11,500	11,500	11,500
EXPENDITURE TOTAL	19,618,547	19,703,779	19,744,723	19,786,800	19,825,855
NET COST OF SERVICES	(12,029,997)	(13,059,249)	(12,914,735)	(12,766,288)	(12,620,866)
Corporate & Democratic Core	185,450	185,450	185,450	185,450	185,450
NET COST OF HRA SERVICES	(11,844,547)	(12,873,799)	(12,729,285)	(12,580,838)	(12,435,416)
HRA Debt, and Reserve charges					
Interest Payable	4,847,272	4,729,461	4,702,485	4,655,155	4,519,916
Interest Receivable	(6,801)	(6,835)	(6,917)	(7,040)	(7,167)
Contribution to Major Repairs Reserve	9,409,241	7,685,709	7,073,209	7,073,209	7,073,209
Contribution to Development Reserve	391,000	415,464	910,508	809,514	799,458
Contribution to Insurance/Litigation Reserve	50,000	50,000	50,000	50,000	50,000
Contribution to/(from) Debt Repayment Reserve	(2,846,165)	0	0	0	0
(Surplus)/Deficit on HRA Services	0	0	0	0	0
Opening HRA Balance	(3,000,000)	(3,000,000)	(3,000,000)	(3,000,000)	(3,000,000)
Transfers (to)/from Balances	0	0	0	0	0
Transfers (to)/from Balances	0	0	0	0	0
Closing HRA Balance	(3,000,000)	(3,000,000)	(3,000,000)	(3,000,000)	(3,000,000)

Capital Expenditure	Revised Budget 2021/22 £	Original Budget 2022/23 £	Original Budget 2023/24 £	Original Budget 2024/25 £	Original Budget 2025/26 £
Housing Revenue Account					
HRA Capital Works	12,211,000	10,823,500	10,441,000	10,441,000	10,441,000
HRA Capital Works - Non Traditional Properties	7,152,000	4,600,000	4,370,000	4,370,000	4,370,000
Green Homes EWI - Mickley	1,110,000	0	0	0	0
Pine View, Danesmoor	1,007,000	70,000	0	0	0
Stock Purchase Programme (1-4-1)	3,000,000	2,500,000	2,500,000	2,500,000	2,500,000
Acquisitions and Disposals (RHL)	500,000	500,000	500,000	500,000	500,000
North Wingfield New Build Project	2,081,000	0	0	0	0
Garage Demolitions	37,000	23,000	23,000	23,000	23,000
Concrete Balconies	111,000	0	0	0	0
Parking Solutions	576,000	288,000	288,000	288,000	288,000
HRA - Capital Expenditure	27,785,000	18,804,500	18,122,000	18,122,000	18,122,000
General Fund					
Private Sector Housing Grants (DFG's)	820,000	820,000	820,000	820,000	820,000
ICT Schemes	204,500	248,500	87,000	119,000	119,000
Clay Cross Football Pitch	9,000	0	0	0	0
Asset Refurbishment - General	386,000	500,000	500,000	500,000	500,000
Asset Refurbishment - Eckington Depot	525,000	0	0	0	0
Roller Shutter Doors	42,000	0	0	0	0
Eckington Pool Carbon Efficiencies Programme	1,565,000	0	0	0	0
Dronfield Sports Centre Carbon Efficiencies Programme	0	1,380,000	0	0	0
Replacement of Vehicles	920,000	2,976,000	1,518,500	1,677,000	449,000
Contaminated Land	42,000	0	0	0	0
Killamarsh Leisure Centre	1,991,000	0	0	0	0
Clay Cross Towns Fund Project	1,205,000	0	0	0	0
General Fund Capital Expenditure	7,709,500	5,924,500	2,925,500	3,116,000	1,888,000
Total Capital Expenditure	35,494,500	24,729,000	21,047,500	21,238,000	20,010,000
Capital Financing	2020/21	2021/22	2022/23	2023/24	2025/26
Housing Revenue Account					
Major Repairs Reserve	(19,348,000)	(15,423,500)	(14,811,000)	(14,811,000)	(14,811,000)
Prudential Borrowing - HRA	(3,576,000)	(1,800,000)	(1,800,000)	(1,800,000)	(1,800,000)
Development Reserve	(1,751,000)	(381,000)	(311,000)	(311,000)	(311,000)
Grants	(1,045,000)	0	0	0	0
1-4-1 Receipts	(2,065,000)	(1,200,000)	(1,200,000)	(1,200,000)	(1,200,000)
HRA Capital Financing	(27,785,000)	(18,804,500)	(18,122,000)	(18,122,000)	(18,122,000)
General Fund					
Disabled Facilities Grant	(820,000)	(820,000)	(820,000)	(820,000)	(820,000)
External Grant - Lottery Funded Schemes	(9,000)	0	0	0	0
External Grant - Contaminated Land	(42,000)	0	0	0	0
External Grant - Eckington Pool Carbon Efficiencies	(1,015,000)	0	0	0	0
External Grant - Clay Cross Towns Fund	(1,205,000)	0	0	0	0
External Grant - Dronfield Sports Centre Carbon Efficiencies	0	(1,347,000)	0	0	0
Prudential Borrowing - Vehicles	(920,000)	(1,417,000)	0	0	0
Prudential Borrowing - Eckington Depot	(525,000)	0	0	0	0
Prudential Borrowing - Killamarsh Leisure Centre	(1,991,000)	0	0	0	0
RCCO - Roller Shutter Doors	(42,000)	0	0	0	0
Useable Capital Receipts	(1,140,500)	(2,340,500)	(2,105,500)	(2,296,000)	(1,068,000)
General Fund Capital Financing	(7,709,500)	(5,924,500)	(2,925,500)	(3,116,000)	(1,888,000)
HRA Development Reserve					
Opening Balance	(2,382,074)	(1,022,074)	(1,056,538)	(1,656,046)	(2,154,560)
Amount due in year	(391,000)	(415,464)	(910,508)	(809,514)	(799,458)
Amount used in year	1,751,000	381,000	311,000	311,000	311,000
Closing Balance	(1,022,074)	(1,056,538)	(1,656,046)	(2,154,560)	(2,643,018)
Major Repairs Reserve					
Opening Balance	(2,173,612)	0	0	0	0
Amount due in year	(17,174,388)	(15,423,500)	(14,811,000)	(14,811,000)	(14,811,000)
Amount used in year	19,348,000	15,423,500	14,811,000	14,811,000	14,811,000
Closing Balance	0	0	0	0	0
Capital Receipts Reserve					
Opening Balance	(1,406,741)	(566,241)	(225,741)	(120,241)	(424,241)
Income expected in year	(3,000,000)	(3,000,000)	(3,000,000)	(3,600,000)	(3,600,000)
Allowable Debt/Pooling Expenses	2,700,000	1,000,000	1,000,000	1,000,000	1,000,000
Amount used in year	1,140,500	2,340,500	2,105,500	2,296,000	1,068,000
Closing Balance	(566,241)	(225,741)	(120,241)	(424,241)	(1,956,241)
Capital Receipts Reserve 1-4-1 receipts					
Opening Balance	(1,275,114)	0	0	0	0
Income expected in year	(789,886)	(1,200,000)	(1,200,000)	(1,200,000)	(1,200,000)
Amount used in year	2,065,000	1,200,000	1,200,000	1,200,000	1,200,000
Closing Balance	0	0	0	0	0
Total Capital Financing	(35,494,500)	(24,729,000)	(21,047,500)	(21,238,000)	(20,010,000)

Check

0

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North East Derbyshire District Council

Audit and Corporate Governance Scrutiny Committee

12 January 2022

Treasury Strategy Reports 2022/23 - 2025/26

Report of the Portfolio Holder with Responsibility for Finance

Classification: This report is public

Report By: Jayne Dethick, Assistant Director - Finance and Resources
(S151 Officer)

Contact Officer: as above

PURPOSE/SUMMARY

To enable the Audit and Corporate Governance Scrutiny Committee to consider the attached treasury strategies prior to them being taken to Council for approval.

RECOMMENDATIONS

1. That the Audit and Corporate Governance Scrutiny Committee note this report and the attached strategies and make any comments that they believe to be appropriate with regards to them.

IMPLICATIONS

Finance and Risk

Yes ✓

No

These are considered throughout the report.

On Behalf of the Section 151 Officer

Legal including Data Protection

Yes ✓

No

As part of the requirements of the CIPFA Treasury Management Code of Practice the Council is required to produce every year a Treasury Management Strategy and Capital Strategy which requires approval by full Council prior to the commencement of each financial year. This report is prepared in order to comply with these obligations.

There are no Data Protection issues arising directly from this report.

On Behalf of the Solicitor to the Council

Staffing**Yes****No ✓**

There are no staffing issues arising directly from this report.

On Behalf of the Head of Paid Service

DECISION INFORMATION

Is the decision a Key Decision? A Key Decision is an executive decision which has a significant impact on two or more District wards or which results in income or expenditure to the Council above the following thresholds: <i>BDC: Revenue - £75,000</i> <input type="checkbox"/> <i>Capital - £150,000</i> <input type="checkbox"/> <i>NEDDC: Revenue - £100,000</i> <input type="checkbox"/> <i>Capital - £250,000</i> <input type="checkbox"/> <input checked="" type="checkbox"/> <i>Please indicate which threshold applies</i>	No
Is the decision subject to Call-In? (Only Key Decisions are subject to Call-In)	No
Has the relevant Portfolio Holder been informed	Yes
District Wards Affected	All
Links to Corporate Plan priorities or Policy Framework	All

REPORT DETAILS

- 1.1 Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.
- 1.2 The CIPFA Code requires that a Capital Strategy be produced alongside the Treasury Management Strategy. In addition, the 2018 Investment Guidance issued by the Department for Levelling Up, Housing and Communities requires local authorities to produce an investment Strategy. So there is now a requirement to produce three distinct strategies which are detailed below.
- 1.3 The Treasury Management Strategy provides the framework for managing the Council's cash flows, borrowing and investments, and the associated risks for the years 2022/23 to

2025/26. The Treasury Management Strategy sets out the parameters for all borrowing and lending as well as listing all approved borrowing and investment sources. Prudential indicators aimed at monitoring risk are also included.

- 1.4 The Capital Strategy is intended to be a high level, concise overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of the Council's services. The report also provides an overview of the associated risk, its management and the implications for future financial sustainability. The Capital Strategy also sets out the capital expenditure plans for the period and how they will be financed. It provides information of the minimum revenue provision, capital financing requirement and prudential indicators aimed at monitoring risk.
- 1.5 The Investment Strategy focuses on investments made for service purposes and commercial reasons, rather than those made for treasury management. Investments covered by this strategy include earning income through commercial investments or by supporting local services by lending to or buying shares in other organisations.

2 Reasons for Recommendation

- 2.1 This report outlines the Council's proposed suite of Treasury Strategies for the period 2022/23 to 2025/26 for consideration and approval by Council on 31 January 2022. It contains:
- The Treasury Management Strategy which provides the framework for managing the Council's cash flows, borrowing and investments for the period.
 - The Capital Strategy which is intended to provide a high level, concise overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of the Council's services.
 - The Investment Strategy which focuses on investments made for service purposes and commercial reasons, rather than those made for treasury management.

The above strategies are required to provide an approved framework within which the officers undertake the day to day capital and treasury activities.

3 Alternative Options and Reasons for Rejection

- 3.1 Alternative options are considered throughout the report.

DOCUMENT INFORMATION

Appendix No	Title
1	Treasury Strategy Reports 2022/23 – 2025/26 and Appendices 1-3.
Background Papers	
Report Author	Contact Number
Jayne Dethick – Assistant Director - Finance and Resources (S151 Officer)	(01246) 217078

North East Derbyshire District Council

Council

31 January 2022

Treasury Strategy Reports 2022/23 - 2025/26

Report of the Portfolio Holder with Responsibility for Finance

Classification: This report is public

Report By: Jayne Dethick, Assistant Director - Finance and Resources
(S151 Officer)

Contact Officer: as above

PURPOSE/SUMMARY

The purpose of this report is to provide Council with the necessary information to approve the Council's suite of Treasury Strategies for 2022/23 to 2025/26.

RECOMMENDATIONS

1. That Council approve the Treasury Management Strategy at **Appendix 1** and in particular:
 - a) Approve the Borrowing Strategy
 - b) Approve the Investment Strategy
 - c) Approve the use of the external treasury management advisors Counterparty Weekly List (or similar) to determine the latest assessment of the counterparties that meet the Council's Criteria before any investment is undertaken.
 - d) Approve the Prudential Indicators
2. That Council approve the Capital Strategy as set out in **Appendix 2** and in particular:
 - a) Approve the Capital Financing Requirement
 - b) Approve the Minimum Revenue Provision Statement for 2022/23
 - c) Approve the Prudential Indicators for 2022/23, in particular:

Authorised Borrowing Limit £203,786,000

Operational Boundary £198,786,000

3. That Council approve the Investment Strategy as set out in **Appendix 3.**

Approved by the Portfolio Holder – Yes

IMPLICATIONS

Finance and Risk

Yes ✓

No

These are considered throughout the report.

On Behalf of the Section 151 Officer

Legal including Data Protection

Yes ✓

No

As part of the requirements of the CIPFA Treasury Management Code of Practice the Council is required to produce every year a Treasury Management Strategy and Capital Strategy which requires approval by full Council prior to the commencement of each financial year. This report is prepared in order to comply with these obligations.

There are no Data Protection issues arising directly from this report.

On Behalf of the Solicitor to the Council

Staffing

Yes

No ✓

There are no staffing issues arising directly from this report.

On Behalf of the Head of Paid Service

DECISION INFORMATION

<p>Is the decision a Key Decision?</p> <p>A Key Decision is an executive decision which has a significant impact on two or more District wards or which results in income or expenditure to the Council above the following thresholds:</p> <p><i>BDC:</i> <i>Revenue - £75,000</i> <input type="checkbox"/></p> <p> <i>Capital - £150,000</i> <input type="checkbox"/></p> <p><i>NEDDC:</i> <i>Revenue - £100,000</i> <input type="checkbox"/></p> <p> <i>Capital - £250,000</i> <input type="checkbox"/></p>	<p>No</p>
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<input checked="" type="checkbox"/> Please indicate which threshold applies	
Is the decision subject to Call-In?(Only Key Decisions are subject to Call-In)	No
Has the relevant Portfolio Holder been informed	Yes
District Wards Affected	All
Links to Corporate Plan priorities or Policy Framework	All

REPORT DETAILS

- 1.1 Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.
- 1.2 The CIPFA Code requires that a Capital Strategy be produced alongside the Treasury Management Strategy. In addition, the 2018 Investment Guidance issued by the Department for Levelling Up, Housing and Communities requires local authorities to produce an investment Strategy. So there is now a requirement to produce three separate treasury strategies.
- 1.3 The Council's Treasury Management Strategy provides the framework for managing the Council's cash flows, borrowing and investments, and the associated risks for the years 2022/23 to 2025/26. The Strategy also sets out the parameters for all borrowing and lending as well as listing all approved borrowing and investment sources. Prudential indicators aimed at monitoring risk are also included. (**Appendix 1**).
- 1.4 The Capital Strategy is intended to provide a high level, concise overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of the Council's services. The report provides an overview of the associated risk, its management and the implications for future financial sustainability. The Capital Strategy also sets out the capital expenditure plans for the period and how they will be financed. It includes information of the minimum revenue provision, capital financing requirement and prudential indicators aimed at monitoring risk (**Appendix 2**).
- 1.5 The Investment Strategy focuses on investments made for service purposes and commercial reasons, rather than those made for treasury management. Investments covered by this strategy include earning income through commercial investments or by supporting local services by lending to or buying shares in other organisations (**Appendix 3**).

2 Reasons for Recommendation

- 2.1 This report outlines the Council's proposed suite of Treasury Strategies for the period 2022/23 to 2025/26 for consideration and approval by Council. It contains:

- The Treasury Management Strategy which provides the framework for managing the Council's cash flows, borrowing and investments for the period.
- The Capital Strategy which is intended to provide a high level, concise overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of the Council's services.
- The Investment Strategy which focuses on investments made for service purposes and commercial reasons, rather than those made for treasury management.

The above strategies provide an approved framework within which the officers undertake the day to day capital and treasury activities.

3 Alternative Options and Reasons for Rejection

3.1 Alternative options are considered throughout the report.

DOCUMENT INFORMATION

Appendix No	Title
1	Treasury Management Strategy
2	Capital Strategy
3	Investment Strategy
Background Papers	
Report Author	Contact Number
Jayne Dethick – Assistant Director - Finance and Resources (S151 Officer)	(01246) 217078



**North East
Derbyshire**
District Council

North East Derbyshire District Council

Treasury Management Strategy 2022/23 – 2025/26

Introduction

- 1.1 Treasury Management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.
- 1.2 Treasury risk management at the Council is conducted within the framework of the *Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA code.
- 1.3 Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy.

External Context

- 1.4 **Economic background:** The ongoing impact on the UK from coronavirus, together with higher inflation, higher interest rates, and the country's trade position post-Brexit, will be major influences on the Council's treasury management strategy for 2022/23.
- 1.5 The Bank of England (BoE) increased Bank Rate at 0.25% in December 2021 while maintaining its Quantitative Easing programme at £895 billion. The Monetary Policy Committee (MPC) voted 8-1 in favour of raising rates, and unanimously to maintain the asset purchase programme. Within the announcement the MPC noted that the pace of the global recovery was broadly in line with its November Monetary Policy Report. Prior to the emergence of the Omicron coronavirus variant, the Bank also considered the UK economy to be evolving in line with expectations, however the increased uncertainty and risk to activity the new variant presents, the Bank revised down its estimates for Q4 GDP growth to 0.6% from 1.0%. Inflation was projected to

be higher than previously forecast, with CPI likely to remain above 5% throughout the winter and peak at 6% in April 2022. The labour market was generally performing better than previously forecast and the BoE now expects the unemployment rate to fall to 4% compared to 4.5% forecast previously, but notes that Omicron could weaken the demand for labour.

- 1.6 UK CPI for November 2021 registered 5.1% year on year, up from 4.2% in the previous month. Core inflation, which excludes the more volatile components, rose to 4.0% year on year from 3.4%. The most recent labour market data for the three months to October 2021 showed the unemployment rate fell to 4.2% while the employment rate rose to 75.5%.
- 1.7 In October 2021, the headline 3-month average annual growth rate for wages were 4.9% for total pay and 4.3% for regular pay. In real terms, after adjusting for inflation, total pay growth was up 1.7% while regular pay was up 1.0%. The change in pay growth has been affected by a change in composition of employee jobs, where there has been a fall in the number and proportion of lower paid jobs.
- 1.8 Gross Domestic Product (GDP) grew by 1.3% in the third calendar quarter of 2021 according to the initial, compared to a gain of 5.5% quarter on quarter in the previous quarter, with the annual rate slowing to 6.6% from 23.6%. The Q3 gain was modestly below the consensus forecast of a 1.5% quarter on quarter rise. During the quarter activity measures were boosted by sectors that reopened following pandemic restrictions, suggesting that wider spending was flat. Looking ahead, while monthly GDP reading suggest there had been some increase in momentum in the latter part of Q3, Q4 growth is expected to be soft.
- 1.9 GDP Growth in the euro zone increased by 2.2% in calendar Q3 2021 following a gain of 2.1% in the second quarter and a decline of -0.3% in the first. Headline inflation has been strong, with CPI registering 4.9% year-on-year in November, the fifth successive month of inflation. Core CPI inflation was 2.6% year on year in November, the fourth month of successive increases from July's 0.7% year on year. At these levels, inflation is above the European Central Bank's target of 'below, but close to 2%', putting some pressure on its long-term stance of holding its main interest rate of 0%.
- 1.10 The US economy expanded at an annualised rate of 2.1% in Q3 2021, slowing sharply from gains of 6.7% and 6.3% in the previous two quarters. In its December 2021 interest rate announcement, the Federal Reserve continue to maintain the Fed Funds rate at between 0% and 0.25% but outlined its plan to reduce its asset purchase programme earlier than previously stated and signalled they are in favour of tightening interest rates at a faster pace in 2022, with three 0.25% movements now expected.
- 1.11 **Credit outlook:** Since the start of 2021, relatively benign credit conditions have led to credit default swap (CDS) prices for the larger UK banks to remain low and had steadily edged down throughout the year up until mid-November when the

emergence of Omicron has caused them to rise modestly. However, the generally improved economic outlook during 2021 helped bank profitability and reduced the level of impairments many had made as provisions for bad loans. However, the relatively recent removal of coronavirus-related business support measures by the government means the full impact on bank balance sheets may not be known for some time.

- 1.12 The improved economic picture during 2021 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several financial institutions, revising them from negative to stable and even making a handful of rating upgrades.
- 1.13 Looking ahead, while there is still the chance of bank losses from bad loans as government and central bank support is removed, the institutions on the Council's counterparty list are well-capitalised and general credit conditions across the sector are expected to remain benign. Duration limits for counterparties on the Council's lending list are under regular review and will continue to reflect economic conditions and the credit outlook.
- 1.14 **Interest rate forecast:** The Council's treasury management adviser Arlingclose is forecasting that Bank Rate will continue to rise in calendar Q1 2022 to subdue inflationary pressures and the perceived desire by the BoE to move away from emergency levels of interest rates.
- 1.15 Investors continue to price in multiple rises in Bank Rate over the next forecast horizon, and Arlingclose believes that although interest rates will rise, the increases will not be to the extent predicted by financial markets. In the near-term, the risks around Arlingclose's central case are to the upside while over the medium-term the risks become more balanced.
- 1.16 Yields are expected to remain broadly at current levels over the medium-term, with the 5, 10 and 20 year gilt yields expected to average around 0.65%, 0.90%, and 1.15% respectively. The risks around for short and medium-term yields are initially to the upside but shifts lower later, while for long-term yields the risk is to the upside. However, as ever there will almost certainly be short-term volatility due to economic and political uncertainty and events.
- 1.17 A more detailed economic and interest rate forecast provided by Arlingclose is attached at **Appendix A**.
- 1.18 For the purpose of setting the budget, it has been assumed that new treasury management investments will be made at an average rate of 0.01%, and that new long-term loans will be borrowed at an average rate of 2%.

Local Context

1.19 On 30th November 2021, the Council held £147.1m of borrowing and £34.0m of investments. This is set out in further detail at **Appendix B**. Forecast changes in these sums are shown in the balance sheet analysis in **Table 1** below.

Table 1: Balance sheet summary and forecast

	31/3/21 Actual £m	31/3/22 Estimate £m	31/3/23 Forecast £m	31/3/24 Forecast £m	31/3/25 Forecast £m	31/3/26 Forecast £m
General Fund CFR	13.4	17.0	18.3	16.8	13.7	10.6
HRA CFR	169.8	173.4	175.2	177.0	178.8	180.6
Total CFR	183.2	190.4	193.5	193.8	192.5	191.2
Less: Other debt liabilities *	0	0	0.3	0.2	0.1	0.1
Loans CFR	183.2	190.4	193.8	194.0	192.6	191.3
Less: External borrowing **	(149.2)	(147.0)	(147.2)	(145.0)	(140.8)	(139.8)
Internal borrowing	34.0	43.4	46.6	49.0	51.8	51.5
Less: Balance sheet reserves	(70.0)	(67.4)	(58.3)	(59.0)	(61.8)	(61.5)
Investments	36.0	24.0	11.7	10.0	10.0	10.0

* leases that form part of the Council's total debt.

** shows only loans to which the Council is committed and excludes optional refinancing

1.20 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

1.21 The Council has an increasing CFR due to commitments within the capital programme and also loans for Northwood Group Ltd and Rykneld Homes Ltd. The forecast level of reserves means that the majority of borrowing throughout this period is likely to be from internal resources.

1.22 CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than its highest forecast CFR over the next

three years. Table 1 shows that the Council expects to comply with this recommendation during 2022/23.

- 1.23 **Liability benchmark:** To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as **Table 1** above, but that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.

Table 2: Liability benchmark

	31/3/20 Actual £m	31/3/21 Estimate £m	31/3/22 Forecast £m	31/3/23 Forecast £m	31/3/24 Forecast £m	31/3/25 Forecast £m
CFR	183.2	190.4	193.8	194.0	192.6	191.2
Less: Balance sheet reserves	(70.0)	(67.4)	(58.3)	(59.0)	(61.8)	(61.5)
Net loans requirement	113.2	123.0	135.5	135.0	130.8	129.7
Plus: Liquidity allowance	10.0	10.0	10.0	10.0	10.0	10.0
Liability Benchmark	123.2	133.0	145.5	145.0	140.8	139.7

Borrowing Strategy

- 1.24 The Council currently holds £149.2m of loans, a decrease of £0.3m on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in **Table 1** shows that the Council does not expect to need to borrow in 2022/23. The Council may however, borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £203.8m.
- 1.25 **Objectives:** The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.
- 1.26 **Strategy:** Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.
- 1.27 By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal

borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2022/23 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

- 1.28 The Council has previously raised all of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Council intends to avoid this activity in order to retain its access to PWLB loans.
- 1.29 Alternatively, the Council may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.
- 1.30 In addition, the Council may borrow short-term loans to cover unplanned cash flow shortages.
- 1.31 **Sources of borrowing:** The approved sources of long-term and short-term borrowing are:
- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
 - any institution approved for investments (see below)
 - any other bank or building society authorised to operate in the UK
 - any other UK public sector body
 - UK public and private sector pension funds (except Derbyshire County Council Pension Fund)
 - capital market bond investors
 - UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
- 1.32 **Other sources of debt finance:** In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:
- leasing
 - hire purchase
 - Private Finance Initiative
 - sale and leaseback
- 1.33 **Municipal Bonds Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds

on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to Council.

- 1.34 **LOBOs:** The Council doesn't hold or intend to hold any LOBO (Lender's Option Borrower's Option) loans.
- 1.35 **Short-term and variable rate loans:** These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk (see section below).
- 1.36 **Debt rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

Treasury Investment Strategy

- 1.37 The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's treasury investment balance has ranged between £33.0m and £48.0m, and similar levels are expected to be maintained in the forthcoming year.
- 1.38 **Objectives:** The CIPFA Code requires the Council to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
- 1.39 Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.
- 1.40 **Negative interest rates:** The COVID-19 pandemic has increased the risk that the Bank of England will set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. Since investments cannot pay negative income, negative rates will be applied by reducing

the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

- 1.41 **Strategy:** Given the increasing risk and very low returns from short-term unsecured bank investments, the Council aims to further diversify into more secure and/or higher yielding asset classes during 2022/23. The majority of the Council's surplus cash is currently invested in short-term unsecured bank deposits, local authorities, registered providers and money market funds. This diversification will represent a continuation of the strategy currently adopted.
- 1.42 **Business models:** Under the new IFRS 9 standard, the accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.
- 1.43 **Approved counterparties:** The Council may invest its surplus funds with any of the counterparty types in **Table 3** below, subject to the cash limits (per counterparty) and the time limits shown.

Table 3: Approved investment counterparties and limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	25 years	£5m	Unlimited
Secured investments *	25 years	£5m	Unlimited
Banks (unsecured) *	13 months	£5m	Unlimited
Building societies (unsecured) *	13 months	£5m	£20m
Registered providers (unsecured) *	5 years	£5m	£20m
Money market funds *	n/a	£5m	Unlimited
Strategic pooled funds	n/a	£5m	£20m
Real estate investment trusts	n/a	£5m	£20m
Other investments *	5 years	£5m	£20m

- 1.44 * **Minimum credit rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific

investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

- 1.45 For entities without published credit ratings, investments may be made either (a) where external advice indicates the entity to be of similar credit quality; or (b) to a maximum of £5m per counterparty as part of a diversified pool e.g. via a peer-to-peer platform.
- 1.46 **Government:** Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.
- 1.47 **Secured Investments:** Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.
- 1.48 **Banks and building societies (unsecured):** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.
- 1.49 **Registered providers (unsecured):** Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.
- 1.50 **Money market funds:** Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

- 1.51 **Strategic pooled funds:** Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.
- 1.52 **Real estate investment trusts:** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.
- 1.53 **Other investments:** This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Council's investment at risk.
- 1.54 **Operational bank accounts:** The Council may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept at £5m per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.
- 1.55 **Risk assessment and credit ratings:** Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:
- no new investments will be made,
 - any existing investments that can be recalled or sold at no cost will be, and
 - full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.
- 1.56 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

- 1.57 **Other information on the security of investments:** The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.
- 1.58 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This may cause investment returns to fall, but will protect the principal sum invested.
- 1.59 **Investment limits:** The Council's revenue reserves available to cover investment losses are forecast to be £23.3 million on 31st March 2022. In order that no more than 21.5% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £5 million. A group of entities under the same ownership will be treated as a single organisation for limit purposes.
- 1.60 Credit risk exposures arising from non-treasury investments, financial derivatives and balances greater than £5 million in operational bank accounts count against the relevant investment limits.
- 1.61 Limits are also placed on fund managers, investments in brokers' nominee accounts and foreign countries as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Additional Investment limits

	Cash limit
Any group of pooled funds under the same management	£5m per manager
Negotiable instruments held in a broker's nominee account	£5m per broker
Foreign countries	£5m per country

- 1.62 **Liquidity management:** The Council uses its own cash flow forecasting techniques to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium-term financial plan and cash flow forecast.
- 1.63 The Council will spread its liquid cash over a number of providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

Treasury Management Indicators

- 1.64 The Council measures and manages its exposures to treasury management risks using the following indicators:
- 1.65 **Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	
Portfolio average credit rating	Target <3.0
Current portfolio average credit rating on investments	Actual 1.45

- 1.66 **Liquidity:** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

Liquidity risk indicator	Amount available
Total cash available within 3 months	£32m

- 1.67 **Interest rate exposures:** This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	Limit each year
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	£1.5m
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	(£1.5m)

- 1.68 The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates.
- 1.69 **Maturity structure of borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	20%	0%
12 months and within 24 months	20%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	40%	0%
10 years and above	90%	0%

- 1.70 Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.
- 1.71 **Principal sums invested for periods longer than a year:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Price risk indicator	2022/23	2023/24	2024/25
Limit on principal invested beyond year end	£20m	£20m	£20m

Related Matters

- 1.72 The CIPFA Code requires the Council to include the following in its treasury management strategy.
- 1.73 **Financial Derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income

at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

- 1.74 The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.
- 1.75 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.
- 1.76 In line with the CIPFA code, the Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.
- 1.77 **Markets in Financial Instruments Directive:** The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.
- 1.78 **Financial Implications:** The General Fund budget for investment income in 2022/23 is £0.003m with the HRA budget for investment income in 2022/23 being £0.007m, based on an average investment portfolio of £22.0m at an average interest rate of 0.04%. The General Fund budget for debt interest paid in 2022/23 is £0.459m with the HRA budget for debt interest paid in 2022/23 being £4.729m, based on an average debt portfolio of £147.0m at an average interest rate of 3.53%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

Other Options Considered

- 1.79 The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer, having consulted the Cabinet Member for Finance, believes that the above strategy represents an

appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Appendix A

Economic & Interest Rate Forecast (Arlingclose October 2021)

Underlying assumptions:

- The global recovery from the pandemic has entered a more challenging phase. The resurgence in demand has led to the expected rise in inflationary pressure, but disrupted factors of supply are amplifying the effects, increasing the likelihood of lower growth rates ahead. The advent of the Omicron variant of coronavirus is affecting activity and is also a reminder of the potential downside risks.
- Despite relatively buoyant activity survey data, official GDP data indicates that growth was weakening into Q4 2021. Other data, however, suggested continued momentum, particularly for November. Retail sales volumes rose 1.4%, PMIs increased, and the labour market continued to strengthen. The end of furlough did not appear to have had a significant impact on unemployment. Wage growth is elevated.
- The CPI inflation rate rose to 5.1% for November and will rise higher in the near term. While the transitory factors affecting inflation are expected to unwind over time, policymakers' concern is persistent medium term price pressure.
- These factors prompted the MPC to raise Bank Rate to 0.25% at the December meeting. Short term interest rate expectations remain elevated.
- The outlook, however, appears weaker. Household spending faces pressures from a combination of higher prices and tax rises. In the immediate term, the Omicron variant has already affected growth – Q4 and Q1 activity could be weak at best.
- Longer-term government bond yields remain relatively low despite the more hawkish signals from the BoE and the Federal Reserve. Investors are concerned that significant policy tightening in the near term will slow growth and prompt the need for looser policy later. Geo-political and coronavirus risks are also driving safe haven buying. The result is a much flatter yield curve, as short-term yields rise even as long-term yields fall.
- The rise in Bank Rate despite the Omicron variant signals that the MPC will act to bring inflation down whatever the environment. It has also made clear its intentions to tighten policy further. While the economic outlook will be challenging, the signals from policymakers suggest their preference is to tighten policy unless data indicates a more severe slowdown.

- While Q2 UK GDP expanded more quickly than initially thought, the ‘pingdemic’ and more latterly supply disruption will leave Q3 GDP broadly stagnant. The outlook also appears weaker. Household spending, the driver of the recovery to date, is under pressure from a combination of retail energy price rises, the end of government support programmes and soon, tax rises. Government spending, the other driver of recovery, will slow considerably as the economy is taken off life support
- Inflation rose to 3.2% in August. A combination of factors will drive this to over 4% in the near term. While the transitory factors affecting inflation, including the low base effect of 2020, are expected to unwind over time, the MPC has recently communicated fears that these transitory factors will feed longer-term inflation expectations that require tighter monetary policy to control. This has driven interest rate expectations substantially higher
- The supply imbalances are apparent in the labour market. While wage growth is currently elevated due to compositional and base factors, stories abound of higher wages for certain sectors, driving inflation expectations. It is uncertain whether a broad-based increased in wages is possible given the pressures on businesses.
- Government bond yields increased sharply following the September FOMC and MPC minutes, in which both central banks communicated a lower tolerance for higher inflation than previously thought. The MPC in particular has doubled-down on these signals in spite of softer economic data. Bond investors expect higher near-term interest rates but are also clearly uncertain about central bank policy.
- The MPC appears to be playing both sides, but has made clear its intentions to tighten policy, possibly driven by a desire to move away from emergency levels. While the economic outlook will be challenging, the signals from policymakers suggest Bank Rate will rise unless data indicates a more severe slowdown.

Forecast:

- The MPC will want to build on the strong message it delivered this month by tightening policy despite Omicron uncertainty.
- Arlingclose therefore expects Bank Rate to rise to 0.50% in Q1 2022, but then remain there. Risks to the forecast are initially weighted to the upside, but becoming more balanced over time. The Arlingclose central forecast remains below the market forward curve.

- Gilt yields will remain broadly flat from current levels. Yields have fallen sharply at the longer end of the yield curve, but expectations of a rise in Bank Rate have maintained short term gilt yields at higher levels.
- Easing expectations for Bank Rate over time could prompt the yield curve to steepen, as investors build in higher inflation expectations.
- The risks around the gilt yield forecasts vary. The risk for short and medium term yields is initially on the upside but shifts lower later. The risk for long-term yields is weighted to the upside.

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
3-month money market rate													
Upside risk	0.05	0.05	0.25	0.35	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.25	0.55	0.55	0.60	0.60	0.60	0.60	0.65	0.65	0.65	0.65	0.65	0.65
Downside risk	0.00	-0.25	-0.25	-0.30	-0.30	-0.30	-0.30	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35
5yr gilt yield													
Upside risk	0.00	0.35	0.45	0.55	0.55	0.55	0.55	0.55	0.55	0.50	0.50	0.45	0.45
Arlingclose Central Case	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.65	0.70	0.75	0.75
Downside risk	-0.10	-0.20	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.40
10yr gilt yield													
Upside risk	0.10	0.25	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55
Arlingclose Central Case	0.80	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.90	0.90	0.95	0.95
Downside risk	-0.10	-0.25	-0.30	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.40	-0.40	-0.40	-0.40
20yr gilt yield													
Upside risk	0.30	0.40	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	1.00	1.05	1.10	1.10	1.10	1.10	1.15	1.15	1.15	1.20	1.20	1.20	1.20
Downside risk	-0.15	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45
50yr gilt yield													
Upside risk	0.25	0.30	0.40	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.70	0.75	0.80	0.85	0.90	0.95	1.00	1.05	1.05	1.10	1.10	1.15	1.15
Downside risk	-0.15	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%

PWLB Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

Appendix B

Existing Investment & Debt Portfolio Position

	30/11/21 Actual Portfolio £m	30/11/21 Average Rate %
External borrowing:		
Public Works Loan Board	147	3.53
Total external borrowing	147	3.53
Total other long-term liabilities:	0	0
Total gross external debt	147	3.53
Treasury investments:		
The UK Government	0	0.00
Local authorities	5	0.15
Banks (unsecured)	0	0.00
Money Market Funds	29	0.01
Total treasury investments	34	0.03
Net debt	113	



**North East
Derbyshire**
District Council

North East Derbyshire District Council

Capital Strategy 2022/23 – 2025/26

Introduction

- 1.1 This capital strategy report, gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.
- 1.2 Decisions made this year on capital and treasury management will have financial consequences for the Council for many years into the future. They are therefore subject to both a national regulatory framework and to a local policy framework, summarised in this report.

Capital Expenditure and Financing

- 1.3 Capital expenditure is where the Council spends money on assets, such as property or vehicles that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £10,000 are not capitalised and are charged to revenue in year.

In 2022/23, the Council is planning capital expenditure of £24.7m as summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure

	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Budget £m	2023/24 Budget £m	2024/25 Budget £m	2025/26 Budget £m
General Fund Services	1.5	7.7	5.9	2.9	3.1	1.9
Council Housing (HRA)	11.2	27.8	18.8	18.1	18.1	18.1
TOTAL	12.7	35.5	24.7	21.0	21.2	20.0

- 1.4 The main General Fund capital projects include replacement vehicles, asset refurbishment, ICT replacement and disabled facilities grants.
- 1.5 The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately. The main HRA capital projects involve refurbishment and ECO works to the Council's non-traditional housing stock.
- 1.6 The Council has no capital investments but this would include loans and shares made for service purposes and property to be held primarily for financial return in line with the definition in the CIPFA Treasury Management Code.
- 1.7 **Governance:** Projects are included in the capital programme as part of the annual budget review or through ad hoc approval during the year. The capital programme is refreshed each year and the new requirements are presented to Cabinet and Council each February. Full details of the Council's Capital Programme can be seen at **Appendix A** to this report.
- 1.8 All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing and leasing). The planned financing of the above expenditure is as follows:

Table 2: Financing of Capital Programme

	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Budget £m	2023/24 Budget £m	2024/25 Budget £m	2025/26 Budget £m
External Sources	1.0	4.1	2.2	0.8	0.8	0.8
Own Resources	11.1	24.4	19.3	18.4	18.6	17.4
Debt	0.6	7.0	3.2	1.8	1.8	1.8
TOTAL	12.7	35.5	24.7	21.0	21.2	20.0

- 1.9 Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to repay and/or replace debt finance. Planned MRP and use of capital receipts are as follows:

Table 3: Replacement of debt finance

	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Budget £m	2023/24 Budget £m	2024/25 Budget £m	2025/26 Budget £m
Capital Resources	1.6	0	0	0	0	0
Revenue Resources	0.7	0.6	0.2	0.3	0.2	0.2
Total	2.3	0.6	0.2	0.3	0.2	0.2

The Council's full minimum revenue provision statement is **Appendix B** to this report.

- 1.10 The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £3.4m during 2022/23. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement

	31/3/2021 Actual £m	31/3/2022 Forecast £m	31/3/2023 Budget* £m	31/3/2024 Budget £m	31/3/2025 Budget £m	31/3/2026 Budget £m
General Fund Services	13.4	17.0	18.6	17.0	13.8	10.7
Council Housing (HRA)	169.8	173.4	175.2	177.0	178.8	180.6
TOTAL CFR	183.2	190.4	193.8	194.0	192.6	191.3

*£0.3m of the CFR increase in 2022/23 arises from a change in the accounting for leases.

- 1.11 **Asset management:** The Council's assets require regular maintenance to ensure they remain safe and fit for purpose. It is also important for income generation that assets remain in a good condition and so remain lettable. A planned approach yields savings in running costs and energy efficiency benefits over time as works are completed and asset conditions improve.

- 1.12 **Asset disposals:** When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. Repayments of capital grants, loans and investments also generate capital receipts. The Council plans to receive £4.2m of capital receipts in the coming financial year as follows:

Table 5: Capital receipts receivable

	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Budget £m	2023/24 Budget £m	2024/25 Budget £m	2025/26 Budget £m
Asset Sales	4.03	3.79	4.20	4.20	4.80	4.80
Loans Repaid	0	0	0	0	0	0
TOTAL	4.03	3.79	4.20	4.20	4.80	4.80

Treasury Management

- 1.13 Treasury Management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.
- 1.14 Due to decisions taken in the past, the Council currently has £147.1m borrowing at an average interest rate of 3.53% and £35.0m treasury investments at an average rate of 0.03%.
- 1.15 **Borrowing strategy:** The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheap short-term loans (currently available at around 0.10%) and long-term fixed rate loans where the future cost is known but higher (currently 1.50%-2.50%).
- 1.16 Projected levels of the Council's total outstanding debt (which comprises borrowing and leases) are shown below, compared with the capital financing requirement (see above):

Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement

	31/3/2021 Actual £m	31/3/2022 Forecast £m	31/3/2023 Budget £m	31/3/2024 Budget £m	31/3/2025 Budget £m	31/3/2026 Budget £m
Debt (incl. leases)	149.2	147.0	147.2	145.0	140.8	139.8
Capital Financing Requirement	183.2	190.4	193.8	194.0	192.6	191.3

1.17 Statutory guidance states that debt should remain below the capital financing requirement, except in the short-term. As can be seen from **Table 6**, the Council expects to comply with this in the medium term.

1.18 **Liability benchmark:** To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing:

Table 7: Borrowing and the Liability Benchmark

	31/3/2021 Actual £m	31/3/2022 Forecast £m	31/3/2023 Budget £m	31/3/2024 Budget £m	31/3/2025 Budget £m	31/3/2026 Budget £m
Outstanding Borrowing	149.2	147.0	147.2	145.0	140.8	139.8
Liability Benchmark	123.2	133.0	145.5	145.0	140.8	139.7

1.19 The table above shows that the Council expects to remain borrowed above its liability benchmark. This is because cash outflows to date have been below the assumptions made when the loans were borrowed.

1.20 **Affordable borrowing limit:** The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year and to keep it under review. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 8: Prudential Indicators: Authorised limit and operational boundary for external debt

	2021/22 limit £m	2022/23 limit £m	2023/24 limit £m	2024/25 limit £m	2025/26 limit £m
Authorised Limit – Borrowing	200.4	203.5	203.8	202.5	201.2
Authorised Limit – Leases	0	0.3	0.2	0.1	0.1
Authorised Limit – Total External Debt	200.4	203.8	204.0	202.6	201.3
Operational Boundary – Borrowing	195.4	198.5	198.8	197.5	196.2
Operational Boundary – Leases	0	0.3	0.2	0.1	0.1
Operational Boundary – Total External Debt	195.4	198.8	199.0	197.6	196.3

- 1.21 **Treasury Investment strategy:** Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.
- 1.22 The Council's policy on treasury investments is to prioritise security and liquidity over yield, which is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

Table 9: Treasury Management investments

	31/3/2021 Actual £m	31/3/2022 Forecast £m	31/3/2023 Budget £m	31/3/2024 Budget £m	31/3/2025 Budget £m	31/3/2026 Budget £m
Near-Term Investments	36.0	24.0	11.7	10.0	10.0	10.0
Longer-Term Investments	0	0	0	0	0	0
TOTAL	36.0	24.0	11.7	10.0	10.0	10.0

- 1.23 **Risk management:** The effective management and control of risk are prime objectives of the Council's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the

risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.

- 1.24 **Governance:** Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Chief Finance Officer and staff, who must act in line with the treasury management strategy approved by Council. Quarterly reports on treasury management activity are presented to Cabinet and the Audit Committee. The Audit and Corporate Governance Scrutiny Committee is responsible for scrutinising treasury management decisions.

Investments for Service Purposes

- 1.25 The Council can make investments to assist local public services, including making loans to local service providers and businesses to promote economic growth. In light of the public service objective, the Council is willing to take more risk than with treasury investments, however it still plans for such investments to at least break even after all costs. This includes loans to the Rykneld Homes Ltd to allow development of social housing. Rykneld Homes Ltd is a wholly owned subsidiary of the Council, limited by guarantee.
- 1.26 With central government financial support for local public services declining, the Council has invested in developing residential property through Northwood Group Ltd. Currently (at 30/11/21), an investment of £1.510m has been made into Northwood Group Ltd and further future investment of £7.153m is approved to provide a total investment of £8.663m.
- 1.27 **Governance:** Decisions on service investments are made by the relevant service manager and submitted to Cabinet then Council in consultation with the Chief Finance Officer and must meet the criteria and limits laid down in the Investment Strategy. Most loans and shares are capital expenditure and purchases will therefore also be approved as part of the capital programme.

Commercial Activities

- 1.28 The Council has investment properties generating between £0.410m and £0.527m in net income a year after all costs, before exposing it to normal commercial risks. These risks are managed by maintaining the properties in good order and advertising vacant properties as soon as possible over a wide area to generate interest in letting the vacant properties.
- 1.29 With financial return being the main objective, the Council accepts higher risk on commercial investment than with treasury investments. The principal risk exposures include build cost estimates, sales values estimates and demand. These risks are

mitigated by working with experienced builders and professionals who have knowledge of the local market. In order that commercial investments remain proportionate to the size of the Council contingency plans are in place should expected yields not materialise.

- 1.30 **Governance:** Decisions on commercial investments are made by Council in line with the criteria and limits approved in the Investment Strategy. Property and most other commercial investments are also capital expenditure and purchases will therefore also be approved as part of the capital programme.

	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Budget £m	2023/24 Budget £m	2024/25 Budget £m	2025/26 Budget £m
Net income from commercial investments	0.527	0.459	0.412	0.411	0.410	0.410
Net income from service investments	0.317	0.432	0.468	0.443	0.373	0.264
Total net income from service and commercial investments	0.844	0.891	0.880	0.854	0.783	0.674
Proportion of net revenue stream	6.65%	5.68%	6.33%	6.47%	5.94%	5.14%
Proportion of usable revenue reserves	3.23%	3.82%	3.82%	3.80%	3.56%	3.09%

Liabilities

- 1.31 In addition to debt of £149.2m detailed above, the Council is committed to making future payments to cover its net pension fund deficit (valued at £58.2m). It has also set aside £1.5m to cover risks of business rates appeals and £1.1m to cover risks of water claims.
- 1.32 **Governance:** Decisions on incurring new discretionary liabilities are taken to Council for approval. The risk of liabilities occurring and requiring payment are monitored as part of the year-end process.

Revenue Budget Implications

- 1.33 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, Business Rates and general government grants.

Table 10: Prudential Indicator: Proportion of financing costs to net revenue stream

	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Budget £m	2023/24 Budget £m	2024/25 Budget £m	2025/26 Budget £m
Financing Costs	0.7	0.6	0.1	0.1	0.1	0.1
Proportion of Net Revenue Stream	5.49%	3.82%	1.13%	1.31%	1.02%	1.13%

- 1.34 **Sustainability:** Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Chief Finance Officer is satisfied that the proposed capital programme is prudent, affordable and sustainable.

Knowledge and Skills

- 1.35 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. Suitably qualified and experienced officers are employed throughout the Council to perform such functions.
- 1.36 Where Council officers do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.
- 1.37 Members receive individual training and development through the Member Development Programme and are periodically required to attend seminars held by the external treasury management advisors.

Treasury Management Operations

- 1.38 As mentioned above the Council uses external treasury management advisors. The company provides a range of services which include:

- Technical support on treasury matters, capital finance issues and the drafting of Member reports;
- Economic and interest rate analysis;
- Debt services which includes advice on the timing of borrowing;
- Debt rescheduling advice surrounding the existing portfolio;
- Generic investment advice on interest rates, timing and investment instruments;
- A number of places at training events offered on a regular basis.
- Credit ratings/market information service comprising the three main credit rating agencies;
-

- 1.39 Whilst the advisers provide support to the internal treasury function, under current market rules and the CIPFA Code of Practice the final decision on treasury matters remains with the Council. This service is subject to regular review. It should be noted that the Council has Arlingclose Ltd as external treasury management advisors, for a period of up to 3 years commencing October 2019.

Banking Contract

- 1.40 The contract with the Councils banking provider Lloyds Bank was extended on the 10th February 2022 for a period of up to 7 years.

Business Continuity Arrangements

- 1.41 As part of the Councils business continuity arrangements officers have sought to set up and provide alternative banking arrangements for the Council should they be required at short notice. These arrangements effectively mean a separate bank account is in place with the required security controls and appropriate officer access to undertake transactions. This account is with Barclays Bank and will only be utilised should a business continuity need or similar issue arise. Officers will continue to review this arrangement.

Appendix A

Capital Programme 2021-2026

Capital Expenditure	Revised Budget 2021/22 £	Original Budget 2022/23 £	Original Budget 2023/24 £	Original Budget 2024/25 £	Original Budget 2025/26 £
Housing Revenue Account					
HRA Capital Works	12,211,000	10,823,500	10,441,000	10,441,000	10,441,000
HRA Capital Works - Non Traditional Properties	7,152,000	4,600,000	4,370,000	4,370,000	4,370,000
Green Homes EWI - Mickley	1,110,000	0	0	0	0
Pine View, Danesmoor	1,007,000	70,000	0	0	0
Stock Purchase Programme (1-4-1)	3,000,000	2,500,000	2,500,000	2,500,000	2,500,000
Acquisitions and Disposals (RHL)	500,000	500,000	500,000	500,000	500,000
North Wingfield New Build Project	2,081,000	0	0	0	0
Garage Demolitions	37,000	23,000	23,000	23,000	23,000
Concrete Balconies	111,000	0	0	0	0
Parking Solutions	576,000	288,000	288,000	288,000	288,000
HRA - Capital Expenditure	27,785,000	18,804,500	18,122,000	18,122,000	18,122,000
General Fund					
Private Sector Housing Grants (DFG's)	820,000	820,000	820,000	820,000	820,000
ICT Schemes	204,500	248,500	87,000	119,000	119,000
Clay Cross Football Pitch	9,000	0	0	0	0
Asset Refurbishment - General	386,000	500,000	500,000	500,000	500,000
Asset Refurbishment - Eckington Depot	525,000	0	0	0	0
Roller Shutter Doors	42,000	0	0	0	0
Eckington Pool Carbon Efficiencies Programme	1,565,000	0	0	0	0
Dronfield Sports Centre Carbon Efficiencies Programme	0	1,380,000	0	0	0
Replacement of Vehicles	920,000	2,976,000	1,518,500	1,677,000	449,000
Contaminated Land	42,000	0	0	0	0
Killamarsh Leisure Centre	1,991,000	0	0	0	0
Clay Cross Towns Fund Project	1,205,000	0	0	0	0
General Fund Capital Expenditure	7,709,500	5,924,500	2,925,500	3,116,000	1,888,000
Total Capital Expenditure	35,494,500	24,729,000	21,047,500	21,238,000	20,010,000
Capital Financing	2020/21	2021/22	2022/23	2023/24	2025/26
Housing Revenue Account					
Major Repairs Reserve	(19,348,000)	(15,423,500)	(14,811,000)	(14,811,000)	(14,811,000)
Prudential Borrowing - HRA	(3,576,000)	(1,800,000)	(1,800,000)	(1,800,000)	(1,800,000)
Development Reserve	(1,751,000)	(381,000)	(311,000)	(311,000)	(311,000)
Grants	(1,045,000)	0	0	0	0
1-4-1 Receipts	(2,065,000)	(1,200,000)	(1,200,000)	(1,200,000)	(1,200,000)
HRA Capital Financing	(27,785,000)	(18,804,500)	(18,122,000)	(18,122,000)	(18,122,000)
General Fund					
Disabled Facilities Grant	(820,000)	(820,000)	(820,000)	(820,000)	(820,000)
External Grant - Lottery Funded Schemes	(9,000)	0	0	0	0
External Grant - Contaminated Land	(42,000)	0	0	0	0
External Grant - Eckington Pool Carbon Efficiencies	(1,015,000)	0	0	0	0
External Grant - Clay Cross Towns Fund	(1,205,000)	0	0	0	0
External Grant - Dronfield Sports Centre Carbon Efficiencies	0	(1,347,000)	0	0	0
Prudential Borrowing - Vehicles	(920,000)	(1,417,000)	0	0	0
Prudential Borrowing - Eckington Depot	(525,000)	0	0	0	0
Prudential Borrowing - Killamarsh Leisure Centre	(1,991,000)	0	0	0	0
RCCO - Roller Shutter Doors	(42,000)	0	0	0	0
Useable Capital Receipts	(1,140,500)	(2,340,500)	(2,105,500)	(2,296,000)	(1,068,000)
General Fund Capital Financing	(7,709,500)	(5,924,500)	(2,925,500)	(3,116,000)	(1,888,000)
HRA Development Reserve					
Opening Balance	(2,382,074)	(240,074)	0	(241,830)	(382,666)
Amount due in year	391,000	(140,926)	(552,830)	(451,836)	(441,780)
Amount used in year	1,751,000	381,000	311,000	311,000	311,000
Closing Balance	(240,074)	0	(241,830)	(382,666)	(513,446)
Major Repairs Reserve					
Opening Balance	(2,173,612)	0	0	0	0
Amount due in year	(17,174,388)	(15,423,500)	(14,811,000)	(14,811,000)	(14,811,000)
Amount used in year	19,348,000	15,423,500	14,811,000	14,811,000	14,811,000
Closing Balance	0	0	0	0	0
Capital Receipts Reserve					
Opening Balance	(1,406,741)	(566,241)	(225,741)	(120,241)	(424,241)
Income expected in year	(3,000,000)	(3,000,000)	(3,000,000)	(3,600,000)	(3,600,000)
Allowable Debt/Pooling Expenses	2,700,000	1,000,000	1,000,000	1,000,000	1,000,000
Amount used in year	1,140,500	2,340,500	2,105,500	2,296,000	1,068,000
Closing Balance	(566,241)	(225,741)	(120,241)	(424,241)	(1,956,241)
Capital Receipts Reserve 1-4-1 receipts					
Opening Balance	(1,275,114)	0	0	0	0
Income expected in year	(789,886)	(1,200,000)	(1,200,000)	(1,200,000)	(1,200,000)
Amount used in year	2,065,000	1,200,000	1,200,000	1,200,000	1,200,000
Closing Balance	0	0	0	0	0
Total Capital Financing	(35,494,500)	(24,729,000)	(21,047,500)	(21,238,000)	(20,010,000)

Appendix B

Annual Minimum Revenue Provision Statement 2021/22

Where the Council finances General Fund capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the former Ministry of Housing, Communities and Local Government's *Guidance on Minimum Revenue Provision* (the MHCLG Guidance) most recently issued in 2018.

The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government, Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The MHCLG Guidance requires the Council, to approve an Annual MRP Statement each year, and includes recommendations for calculating a prudent amount of MRP. In line with this guidance the Council has adopted the following approach:

- For capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset in equal instalments, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.
- For assets acquired by leases, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.
- Where former operating leases have been brought onto the balance sheet on 1st April 2022 due to the adoption of the *IFRS 16 Leases* accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or discounts, then the annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard.
- For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Council will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. While this is not one of the options in the MHCLG Guidance, it is thought

to be a prudent approach since it ensures that the capital expenditure incurred in the loan is fully funded over the life of the assets.

- No MRP will be charged in respect of assets held within the Housing Revenue Account.

Capital expenditure incurred during 2022/23 will not be subject to a MRP charge until 2023/24 and so on.

Based on the Council's latest estimate of its Capital Financing Requirement on 31st March 2022, the budget for MRP has been set as follows:

	31/03/22 Estimated CFR £m	2022/23 Estimated MRP £m
Supported Capital Expenditure after 31.03.2008	0	0
Unsupported Capital Expenditure after 31.03.2008	17.0	0.2
Leases	0	0
Total General Fund	17.0	0.2
Assets in the Housing Revenue Account	46.3	0
HRA Subsidy Reform Payment	127.1	0
Total Housing Revenue Account	173.4	0
Total	190.4	0.2

Revenue Account (HRA)

Following the budget on 30 October 2018, the legislation that capped the amount of HRA debt a local housing authority could hold was revoked with immediate effect. The capital financing requirements relating to the HRA will remain the same so there will still be no requirement for an MRP and levels of debt will be managed through prudential borrowing limits controlled by the Treasury Management Strategy.

Removing the debt cap and not having a statutory requirement to make a provision to repay debt presents a significant risk to the HRA. Very careful treasury management is needed to ensure that the Council's HRA borrowing remains affordable, prudent and reasonable and that the HRA remains sustainable over the long term.



**North East
Derbyshire**
District Council

North East Derbyshire District Council

Investment Strategy 2022/23 – 2025/26

Introduction

- 1.1 The Council invests its money for three broad purposes:
- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
 - to support local public services by lending to or buying shares in other organisations (**service investments**), and
 - to earn investment income (known as **commercial investments** where this is the main purpose).
- 1.2 This investment strategy meets the requirements of the statutory guidance issued by the Government in January 2018, and focuses on the second and third of these categories.

Treasury Management Investments

- 1.3 The Council typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to fluctuate between £11.7m and £30.0m during the 2022/23 financial year.
- 1.4 **Contribution:** The contribution that these investments make to the objectives of the Council is to support effective treasury management activities.

- 1.5 **Further details:** Full details of the Council's policies and its plan for 2022/23 for treasury management investments are covered in the Treasury Management Strategy.

Service Investments: Loans

- 1.6 **Contribution:** The Council lends money to assist local public services, including making loans to local service providers and businesses to stimulate local economic growth. This includes loans to Rykneld Homes Ltd to allow development of social housing. Rykneld Homes Ltd is a wholly owned subsidiary of the Council, limited by guarantee. It also includes a loan to Northwood Group Ltd for a mixed tenure housing development scheme in the district.
- 1.7 **Security:** The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Council, upper limits on the outstanding loans to each category of borrower have been set as follows:

Table 1: Loans for service purposes

Category of borrower	31/3/2021 actual			2022/23
	Balance owing £m	Loss allowance £m	Net figure in accounts £m	Approved limit £m
Rykneld Homes Ltd	7.104	0	7.104	13.500
Northwood Group Ltd	1.510	0	1.510	8.663
Total	8.614	0	8.614	22.163

- 1.8 Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Council's statement of accounts are shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.
- 1.9 **Risk assessment:** The Council assesses the risk of loss before entering into and whilst holding service loans by requiring a fully costed business case in all instances that includes any investment/loan requirements and financial/risk implications. A significant amount of due diligence work is undertaken in each case to ensure the business case is robust. The strength of the partnership between Rykneld Homes company and the Council and Northwood group Ltd and the Council helps to mitigate any risk associated with non-payment.

Service Investments: Shares

- 1.10 **Contribution:** The Council has invested £0.150m to date (up to 31st December 2021) in the shares of Northwood Group Ltd to support local public services and stimulate local economic growth by delivering housing developments whilst generating income for the Council.
- 1.11 **Security:** One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. In order to limit this risk, upper limits on the sum invested in each category of shares have been set as follows:

Table 2: Shares held for service purposes

Category of company	31/3/2021 actual			2022/23
	Amounts invested £m	Gains or (losses) £m	Value in accounts £m	Approved Limit £m
Northwood Group Ltd	0.150	(0.006)	0.144	0.150
TOTAL	0.150	(0.006)	0.144	0.150

- 1.12 **Risk assessment:** The Council assesses the risk of loss before entering into and whilst holding shares by working with experienced professionals who have extensive knowledge of the projects and the local markets. In order that commercial investments remain proportionate to the size of the Council, these are subject to overall maximum investment limits and contingency plans are in place should expected yields not materialise.
- 1.13 **Liquidity:** the viability models for each project the Council considers take account of the maximum periods for which funds may prudently be committed and states what those maximum periods are within approved contracts. This will assist the Council to stay within its stated investment limits.
- 1.14 **Non-specified Investments:** Shares are the only investment type that the Council has identified that meets the definition of a non-specified investment in the government guidance. The Council has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

Commercial Investments: Property

- 1.15 MHCLG defines property to be an investment if it is held primarily or partially to generate a profit.

- 1.16 **Contribution:** The Council invests in local, commercial and residential property with the intention of making a profit that will be spent on local public services. These are mainly industrial units owned across the district.

Table 3: Property held for investment purposes

Property	Actual	31/3/2021 actual		31/3/2022 expected	
	Purchase cost £m	Gains or (losses) £m	Value in accounts £m	Gains or (losses) £m	Value in accounts £m
Industrial Units	4.4	3.3	7.7	0	7.7
Land	1.7	2.0	3.7	0	3.7
Commercial Properties	1.1	0.3	1.4	0	1.4
Shared Ownership Properties	1.1	0.3	1.4	0	1.4
TOTAL	8.3	5.9	14.2	0	14.2

- 1.17 **Security:** In accordance with government guidance, the Council considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.
- 1.18 A fair value assessment of the Council's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment. Should the 2021/22 year end accounts preparation and audit process value these properties below their purchase cost, then an updated investment strategy will be presented to full council detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom.
- 1.19 Where value in the accounts is below purchase cost, the fair value of the Council's investment property portfolio would no longer be sufficient to provide security against loss, and the Council would therefore need to take mitigating actions to protect the capital invested. These actions could include maintaining the investment properties to a required standard and once vacant, advertising any empty investment properties quickly and with professional advertising agencies.
- 1.20 **Risk assessment:** The Council assesses the risk of loss before entering into and whilst holding property investments by working with experienced professionals who have extensive knowledge of the projects, properties and local markets. In order that commercial investments remain proportionate to the size of the Council, these are subject to overall maximum investment limits and contingency plans are in place should expected yields not materialise.
- 1.21 **Liquidity:** Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice, and can take a considerable period to sell in

certain market conditions. The Council's Treasury Management Strategy provides assurances through limits on long-term investments to ensure that the invested funds or suitable alternatives can be accessed when they are needed, for example to repay capital borrowed.

Loan Commitments and Financial Guarantees

- 1.22 Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Council and are included here for completeness.
- 1.23 The Council has contractually committed to make up to £8.663m of loans to Northwood Group Ltd should it request it. The Council has also guaranteed loans of £7.288m to Rykneld Homes Ltd.

Proportionality

- 1.24 The Council is to some extent dependent on income generating investment activity to achieve a balanced revenue budget. Table 4 below shows the extent to which the expenditure planned to meet the service delivery objectives is dependent on achieving the expected net profit from investments over the lifecycle of the Medium Term Financial Plan. Should it fail to achieve the expected net profit, the Council's contingency plans for continuing to provide these services are to meet the shortfalls from other efficiencies generated within the general fund revenue budget or utilise reserves set aside for this purpose.

Table 4: Proportionality of investments

	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Budget £m	2023/24 Budget £m	2024/25 Budget £m	2025/26 Budget £m
Net Service Expenditure	8.000	12.821	11.017	10.292	10.258	10.182
Net Investment Income	0.527	0.459	0.424	0.422	0.421	0.420
Proportion	6.6%	3.6%	3.8%	4.1%	4.1%	4.1%

Borrowing in Advance of Need

- 1.25 Government guidance is that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed.

Capacity, Skills and Culture

- 1.26 **Elected members and statutory officers:** The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. Suitably qualified and experienced officers are employed throughout the Council to perform such functions.
- 1.27 Where Council officers do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.
- 1.28 Members receive individual training and development through the Member Development Programme and are periodically required to attend seminars held by the external treasury management advisors.
- 1.29 **Commercial deals:** All Officers involved in negotiating such arrangements are aware of the core principles of the prudential framework and of the regulatory regime within which local authorities operate and considerable due diligence is undertaken in all instances.
- 1.30 **Corporate governance:** All decisions regards new loans or investments of this nature are considered by the Council's Cabinet before being recommended for approval at Council. Any presentation to members will have been through a fully costed business case that includes any investment/loan requirements and financial/risk implications. A significant amount of due diligence work is undertaken in each case to ensure the business case is robust before reporting to Cabinet.

Investment Indicators

- 1.31 The Council has set the following quantitative indicators to allow elected members and the public to assess the Council's total risk exposure as a result of its investment decisions.
- 1.32 **Total risk exposure:** The first indicator shows the Council's total exposure to potential investment losses. This includes amounts the Council is contractually committed to lend but have yet to be drawn down and guarantees the Council has issued over third party loans.

Table 5: Total investment exposure

Total investment exposure	31/03/2021 Actual £m	31/03/2022 Forecast £m	31/03/2023 Forecast £m
Treasury management investments	38.00	20.00	11.70
Service investments: Loans – Rykneld Homes Ltd	7.10	7.03	6.77
Service investments: Loans – Northwood Group Ltd	1.51	4.62	6.26
Service investments: Shares – Northwood Group Ltd	0.15	0.15	0.15
Commercial investments: Property	14.20	14.20	14.20
TOTAL INVESTMENTS	60.96	46.00	39.08
Commitments to lend	13.55	10.51	9.13
TOTAL EXPOSURE	74.51	56.51	48.21

- 1.33 **How investments are funded:** Government guidance is that these indicators should include how investments are funded. Since the Council does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. To date these investments have been funded by usable reserves and income received in advance of expenditure.

Table 6: Investments funded by borrowing

Investments funded by borrowing	31/03/2021 Actual £m	31/03/2022 Forecast £m	31/03/2023 Forecast £m
Treasury management investments	0	0	0
Service investments: Loans – Rykneld Homes Ltd	7.10	7.03	6.77
Service investments: Loans – Northwood Group Ltd	1.51	4.62	6.26
Service investments: Shares – Northwood Group Ltd	0	0	0
Commercial investments: Property	0	0	0
TOTAL FUNDED BY BORROWING	8.61	11.65	13.03

- 1.34 **Rate of return received:** This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Table 7: Investment rate of return (net of all costs)

Investments net rate of return	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Forecast £m
Treasury management investments	0.11%	0.03%	0.04%
Service investments: Loans – Rykneld Homes Ltd	3.55%	3.50%	3.53%
Service investments: Loans – Northwood Group Ltd	5.09%	5.09%	5.09%
Service investments: Shares – Northwood Group Ltd	0.00%	0.00%	0.00%
Commercial investments: Property	3.71%	3.23%	2.90%

- 1.35 The indicators used to report on the risks and opportunities associated with investment decisions will be kept under review as the Council's Investment Strategy and activities evolve over time.

North East Derbyshire District Council

Audit and Corporate Governance Scrutiny Committee

12 January 2022

Growth Directorate Medium Term Financial Plan – Revised Budget 2021/22

Report of the Director of Growth

Classification: This report is public

Report By: Gill Callingham – Director of Growth
(S151 Officer)

Contact Officer: as above

PURPOSE/SUMMARY

To present information on the revisions to the Growth Directorate Budget for 2021/22 for the Audit and Corporate Governance Scrutiny Committee to consider.

RECOMMENDATIONS

1. That the Audit and Corporate Governance Scrutiny Committee consider the report concerning the Council's Growth Directorate Medium Term Financial Plan - Revised Budgets 2021/22 and make any comments that they believe to be appropriate concerning the budget.
-

IMPLICATIONS

Finance and Risk

Yes ✓

No

All financial implications are covered in the relevant sections of the attached report.

On Behalf of the Section 151 Officer

Legal including Data Protection

Yes

No ✓

There are no legal issues arising directly from the report.

On Behalf of the Solicitor to the Council

Staffing

Yes

No ✓

There are no staffing issues arising directly from this report.

On Behalf of the Head of Paid Service

DECISION INFORMATION

Is the decision a Key Decision? A Key Decision is an executive decision which has a significant impact on two or more District wards or which results in income or expenditure to the Council above the following thresholds: <i>BDC: Revenue - £75,000</i> <input type="checkbox"/> <i>Capital - £150,000</i> <input type="checkbox"/> <i>NEDDC: Revenue - £100,000</i> <input checked="" type="checkbox"/> <i>Capital - £250,000</i> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <i>Please indicate which threshold applies</i>	N/A
Is the decision subject to Call-In? (Only Key Decisions are subject to Call-In)	N/A
Has the relevant Portfolio Holder been informed	N/A
District Wards Affected	All
Links to Corporate Plan priorities or Policy Framework	All

1 REPORT DETAILS

- 1.1 The Medium Term Financial Plan – Revised Budget 2021/22 was brought to the Audit and Corporate Governance Scrutiny Committee for its consideration on 3 November 2021.
- 1.2 Following scrutiny, the Audit and Corporate Governance Scrutiny Committee requested that the Director of Growth attend a future meeting of the Committee to provide further information in relation to the Growth Directorate budget revisions for 2021/22.
- 1.3 A full breakdown of the revisions to the Growth Directorate Revised Budget can be found at **Appendix 1**.

Growth Directorate

- 1.4 Council approved the original 2021/22 budget in February 2021. The Growth Directorate budget totalled £1.244m which was adjusted to £2.038m at the revised budget stage, an increase of £0.794m.
- 1.5 The revised budget process updated the Growth Directorate budgets to reflect current levels of spend, including changes to funding from reserves that had already been committed during the financial year.

Variances

- 1.6 The key variances to the main Growth Directorate income and expenditure budgets totalled £0.116m. This comprises:
- Engagement of temporary senior staff in Property and Commercial Services (£0.114m)
 - Engagement of external valuers to renegotiate rent reviews (£0.037m)
 - Savings across various budgets at the Coney Green Business Centre (-£0.053m).

A full breakdown of the variances can be found in column *g* of **Appendix 1**.

- 1.7 The biggest changes in the budget were as a result of utilising funding from reserves. During the revised budget process £0.803m was transferred from reserves to cover spend on projects/schemes funded by grants or approved use of reserves. Grants of £0.125m received but not forecast to be spent in the year were moved into reserves. So, the net effect of the changes funded by grants and reserves in the revised budget was £0.678m.
- 1.8 The main expenditures funded from grants and reserves funding were:
- New Towns Fund Clay Cross (£0.350m)
 - Rough Sleepers grant (£0.129m)
 - Homelessness grant (£0.102m)
 - Estates Admin – Shutter Doors (£0.042m)
 - Emergency Welfare Assistance grant (£0.038m)
 - Dronfield Civic Centre (£0.034m)
 - Others (£0.109m)
- 1.9 The unutilised grant transferred to reserves was the Homelessness Prevention Grant (£0.125m).
- 1.10 A breakdown of all the variances relating to grants and reserves can be found in column *h* of **Appendix 1**.

2 Reasons for Recommendation

- 2.1 The purpose of this report is to ensure that the Audit and Corporate Governance Scrutiny Committee are kept informed of the latest position concerning budgets and have the opportunity to scrutinise.

3 Alternative Options and Reasons for Rejection

- 3.1 There are no alternative options being considered at this time.

DOCUMENT INFORMATION

Appendix No	Title
1	Growth Directorate Detailed Revised Budget 2021/22
Background Papers	
Report Author	Contact Number
Gill Callingham Director Growth	

a			b			c			d			e			f			g			h			i		
Current Budget 2021/22									Revised Budget 2021/22									Variances								
Main Budget £			Grant/ Reserves £			Total £			Main Budget £			Grant/ Reserves £			Total Revised Budget £			Main Budget £			Grant/ Reserves £			Total £		
Growth Directorate																										
Strategic Director Corporate Resources																										
1143	Director of Growth & Economic Development		61,423	0		61,423			51,941	0		51,941						(9,482)	0		(9,482)					
			61,423	0		61,423			51,941	0		51,941						(9,482)	0		(9,482)					
Head of Service Property and Commercial Services																										
3135	Drainage		40,125	0		40,125			36,240	0		36,240						(3,885)	0		(3,885)					
3172	Engineers		99,892	0		99,892			87,546	0		87,546						(12,346)	0		(12,346)					
3241	Car Parks		43,180	0		43,180			46,595	4,350		50,945						3,415	4,350		7,765					
3247	Street Names/Lights		6,000	0		6,000			5,000	0		5,000						(1,000)	0		(1,000)					
3249	Footpath Orders		(400)	0		(400)			(900)	0		(900)						(500)	0		(500)					
3265	Dams And Fishing Ponds		(450)	0		(450)			3,550	0		3,550						4,000	0		4,000					
3281	Clay Cross Depot		0	0		0			1,000	0		1,000						1,000	0		1,000					
3811	Closed Circuit Television		440	0		440			0	0		0						(440)	0		(440)					
4412	Midway Business Centre		(61,100)	0		(61,100)			(69,145)	0		(69,145)						(8,045)	0		(8,045)					
4425	Coney Green Business Centre		(107,928)	0		(107,928)			(160,945)	0		(160,945)						(53,017)	0		(53,017)					
4519	The Avenue, Wingerworth		0	0		0			0	20,664		20,664						0	20,664		20,664					
4523	Estates Administration		338,594	0		338,594			375,487	42,000		417,487						36,893	42,000		78,893					
5204	Jnt HoS Property & Commercial Services		0	0		0			114,000	0		114,000						114,000	0		114,000					
5205	Mill Lane		272,471	0		272,471			274,643	0		274,643						2,172	0		2,172					
5206	Mill Lane Land		0	0		0			0	0		0						0	0		0					
5209	Facilities Management		45,610	0		45,610			54,610	0		54,610						9,000	0		9,000					
5210	Pioneer House		(40,400)	0		(40,400)			(31,528)	0		(31,528)						8,872	0		8,872					
			636,034	0		636,034			736,153	67,014		803,167						100,119	67,014		167,133					
Joint Head of Service Economic Development																										
3165	Housing Options Team		209,382	0		209,382			185,437	25,000		210,437						(23,945)	25,000		1,055					
3740	Strategic Housing		56,861	0		56,861			71,288	0		71,288						14,427	0		14,427					
3746	Homelessness Prevention Grant		0	0		0			0	(124,973)		(124,973)						0	(124,973)		(124,973)					
3747	Homeless Temp Accomodation		(41,556)	0		(41,556)			(14,625)	0		(14,625)						26,931	0		26,931					
3748	Homelessness Grant		36,000	(14,000)		22,000			25,600	102,437		128,037						(10,400)	116,437		106,037					
3749	Empty Properties		2,000	0		2,000			2,000	0		2,000						0	0		0					
3750	Housing Growth		0	15,009		15,009			0	15,239		15,239						0	230		230					
3754	Rough Sleepers		0	0		0			10,400	129,069		139,469						10,400	129,069		139,469					
3759	Emergency Welfare Assistance Grant		0	0		0			0	38,000		38,000						0	38,000		38,000					
4211	Tourism Promotions		12,500	0		12,500			25,784	25,500		51,284						13,284	25,500		38,784					
4238	Working Communities Strategy		72,772	0		72,772			72,743	0		72,743						(29)	0		(29)					
4512	Growth Agenda		22,674	0		22,674			21,385	0		21,385						(1,289)	0		(1,289)					
4517	Economic Development		158,323	0		158,323			162,617	0		162,617						4,294	0		4,294					
4520	Eckington Killamarsh OPE		0	0		0			0	17,794		17,794						0	17,794		17,794					
4524	New Towns Fund - Clay Cross		0	0		0			0	350,000		350,000						0	350,000		350,000					
4526	Sheffield City Region		4,000	0		4,000			0	0		0						(4,000)	0		(4,000)					
4527	Dronfield Civic Centre		0	0		0			0	34,200		34,200						0	34,200		34,200					
5750	Joint Head of Service Economic Development		12,464	0		12,464			7,665	0		7,665						(4,799)	0		(4,799)					
			545,420	1,009		546,429			570,294	612,266		1,182,560						24,874	611,257		636,131					
Total for Growth Directorate			1,242,877	1,009		1,243,886			1,358,388	679,280		2,037,668						115,511	678,271		793,782					

North East Derbyshire District Council

Audit and Corporate Governance Scrutiny Committee

12 January 2022

Committee Work Programme 2021/2022

Report of the Assistant Director of Governance and Monitoring Officer

Classification: This report is public

Report By: Nicola Calver

Contact Officer: Nicola Calver - 01246 217753

PURPOSE / SUMMARY

To enable the Audit and Corporate Governance Scrutiny Committee to review the Work Programme for the remainder of the municipal year 2021/2022.

RECOMMENDATIONS

1. That the Committee notes and approves the Audit and Corporate Governance Scrutiny Work Programme for the remainder of the 2021/2022 municipal year as set out in the attached **Appendix 1**.

IMPLICATIONS

Finance and Risk: Yes ☒ No ☐

Details:

Risk - the development of a Work Programme for the Audit and Corporate Governance Scrutiny Committee will provide an appropriate structure to assist and support the Committee's work. This will help to ensure that the Committee continues to operate effectively and that the Council's governance/scrutiny and accountability arrangements remain robust. The Programme is designed to allow the Audit and Corporate Governance Scrutiny Committee to continue its flexible approach to its work and consider the range of matters which are within its remit. There are no financial issues arising from the report.

On Behalf of the Section 151 Officer

Legal (including Data Protection): Yes ☐ No ☒

Details:

There are no legal issues or Data Protection matters arising directly from this report.

On Behalf of the Solicitor to the Council

Staffing: Yes ☐ No ☒

Details:

There are no staffing issues arising from the report.

On behalf of the Head of Paid Service

DECISION INFORMATION

Decision Information	
Is the decision a Key Decision? A Key Decision is an executive decision which has a significant impact on two or more District wards or which results in income or expenditure to the Council above the following thresholds: BDC: Revenue - £75,000 <input type="checkbox"/> Capital - £150,000 <input checked="" type="checkbox"/> NEDDC: Revenue - £100,000 <input type="checkbox"/> Capital - £250,000 <input type="checkbox"/> <input checked="" type="checkbox"/> Please indicate which threshold applies	No
Is the decision subject to Call-In? (Only Key Decisions are subject to Call-In)	No
District Wards Significantly Affected	None
Consultation: Leader / Deputy Leader <input type="checkbox"/> Cabinet / Executive <input type="checkbox"/> SAMT <input type="checkbox"/> Relevant Service Manager <input type="checkbox"/> Members <input checked="" type="checkbox"/> Public <input type="checkbox"/> Other <input type="checkbox"/>	Yes Details: Members of the Audit and Corporate Governance Scrutiny Committee

Links to Council Ambition (BDC)/Council Plan (NED) priorities or Policy Framework including Climate Change, Equalities, and Economics and Health implications.

None.

REPORT DETAILS

1 Background

- 1.1 The Audit and Corporate Governance Scrutiny Committee considers a range of financial and governance issues on a regular basis. Given the number of matters that are examined by the Committee it is appropriate that an Annual Work Programme continues to be in place.
- 1.2 The Work Programme is set out in the attached **Appendix 1**. It should be recognised that the work plan is a live document to which matters may be added or removed as appropriate and approved by the Committee, including standing items.
- 1.3 The Work Programme enables Members to give structured consideration as to whether the proposed agenda items are appropriate and serve to meet the objectives of the Committee. That question needs to be considered in the light of the Council's Constitution, Chartered Institute of Public Finance and Accountancy (CIPFA) Guidance on the role of an Audit Committee and established good practice.

2. Details of Proposal or Information

- 2.1 To enable the Audit and Corporate Governance Scrutiny Committee to review the Work Programme for the remainder of the municipal year 2021/22.

3 Reasons for Recommendation

- 3.1 To enable the Committee to consider the Work Programme for the remainder of the 2021/22 municipal year.

4 Alternative Options and Reasons for Rejection

- 4.1 There are no other options proposed.

DOCUMENT INFORMATION

Appendix No	Title
1	Committee Work Programme 2021/22
Background Papers (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)	
Click here to enter text.	

**AUDIT AND CORPORATE GOVERNANCE SCRUTINY COMMITTEE: PROPOSED
WORK PROGRAMME**

<u>DATE OF MEETING</u>	<u>ITEM</u>
22 September 2021	<ul style="list-style-type: none"> • Summary of Internal Audit Reports • Monitoring the Implementation of Internal Audit Recommendations • Performance Management • Corporate Debt • Financial Monitoring • Internal Audit Consortium Annual Report • External Review of Internal Audit • Annual Statement of Accounts and Going Concern Report 2020-21 • Annual Governance Statement and Code of Corporate Governance 2020/21 • Audit Completion Report 2020/21 • Letter of Representation 2020/21 • Risk Management • Report of the External Auditor – Progress report and Technical Update • Review of Work Programme
03 November 2021	<ul style="list-style-type: none"> • Report of the External Auditor – Progress report and Technical Update • Corporate Debt (including update on Housing Benefit overpayments) • Financial Monitoring Q2 • Revised Budgets • Anti Fraud and Corruption Strategy • Evaluate the Effectiveness of the Audit and Corporate Governance Committee • Review of Work Programme
1 December 2021	<ul style="list-style-type: none"> • Summary of Internal Audit Reports • Monitoring the Implementation of Internal Audit recommendations • Report of the External Auditor – Progress report and Technical Update • Performance Management Q2 • Ethical Investments review • Financial Resilience benchmarking • PSAA contract for External Audit Services

	<ul style="list-style-type: none"> • Impact and value that the audit committee had had on the rest of the Council • Cybersecurity
12 January 2022	<ul style="list-style-type: none"> • Report of the External Auditor – Progress report and Technical Update • Medium Term Financial Plan 2021/22 – 2025/26 • Treasury Management Strategies 2021/22 – 2025/26 • Risk Management Q3 • Corporate Debt Q3 • Discussion with a member of the Growth Directorate • Update on progress made implementing the external action plan • Section 106 Audit • Review of Work Programme
23 February 2022	<ul style="list-style-type: none"> • Report of the External Auditor – Progress report and Technical Update • Summary of Progress on the Annual Internal Audit Plan • Monitoring the Implementation of Internal Audit Recommendations • Fighting Fraud and Corruption Locally • Report of the External Auditor – Progress report and Technical Update • Performance Management Q3 • Proposed Accounting Policies 2021/22 • Overview of the Council's projects and financial considerations • Updated Risk Register • Review of Work Programme •
11 May 2022	<ul style="list-style-type: none"> • Report of the External Auditor – Audit Plan 2022/23 • Report of the External Auditor – Progress report and Technical Update • Summary of Progress on the Annual Internal Audit Plan • Monitoring the Implementation of Internal Audit Recommendations • Internal Audit Plan 2022/23 • Performance Management Q4 • Risk Management Q4 • Corporate Debt Q4 • Work Programme