Public Document Pack

North East Derbyshire District Council

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Date: Friday, 12 January 2024

To: **Members of the Audit Committee**

Please attend a meeting of the Audit Committee to be held on **Monday, 22 January 2024 at 3.00 pm in Meeting Rooms 1 and 2, District Council Offices, 2013** Mill Lane, Wingerworth, Chesterfield S42 6NG.

Yours sincerely

Sarah Sternberg

Assistant Director of Governance and Monitoring Officer

Members of the Committee

Labour Group	**Conservative Group**
Councillor Christine Smith – Chair Councillor David Cheetham Councillor Gerry Morley	Councillor Alex Dale Councillor Martin E Thacker MBE JP

For further information about this meeting please contact: Tom Scott 01246 217045

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 interests and/or other interests, 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 - 8)

To approve as a correct record and the Chair to sign the Minutes of the Audit Committee held on 4 December 2023.

4 **Report from Zurich Municipal** (Pages 9 - 21)

Risk Assessment – Matt Hardwick, Zurich Municipal

5 **Reports of the External Auditors - Mazars**

a. **External Audit Progress Report** (Pages 22 - 30)

6 **Reports of the Head of the Internal Audit Consortium**

a. **Internal Audit Progress Update** (Pages 31 - 38)

b. **Review of the Internal Audit Charter** (Pages 39 - 50)

7 **Reports of the Director of Finance & Resources and S151 Officer**

a. **Treasury Management Strategies 2023/24 - 2026/27** (Pages 51 - 105)

b. **Proposed Accounting Policies 2023/24** (Pages 106 - 131)

8 **Reports of the Assistant Director Governance & Monitoring Officer**

a. **Audit Committee Work Programme** (Pages 132 - 136)

9 **Urgent Matters**

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

10 **Date of Next Meeting**

The next meeting of the Audit Committee is scheduled to take place on 15 April 2024 at 3.00 pm.

North East Derbyshire District Council

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AUDIT COMMITTEE

MINUTES OF MEETING HELD ON MONDAY, 4 DECEMBER 2023

Present:

Councillor Christine Smith (Chair) (in the Chair)
Councillor David Cheetham (Vice-Chair)

Councillor Gerry Morley Councillor Alex Dale

Also Present:

L Hickin	Managing Director - Head of Paid Service
J Dethick	Director of Finance and Resources (Section 151 Officer)
J Williams	Head of the Internal Audit Consortium
T Scott	Governance and Scrutiny Officer
J Collins	Engagement Lead - Mazars

AUD/11/23-24 **Apologies for Absence**

An apology for absence was received from Councillor Martin E Thacker MBE JP.

AUD/12/23-24 **Declarations of Interest**

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 of interest were received.

AUD/13/23-24 **Minutes of Last Meeting**

RESOLVED – That the Minutes of the Audit Committee held on 3 July 2023 be approved.

AUD/14/23-24 **Risk Management Report**

The Managing Director presented a report to update Members on the current position regarding Risk Management arrangements and the Strategic Risk Register as at November 2023.

The report included an update on the last meeting of the Risk Management Group on 9 August 2023, at which the Group discussed the Review of the Rykneld Homes Operational Risk Register and the Zurich Risk Management Health Check Review (RMS11). The Managing Director provided an update on RMS11 by stating that the external report was positive, and the Council was given a Level 4 assessment ('very good').

Members were informed of amendments made to the Risk Register, and also that the Northwood development risk (STR20) had been kept on the Register despite the construction partner relationship ending. The Risk Management Group felt that with development back underway, keeping it on the Register would ensure progress was being made.

The Managing Director referred to 1.12 in the report (the 'limited' report in Environmental Health Pollution and Control) and explained that a reason for Internal Audits was in order to identify areas for improvement.

Members referred to STR17 (Asylum Dispersal Area) and asked if the Council had been contacted by the Government or SERCO about revising the model. The Managing Director stated that neither had contacted the Council about it yet.

The Chair referred to STR77 ('Ineffective Engagement with local communities and stakeholders') and felt the amount of work to reverse this would be significant.

RESOLVED - That the Audit Committee noted the report and the Strategic Risk Register as at November 2023.

AUD/15/23-24 **Safeguarding Update**

Members were presented with a report which updated them on Safeguarding arrangements and deferrals. Members were informed that the Safeguarding updates to the Audit Committee were now set out in a separate report rather than being included in the Risk Management report.

The Managing Director referred to paragraph 1.2 of the report ('Referral Issues Identified') and explained that the Council had been receiving a number of referrals which should have been reported directly to Derbyshire County Council. This had been resolved by asking Derbyshire County Council to amend guidance on their website.

The Managing Director informed Members that for the Council's Safeguarding Policy (paragraph 1.4), the Council no longer had its own Policy because the Derbyshire District Safeguarding Leads Sub Group had agreed for a single Safeguarding Policy to be shared by all local authorities across the County.

Members considered the 'Key Activities' for 2023/24 (paragraph 1.9), which included:

- Landlord Safeguarding Training procedure for implementation.
- Derbyshire-wide Safeguarding Policy implemented.
- Safeguarding training to continue.
- Training, learning and development assurance exercise. To understand what safeguarding training each authority is accessing and delivering in order to develop consistency where possible and identify gaps.
- Annual review of Safeguarding Policy template.
- Section 11 Audit completion.

Members referred to paragraph 1.5 and the Training for Private Landlords, and asked of other ways the Council planned to extend Safeguarding knowledge to them. The Director of Finance and Resources explained that there was an existing Private Landlord Forum, and the Council wished to develop it further for this reason.

RESOLVED - That the Committee noted the update.

AUD/16/23-24 **Annual Statement of Accounts 2022/23**

The Director of Finance and Resources presented a report to Members proposing approval of the audited Statement of Accounts for 2022/23 and the delegation of powers to the Director of Finance and Resources.

Members were advised that the Statement of Accounts represented the Council's statutory documentation of incomes and balances during the financial year, and its balances at the end of the year.

RESOLVED -

(1) That the Audit Committee approved the audited Statement of Accounts in respect of 2022/23.

(2) That delegated powers were granted to the Director of Finance & Resources (S151 Officer) in consultation with the Chair or Vice Chair of the Audit Committee to agree any changes which may be necessary in order to ensure the finalisation of the external audit currently being concluded by the Council's external auditors, Mazars.

AUD/17/23-24 **Going Concern Report 2022/23**

The Director of Finance and Resources presented a report to Members proposing acceptance of the assessment of the Council as a 'going concern' for the purposes of producing the 2022/23 accounts.

Members were referred to paragraph 2.13 in the report, which explained the formation of a Resilience Reserve to help mitigate losses caused by reduced Government funding and wider budget pressures.

RESOLVED – That the Audit Committee accepted the outcome of the Council's Section 151 Officer's assessment of the Council's 'going concern' status for the purpose of preparing the Statement of Accounts for 2022/23.

AUD/18/23-24 **Audit Completion Report - Mazars**

The Engagement Lead of external auditor Mazars presented the Council's Audit Completion Report for the year ending 31 March 2023.

Members referred to 'Members have not completed declaration of interests' being noted on Page 18 of the Audit Completion Report, and asked what the Management response to this had been. The Director of Finance and Resources explained that the Management response to this point was within the Completion Report. The response reasoned that the District Election in May 2023 had caused issues with completed declaration forms, because a large proportion of those not returned were from elected Members who were subsequently not elected.

RESOLVED –

(1) That the Audit Committee noted the attached report from the Council's external auditors Mazars.

(2) That the Audit Committee approved the draft Letter of Representation contained within the Audit Completion Report and authorised the Director of Finance & Resources (S151 Officer) to sign the letter on behalf of the Council.

AUD/19/23-24 **Internal Audit Annual Report**

The Head of the Internal Audit Consortium presented a report to Members summarising the Internal Audit work undertaken during 2022/23.

The Head of the Internal Audit Consortium explained that the areas not completed from the 2022/23 plan were carried forward to the 2023/24 plan and had now been completed.

Members enquired if there was an update on Internal Audit staff vacancies being filled. Members were informed that an advertisement had been released for one post.

RESOLVED – That the Internal Audit Consortium Annual Report for 2022/23 was accepted.

AUD/20/23-24 **Monitoring the Implementation of Internal Audit Recommendations**

The Head of the Internal Audit Consortium presented a report to Members summarising the Internal Audit recommendations made, implemented and outstanding for the financial years 2020/21 to now.

RESOLVED – That the report was noted.

AUD/21/23-24 **Treasury Management Quarterly Update**

The Director of Finance and Resources presented a report to Members providing a Treasury Management update.

The Director of Finance and Resources explained that at the Audit Committee meeting on 3 July 2023, the Committee asked for a review of the current Treasury Management strategy in relation to investments to assess the range of investment opportunities available. This review had now been undertaken and was included in the attached update report.

RESOLVED – That the Audit Committee noted the report.

AUD/22/23-24 **Committee Work Programme**

The Director of Finance and Resources presented the draft Work Programme 2023/24 for Member approval.

The Chair enquired if Mazars would be included in the agenda for the next meeting on 22 January 2024. The Director of Finance and Resources explained that an External Audit Progress Report was included for the 22 January 2024 meeting in the draft Work Programme.

RESOLVED – That the Committee noted and approved the proposed Audit Committee Work Programme for 2023/2024 as set out in the attached Appendix 1.

AUD/23/23-24 **Urgent Matters (Public)**

None.

AUD/24/23-24 **Exclusion of Public**

RESOLVED – That the public were excluded from the meeting during the discussion of the following item of business to avoid the disclosure to them of exempt information as defined in Paragraph 3, Part 1 of Schedule 12A to the Local Government Act 1972 (as amended by the Local Government (Access to Information) (Variation) Order 2006).

AUD/25/23-24 **Internal Audit Progress Report**

The Head of the Internal Audit Consortium presented a progress report in respect of the 2022/23 and 2023/24 Internal Audit Plans.

RESOLVED –

(1) That the report was noted.

(2) That the Commercial Waste audit replace the Grounds Maintenance audit in the 2023/24 plan and that the Grounds Maintenance Audit be deferred to 2024/25.

AUD/26/23-24 **Urgent Matters (Private)**

None.

AUD/27/23-24 **Date of Next Meeting**

The next meeting of the Audit Committee was scheduled to take place on 3.00 pm 22 January 2024.

Agenda Item 4

Matthew Hardwick, Senior Risk Consultant,
& Harvin Kaur, Trainee Risk Consultant
May 2023

Risk Management Health Check Review

North East Derbyshire District Council

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1. Introduction

Zurich have been commissioned by North East Derbyshire District Council to review risk management arrangements across the organisation. To measure the maturity of risk management a performance model has been used which breaks down risk management activity into six categories that contribute towards effective risk management arrangements within an organisation:

Risk Culture & Leadership	Exploring the attitude that Senior Officers and Members take towards the role and priority of risk management
Risk Appetite & Strategy	Reviewing the extent to which the policies for risk management support the organisation and how the appetite for risk is considered and utilised
Governance	Establishing how assurance is provided to stakeholders, the effectiveness of reporting arrangements and how risk is managed within departmental areas.
Methodology	Assessing whether effective risk processes and tools are in place to support the organisation
People & Training	Evaluating the level of risk management skills, knowledge, and capacity across the organisation
Projects, Partnerships & Supply Chain	Determining whether there are effective arrangements for managing risks within projects and with partners and suppliers

The model enables an assessment to be made around the extent to which risk management is having a positive effect on the organisation. The five levels of maturity are as follows:

Level 1 Fragmented	Level 2 In Development	Level 3 Managed	Level 4 Integrated	Level 5 Transformational

A series of observations and recommendations are outlined in the following pages for consideration.

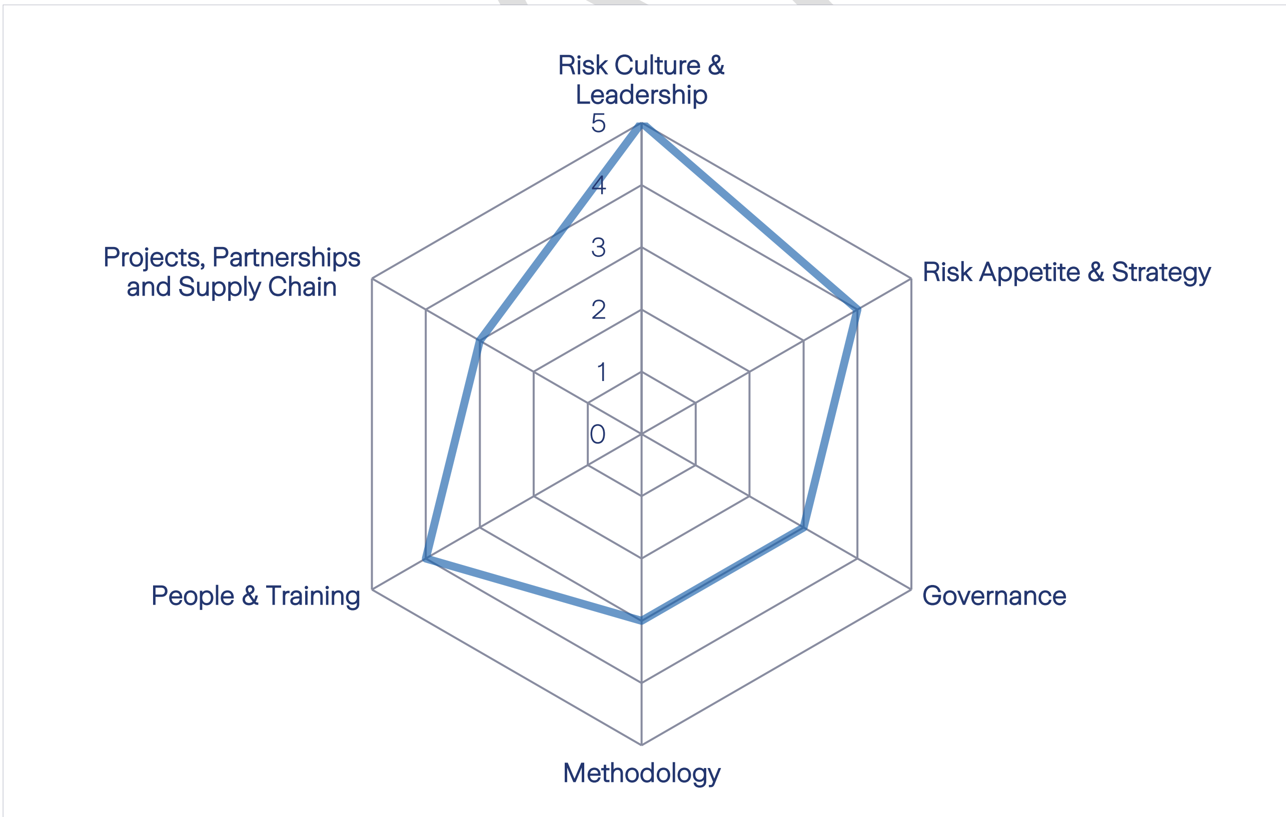
2. Executive summary

There is evidence to demonstrate the Council takes its risk management seriously and continues to make arrangements to support improving learning and practices. This is driven by the Managing Director and Executive Management Team; however, all staff buy into the one team culture. What we observed when on site demonstrated what can be achieved across a diverse organisation like a local authority when managers are clear on the approach and messaging. It was refreshing to observe.

The Council demonstrates a willingness to evolve and continue to progress, some of the recommendations within this report, aligned to existing plans could improve its maturity rating. Of most value would be to concentrate on embedding of operational risk management practices to support the already positive and embedded strategic approach. Building the links between strategic and operational risks and engaging all staff, particularly managers, in the importance of risk management and the effectiveness good risk management can have on achieving objectives.

To measure the maturity of risk management, a performance model has been used which breaks down risk management activity into six categories that contribute towards effective risk management arrangements within an organisation. It is worth noting, given the complexity of services provided and the resources often available to support risk management within the public sector, a good score is considered at level 3, Managed, whilst most local authorities would be judged to be level 2, In Development.

Figure 1.



The above figure indicates where North East Derbyshire District Council is judged to be based on this review.

Positives observed:

- Strong 'tone from the top' and consistent messaging from Leadership around Risk Management supporting embedding a risk aware culture.
- Embedded processes for Corporate Risks around review, escalation and monitoring from both officers and members at the council particularly at strategic level.
- Use of Risk Appetite to support review and decision making, especially for commercial objectives.

Development opportunities:

- Operational risk management is behind the corporate, it requires further work to embed the process, practical application and ensure risks are reviewed and information shared consistently.
- Re-share current risk management guidance with good case study examples for practical learning and ensure accessibility for all staff.

We have scored the organisation overall as a Level 4 Integrated. The council has several areas which are aspirational to its peers. Particularly around the leadership and culture of the organisation. This was the best I have observed in my time carrying out these review's and is particularly pleasing as it demonstrates what can be achieved when a clear and pragmatic approach is adopted.

Level 1 Fragmented	Level 2 In Development	Level 3 Managed	Level 4 Integrated	Level 5 Transformational

3. Observations and recommendations

3.1. Risk Culture and Leadership

This section considers the attitude of senior officers and members towards the role and priority of risk management.

What was evidenced across the document review and the interviews with staff, was amongst the best I have witnessed in this section. There is a strong belief in the council's risk management arrangements and confidence in its embedding at strategic level. There has been a proactive development of risk management over several years, all lead from Managing Director, Executive Management Team with member's support. The risk management policy is clear and concise, free of unnecessary jargon and refreshing to observe.

Corporate risks are regularly considered and confidence of support in leadership by the Managing Director and Executive Management is clearly articulated by all those who took part in the review. There is also a confidence in the process being so well established that any concern of key person dependency was dismissed with all displaying confidence that the process would withstand the departure of members of senior leadership.

Clearly, at the time of the review, the recent elections presents a challenge to ensure the engagement and constructive challenge from the previous regime is established under the new, however the confidence displayed by all in the process, the clarity in how it is applied and the leadership displayed by all gives confidence that newly elected members will be supported in understanding their role and encouraged to adopt role which has become synonymous with the running of risk management at the authority.

Beyond the strategic level it is also important for any organisation to have a robust process for operational risks. There is evidence that operational risks are considered in day-to-day operations. There is a process which is understood for officers at all levels and a clear escalation route through line management.

It is noteworthy, that the council has a clear risk aware culture and a confidence in its ability to continuously consider and manage risk even though there are some areas of improvement for consistent application

Recommendations:

1. There is a need to build new relationships with members following the elections, however there is confidence in the established process that this will be developed

Level 1 Fragmented	Level 2 In Development	Level 3 Managed	Level 4 Integrated	Level 5 Transformational

3.2. Risk Appetite and Strategy

This section assesses the extent to which the policies for risk management support the organisation and how the appetite or risk is considered and utilised.

The council has a clearly defined Risk Appetite. There is evidence of good practice with risk categories identified and varying appetites dependant on those categories. Through the discussions with those involved, it was clear that risk appetite plays a part in key decisions, with assurance given that all risks remain judged on their own merit and the appetite used to support the review, but not pre-determine the outcome.

The council has an established risk aware culture, officers are encouraged to consider new ways of working and future development options considered on a risk-based approach.

There is a clear understanding of risk appetite concepts amongst senior management and is utilised when discussing strategic risks. It was noted that at operational levels, appetites of risk are discussed however it may not be understood as the concept of risk appetite.

Continued evolution of this approach, subsequent reviews of the appetite statements as scheduled on an annual basis and ensuring risk appetite forms part of risk discussions and challenge will enable the council to build on existing maturity in this area.

To progress this further, risk appetite needs to be understood and embedded consistently through organisation levels as well as evidence of discussions on operational risks.

Recommendations:

2. Consider developing a risk appetite quick tool guide to support consistent understanding and embedding at operational levels including how this can be evidenced.
3. Build appetite discussions into operational risk discussions, particularly at department management team risk conversations.

Level 1 Fragmented	Level 2 In Development	Level 3 Managed	**Level 4 Integrated**	Level 5 Transformational

3.3. Governance

We review the assurance provided to stakeholders, the effectiveness of reporting arrangements and how risk is managed within service areas.

The council has clear governance arrangements in place acting as a 'golden thread' down the organisation where risk is reported, escalated, and considered on meeting agendas. The interviewees all understood the value of risk being managed proportionately and at the right level. How to escalate risks is clearly understood however it was noted that content within risks at lower levels is inconsistent leading to senior officers seeking assurance and addressing issues as they arise.

There are clear reporting arrangements into members and escalation of significant risks as they are identified. It was reassuring to hear members are approachable for staff to report risk and encourage sharing of risk information. There was some suggestion that officers would like to see the outcome of risk information impacting decisions which will support further engagement with the process.

To be considered at a higher maturity level, these discussions need to be consistent in their review, with members clear of their roles and responsibilities to ensure risk is reviewed and challenged not only as its own element, but alongside other processes such as performance. The recent change in elected membership present a challenge to embed with a new group.

Some peer organisations are using dedicated software to manage its identified risks. Whilst I have no personal perception that this is better, one benefit which I do accept is around version control. This may be something which NE Derbyshire wishes to consider in the future.

Recommendations:

4. Consider sharing the decisions and output from risk reporting back down the 'golden thread' to increase understanding and value of risk reporting.
5. Continue with planned work to support new members in understanding their role in risk management.

Level 1 Fragmented	Level 2 In Development	Level 3 Managed	Level 4 Integrated	Level 5 Transformational

3.4. Methodology

This section considers what processes and tools are in place to aid risk management and whether they are effective.

The council uses Microsoft Word to capture risks with the guidance of risk management framework and guidance tools and templates. This seems effective across senior management with those who are confident and continuously practice the processes. Although, it was noticed that a small number of departments seem somewhat unfamiliar with the methodology due to lack of capacity and resource to fully embed and engage with the framework (a predisposition to manage risk).

Currently, the council is using the Microsoft Word application for risk registers which can invite issues such a version control. It was evident that the authority has managed to maintain a dynamic 'live' version of the register which is credit to those involved.

It was acknowledged that the Managing Director and Executive Management Team are key advocates and drivers for the upkeeping and success of embedding risk management within the Council and is very helpful in developing and assisting the implementation of improved methodology and integrated practices.

Risk-based auditing is undertaken with risks in mind which brings focussed attention to the organisation's key controls that have an impact on the management of risks and address any key actions.

Within the register, it was noted that some actions are "ongoing". This presents a challenge as to whether these risks should be considered under business-as-usual activity – or challenge whether the true route cause of the risk has been clearly identified and articulated on the register.

To be considered for the next level of maturity, mitigating actions with no clear end date should be challenged to determine and understand their effectiveness and / or whether the risk is now part of BAU. Further development to incorporate trends – documented over a rolling 12/18month period will be able to highlight whether there are any increasing concerns within the risks identified.

Recommendations:

6. Incorporate Trend analysis within risk register templates and actively challenge "ongoing" action timescales.
7. Consider stress testing / scenario planning strategic risks to understand the effectiveness of identified mitigations.

Level 1 Fragmented	Level 2 In Development	Level 3 Managed	Level 4 Integrated	Level 5 Transformational

3.5. People and Training

This section of the health check explores the level of risk management expertise and capability across the organisation.

Once again, the role undertaken by the Managing Director and Executive Management Team in sourcing and delivering training for all staff was recognised during discussions. Risk management training modules are in place for all officers with an annual refresher supporting continued understanding and practice. Particularly encouraging was the tailoring of the training to the audience to aid engagement and understanding

Going forward, practical training or case studies of good risk management examples would support enhancing officers learning and ensure understanding the full process from risk identification to decision making.

It is natural for risk management responsibility to fall to a small number of officers within the council. It was reassuring that staff collectively felt there is no single key person dependency, continued training and reinforcement of good practice will continue to ensure that collective understanding is maintained. Risk understanding below AD level was more sporadic. Whilst this isn't impacting on the effectiveness of the authority's risk management now, it may impact operational risk identification and training with these officers should continue to be prioritised.

Recommendations:

8. Consider future training sessions as a workshop to provide opportunity for staff to put into practice the observed training with good risk management case studies.

Level 1 Fragmented	Level 2 In Development	Level 3 Managed	**Level 4 Integrated**	Level 5 Transformational

3.6. Projects, Partners, and Supply Chain

In this section I look at the effective controls in place to manage risks with partners / suppliers and in projects.

The council has a more open approach to risk in commercial partnerships which reflects the risk appetite in this area. There is, however, some feeling from the interviews that commissioning / contracting risk is not as robust.

Project risk management mirrors the corporate risk process and feeds into the same governance risk reporting arrangements which is an effective practice for leaders to gain assurance for project risks. There is some belief that risks in projects are not managed effectively. There is a reliance on individuals with project / contract management responsibilities to highlight and share risk information and it was noticed from the interviews that there was an inconsistent understanding of the integrated practice.

There are examples in the recent past of contract risks which have been escalated on to the strategic register. However, it is recognised that staff are often taking on responsibility for projects and contracts and dedicated risk management training for those roles should be considered.

Interviewees provided some level of assurance that risks with partners and suppliers were well understood and managed individually by departments however it was clear that a structured process is not in place for consistent application and oversight.

Recommendations:

9. Dedicated training for risk management within projects and contracts should be considered for those who are taking on the responsibility.
10. Undertake further work to understand the common/shared risks within partnerships. Maintain joint risk registers with key partners to monitor key issues.

Level 1 Fragmented	Level 2 In Development	Level 3 Managed	Level 4 Integrated	Level 5 Transformational

4. Appendices

4.1 Recommendations Summary

Risk Culture and Leadership	1. There is a need to build new relationships with members following the elections, however there is confidence in the established process that this will be developed
Risk Appetite and Strategy	2. Consider developing a risk appetite quick tool guide to support consistent understanding and embedding at operational levels including how this can be evidenced. 3. Build appetite discussions into operational risk discussions, particularly at department management team risk conversations.
Governance	4. Consider sharing the decisions and output from risk reporting back down the 'golden thread' to increase understanding and value of risk reporting. 5. Continue with planned work to support new members in understanding their role in risk management.
Methodology	6. Incorporate Trend analysis within risk register templates and actively challenge "ongoing" action timescales. 7. Consider stress testing / scenario planning strategic risks to understand the effectiveness of identified mitigations.
People and Training	8. Consider future training sessions as a workshop to provide opportunity for staff to put into practice the observed training with good risk management case studies.
Project, Partners, and Supply Chain	9. Dedicated training for risk management within projects and contracts should be considered for those who are taking on the responsibility. 10. Undertake further work to understand the common/shared risks within partnerships. Maintain joint risk registers with key partners to monitor key issues.

4.2 Maturity Assessment

	Risk Culture & Leadership	Risk Appetite & Strategy	Governance	Methodology	People & Training	Projects, Partnerships & Supply Chain
Level 5 Transformational	Risk Management is actively championed by the CEO, Senior management and Members. There is a strong consideration of risk in all decision making processes	Risk appetite is reviewed at least annually and is taken into account in key decision points including day-to-day operational, as well as strategic, decisions	There is active oversight of risk management from Members and senior management	Management of risk and uncertainty is well integrated with all key business processes and shown to be a key driver in business success	Staff are empowered to be responsible for risk management and the organisation has a good record of well managed risk taking	Risk management is a collaborative activity amongst all parties and shown to be a key driver in success delivery
Level 4 Integrated	Senior Management & Members constructively challenge risk information and consider risk within decision making processes	The organisation has formalised its risk appetite and statements exist for each principal risk category for practical use at key decision points	Governance arrangements are effective and aligned with other processes within the organisation	Risk management processes are used to support key business processes and service delivery	Suitable guidance is available and a training programme has been implemented to ensure the continuation of risk management capability	Sound governance frameworks are established in these areas and common risk goals are identified amongst all parties
Level 3 Managed	Senior management & Members take the lead to apply risk management across the organisation and a register of key strategic risks is maintained	The concepts of risk appetite and tolerance are understood and utilised by senior management when discussing strategic risks	Formal reporting and assurance arrangements for risk management exist which are delivering value to the organisation and are consistently applied	Risk management processes are established and effective but are not being applied consistently across the organisation	A core group of people have the skills, knowledge and capacity to manage risk effectively and implement the risk framework across the organisation	Risk Managed in these areas is effective, appropriately resourced
Level 2 In Development	Senior management & Members are actively building the organisation's risk culture and a senior level 'risk champion' has been appointed	Risk Management strategies & policies are drawn up, communicated and being acted upon but Risk Appetite is not a concept actively used within the organisation, even if it is mentioned within the policy / strategy	Reporting and assurance exist but are currently being implemented or require development	Risk management processes exist but are currently being implemented or require development	The organisation is taking steps to increase the capacity and competency of individuals with risk management roles and responsibilities	Approaches for managing risk in these areas exist but are currently being implemented or require development
Level 1 Fragmented	Senior management & Members are aware of the need to manage risks	Risk Management is sporadic and unstrcutured within the organisation	The monitoring and reporting of risks is limited and only done when requested by senior management or Members	No formal process exists for risk management within the organisation	Key people are aware of the need to understand risk principles but there is a skills gap across the organisation	Key people are aware of potential risks factors in these areas

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North Ease Derbyshire District Council

External Audit Progress Report

22 January 2024

Agenda Item 5a

mazars

Audit Progress: Executive Summary

Purpose of this report

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’). This report provides the January 2024 Audit Committee meeting with an update on progress in delivering our responsibilities as your external auditors as summarised below. It also includes, at Appendix A, a summary of recent national reports and publications for your information.

2021/22

Our audit of the 2021/22 financial statements is complete, with our audit report issued on 23 January 2023.

We also have completed our work on the Council’s value for money arrangements, having issued the Auditor’s Annual Report in January 2023.

We are unable to issue the audit certificate until the NAO issues its final instructions on sampled components with regard to the Whole of Government Accounts.

2022/23

Our audit of the 2022/23 financial statements is substantially complete, and we issued our Audit Completion Report in December 2023.

Our work on the Council’s value for money arrangements, including the commentary in the Auditor’s Annual Report is in progress, with our report due 3 months after we sign the audit report.

We are unable to issue the audit certificate, until the certificate for 2021/22 is signed and the NAO issues final instructions regarding sampled components for the purposes of the Whole of Government Accounts.

2023/24

We have been communicating with management, however we have not started with our planning discussions, as we will do so once the audit for 2022/23 has been completed.

The Government, the National Audit Office, audit suppliers and regulators are working together to find a way to clear the backlog in 2023/24, which is the first year of a new external audit contract let by Public Sector Audit Appointments Limited.

We will update the Audit Committee as soon as a way forward is agreed with all stakeholders as all parties recognise that the current situation in the public sector external audit market is challenging.

Status of the 2022/23 audit

Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below. The following work was identified as outstanding in our Completion Report. We provide an update on this work (in blue).

Audit area	Status	Description of the outstanding matters
Land, Buildings and Investment properties		Evidence supporting the values disclosed in the accounts is yet to be reviewed, further queries may arise from this. Post review of evidence, further queries were raised to the management and valuer which are currently under review.
Pensions		Part of our assurance over the net pensions liability is derived from specified procedures commissioned from the external auditors of the Derbyshire Pension Fund. We are yet to receive their final report for our consideration and completion of the testing required - No change – we have not yet obtained assurance from the Pension Fund auditor.
Expenditure testing		We have a small number of tests to complete, including on Housing Benefits. – work now completed
Group accounts		We have some outstanding audit procedures on the group accounts –Work is now substantially completed with review procedures ongoing.
Investments		Enquiries have been made to management regarding the reporting of interest in other bodies. – This query has been resolved.
Whole Government Accounts		NAO Group Instructions for local authority audits are not yet available and WGA returns and audit certificates cannot be issued at the present time. We provide more information on this matter at page 14. – No change
Housing Revenue Account and Collection Fund		Work in this area is ongoing - work is substantially complete with review procedures ongoing.
Evidence, review and evaluation		Including debtors – ongoing till point audit report is signed
Audit Quality Control and other Completion Procedures including the Disclosure Checklist		Our audit work is undergoing final stages of review by the Engagement Lead and further quality and compliance checks. In addition, there are residual procedures to complete, including review of revised financial statements, updating post balance sheet event considerations to the point of issuing the opinion and obtaining final management representations.

Likely to result in material adjustment or significant change to disclosures within the financial statements.

Potential to result in material adjustment or significant change to disclosures within the financial statements.

Not considered likely to result in material adjustment or change to disclosures within the financial statements.

Page 24

Value for money arrangements

The framework for value for money work

We are required to form a view as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, and to report where we identify significant weaknesses in arrangements. Separately we provide a commentary on the Council's arrangements in the Auditor's Annual Report under three specified criteria:

1. **Financial sustainability** – how the Council plans and manages its resources to ensure it can continue to deliver its services
2. **Governance** – how the Council ensures that it makes informed decisions and properly manages its risks
3. **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

Matters under review

Throughout the year, we stay alert to any matters that may be relevant to our work, which at the point of drafting this report includes:

- The Council's financial position, including progress in delivering cost efficiencies and stay within budget..
- The development of the Council's budget for 2024/25 and its updated medium term financial strategy, including the extent of reliance on capital flexibilities to balance the budget.
- Reports from regulators, including OFSTED, where…
- Any specific local issues .

A

Appendix A: Insights and publications

Public and Social Sector Insights

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

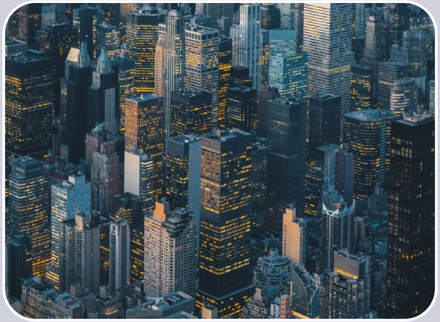
Beyond efficiency: what's left for local government?

Today, the financial stability of local authorities is no longer guaranteed, placing public services and employment increasingly at risk. All of which means: it's time to take action.

Based on survey data, the 'Beyond efficiency report' looks to understand Councils' approaches to financial sustainability and risk

Supporting vulnerable communities

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



A global public and social sector study (2023)

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

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

Why culture is critical to local government

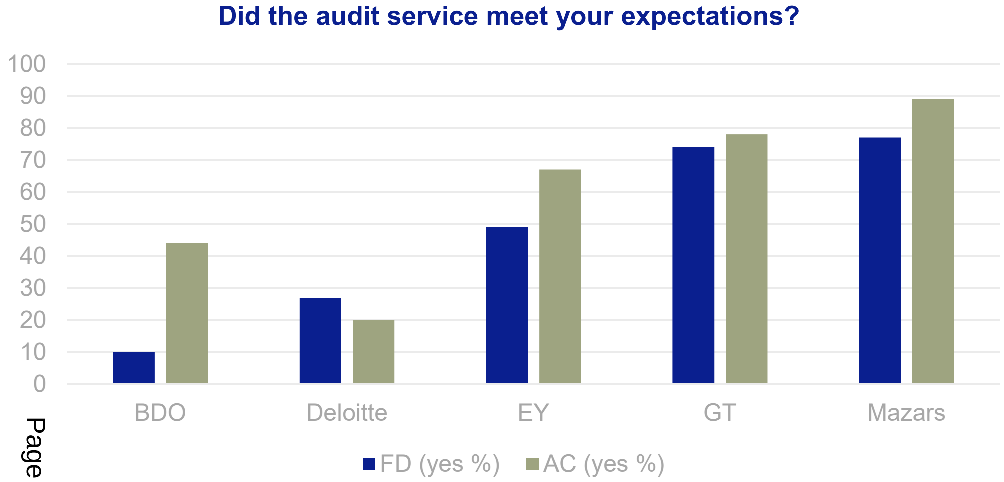
The extent to which an organisation's culture supports the execution of its strategy, the management of risk and the treatment of its service users is increasingly under the spotlight, and weaknesses in culture are now frequently blamed for failings in these areas.

PSAA quality of audit services feedback survey

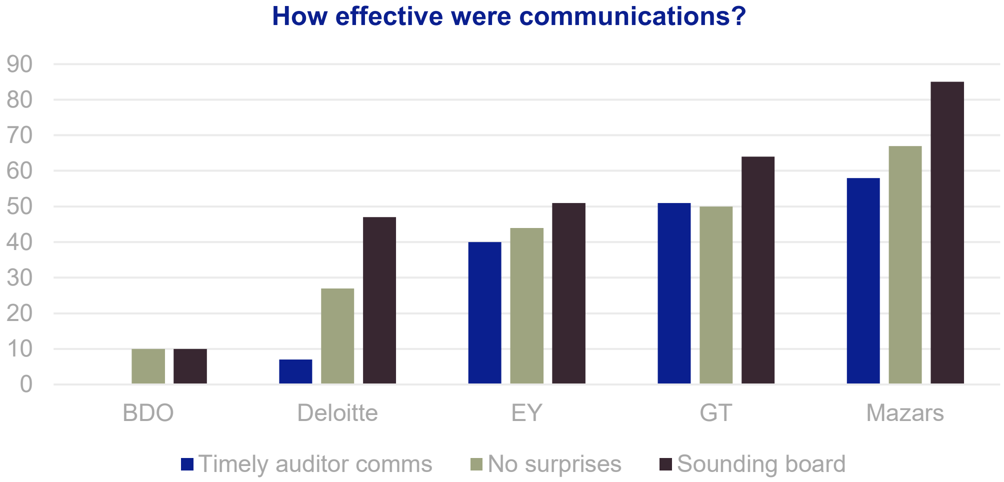
In August 2023 Public Sector Auditor Appointments Ltd (PSAA) published its fourth annual report on feedback from Finance Directors and Audit Committee Chairs of local authorities on their satisfaction with the audit services provided by local auditors.

You can view the full PSAA report at [PSAA-Quality-of-Audit-Services-2021-22-feedback-survey.pdf]()

Focus area 1 - To what extent did the audit service meet your expectations?



Focus area 2 - To what extent did your auditor provide effective and timely communications? Were the communications timely, with no surprises and was the auditor approachable as a sounding board?



National publications

Publication / Update	Key points	Link
National Audit Office (NAO)		
Condition of school buildings, June 2023	Report which examines whether the Department for Education (DfE) is achieving its objective to ensure the school estate in England contains the safe and well-maintained school buildings that it regards as essential for a high-quality education.	Condition of school buildings - National Audit Office (NAO) report
Investigation into the Homes for Ukraine scheme, October 2023	This report aims to increase transparency by taking stock of what has been achieved to date, for what cost, and what can be learned.	Financial management in government: strategic planning and budgeting - NAO insight
Reducing the harm from illegal drugs, October 2023	This report examines whether the government is well positioned to achieve the strategy's 10-year ambitions.	Investigation into the Homes for Ukraine scheme - NAO report
Reforming adult social care in England, 10 November 2023	This report looks at how DHSC is responding to the challenges facing adult social care in England, and its progress with delivering the reforms set out in the 2021 white paper.	Reforming adult social care in England - NAO report
Resilience to flooding, 15 November 2023	NAO last reported on government's management of flood risk in November 2020. In this report, we look at the government's long-term ambition "to create a nation more resilient to future flood and coastal erosion risk" and, in the more immediate term, whether Defra and EA are delivering value for money after two years of the capital programme. To do this, we have assessed Defra's progress against the backdrop of its 2020 policy statement and EA's 2020 strategy. We also assess EA's performance in maintaining existing flood defence assets.	Resilience to flooding - National Audit Office (NAO) report
Chartered Institute of Finance and Accountancy (CIPFA)		
Section 114s: where are we headed next? 16 August 2023	Rob Whiteman, CIPFA CEO assesses the latest position on s114 notices (where formal action needs to be taken to balance a Council's finances), what has been done to prevent further s114 notices, whether more will occur and what the sector should do. This originally appeared as an article in the Municipal Journal on 31 July 2023.	Section 114s: where are we headed next? | CIPFA

Contact

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North East Derbyshire District Council

Audit Committee

22nd January 2024

Summary of Progress on the 2023/24 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 2023/24 Internal Audit Plan.

RECOMMENDATION

1. That the report be noted.

IMPLICATIONS

Finance and Risk: **Yes☒** **No ☐**
Details:

Internal audit reviews help to ensure that governance, risk and control arrangements are operating effectively thereby contributing to ensuring that value for money is obtained and continuous improvement made.

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: **NEDDC:** **Revenue - £100,000 ☐ Capital - £250,000 ☐** ☒ *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 ☐ Cabinet / Executive ☐** **SAMT ☐ Relevant Service Manager ☒** **Members ☐ Public ☐ Other ☐**	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 continually improving services to deliver excellence and value for money.

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 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 to date in respect of the 2023/24 internal audit plan since this Committee last met. 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 3 reports have been issued all with substantial assurance.

2.3 No issues arising relating to fraud were identified.

2.4 Appendix 3 shows the overall progress on the 2023/24 internal audit plan.

3 Reasons for Recommendation

3.1 To inform Members of progress on the 2023/24 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 November and December 2023.
Appendix 2	Assurance Definitions
Appendix 3	Progress on the 2023/24 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 you must provide copies of the background papers)	

Appendix 1

NORTH EAST DERBYSHIRE DISTRICT COUNCIL

Summary of Internal Audit Reports Issued November and December 2023

Report Ref No.	Report Title	Scope and Objectives	Assurance Provided	Date		Number of Recommendations	
				Report Issued	Response Due	Made	Accepted
N009	VAT	To ensure that there are processes in place to ensure compliance with Legislation. To verify that VAT returns are completed timely and accurately.	Substantial	20/11/23	11/12/23	2L	2
N010	Freedom of Information / Environmental Information Regulation Requests	To ensure that requests are dealt with promptly and that there is adequate training in place.	Substantial	7/12/23	4/01/24	0	0
N011	Housing Benefits	To ensure that Housing Benefits are paid promptly and accurately.	Substantial	20/12/23	22/01/2024	4L	Note 1

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

Note 1Response not due at time of writing Report

Appendix 2

Assurance Level	Internal Audit Definition	Risk Register Link
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.	Minor / negligible impact
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.	Minor / moderate
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.	Moderate / Severe Impact
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.	Catastrophic Impact

Appendix 3

North East Derbyshire District Council Internal Audit Plan 2023/24

In Progress
Complete
Ongoing through Year

		Risk	2023/24 Days
	Main Financial Systems		
	Treasury Management	M	10
	National Non-Domestic Rates (Key Controls)	M	10
	Housing Benefits	H	20
	Payroll	H	20
	Total Main Financial Systems		**60**
	Corporate / Cross Cutting		**2023/24**
	Corporate Governance / Assurance Statement	H	2
	Financial advice / working groups	N/A	20
	Climate Change	H	12
	Corporate Targets	M	12
	Risk Management	M	5
	Total Cross Cutting		**51**
	Operational Audits		
	Business Centres – Coney Green & Midway	M	15
	Clay Cross Town Deal	H	12
	E.H Pollution Prevention and Control	L	8
	Facilities Compliance	M	15
	FOI / Env Regs	L	10
	Commercial Waste	L	10
	Industrial Property Rents / Periodic Income	M	15
	Killamarsh Leisure Centre	M	15
	Land Charges	L	8
	Members Allowances	L	10

	Northwood Building Company	H	12
	Petty cash / year end floats	L	5
	Sickness Absence	M	12
	Transport	M	13
	VAT	M	8
	Total Operational Areas		**168**
	IT Related		
	IT Inventory / disposal of equipment	M	8
	Members IT Equipment	M	12
	Total IT		**20**
	Rykneld Homes		**97**
	National Fraud Initiative		5
	Special Investigations / Contingency/ emerging risks		40
	Apprenticeships / training		30
	Audit Committee / Client Liaison		15
	Grand Total		**486**

<u>Reserve Areas (if unable to progress audits in the above areas)</u>

Leisure Direct Debits
Safeguarding
Health & Safety

North East Derbyshire District Council

Audit Committee

22nd January 2024

REVIEW OF THE INTERNAL AUDIT CHARTER

Report of the Head of the Internal Audit Consortium

Classification**:** This report is public

Report By**:** Head of the Internal Audit Consortium

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

PURPOSE / SUMMARY

The purpose of this report is to report to Members for information and approval the results of a review of the Internal Audit Charter. The Public Sector Internal Audit Standards (PSIAS) state that the Head of Internal Audit must periodically review the Internal Audit Charter and present it to the relevant Committee for approval.

RECOMMENDATIONS

1. That Members note the outcome of the review of the Internal Audit Charter.

2. That subject to any comments Members may wish to make, that the Internal Audit Charter be agreed.

3. That the agreed Internal Audit Charter be reviewed in a years' time or sooner in the event of any significant changes being made to the Public Sector Internal Audit Standards

IMPLICATIONS

Finance and Risk: **Yes☒** **No ☐**
Details:

The adoption of a Charter in line with the PSIAS helps to ensure that the Internal Audit Consortium is operating in line with best practice and thereby providing value for money.

On Behalf of the Section 151 Officer

<u>Legal (including Data Protection):</u> **Yes☐** **No ☒**
Details:

On Behalf of the Solicitor to the Council

<u>Staffing</u>: **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: **NEDDC:** **Revenue - £100,000 ☐ Capital - £250,000 ☐** ☒ *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 ☐ Cabinet ☐** **SMT ☐ Relevant Service Manager ☒** **Members ☐ Public ☐ Other ☐**	No Details:

Links to Council Plan priorities, including Climate Change, Equalities, and Economics and Health implications.
The Internal Audit Charter highlights how internal audit can contribute to ensuring that the Council has sound governance, risk and control arrangements in place.

REPORT DETAILS

1 Background

1.1 The Public Sector Internal Audit Standards (PSIAS) which took effect from the 1 April 2013 require that the purpose, authority and responsibility of internal audit must be formally defined in an Internal Audit Charter (Appendix 1).

2. Details of Proposal or Information

2.1 The Internal Audit Charter was last formally approved by this Committee in September 2022. It was agreed that the Charter would be reviewed every year to ensure that it is kept up to date and in accordance with CIPFA recommended practice.

2.2 There have been no updates to the PSIAS since the last review of the Charter.

2.3 The current Internal Audit Charter has been reviewed and it is felt that it is still fit for purpose.

2.4 The Internal Audit Charter is attached as Appendix 1.

2.5 It is worth noting that there has been consultation in respect of some new Global Internal Audit Standards that are due to be issued in quarter 1 of 2024. Following this, CIPFA intend to review the Public Sector Internal Audit Standards. Where necessary I will review our approach to ensure that we remain compliant with the Standards.

3 Reasons for Recommendation

3.1 To comply with the Public Sector Internal Audit Standards and to clearly set out the purpose, authority and principal responsibilities of the Internal Audit Consortium.

4 Alternative Options and Reasons for Rejection

4.1 Not Applicable

DOCUMENT INFORMATION

Appendix No	Title
1	Internal Audit Charter
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 you must provide copies of the background papers)	

BOLSOVER, CHESTERFIELD AND NORTH EAST DERBYSHIRE DISTRICT COUNCIL

INTERNAL AUDIT CHARTER

INTRODUCTION

1. The Public Sector Internal Audit Standards (PSIAS) which took effect from 1 April 2013 require the adoption of an Internal Audit Charter. The Internal Audit Charter describes the purpose, authority and principal responsibilities of the Internal Audit Consortium that have been established to provide the internal audit service to the three Councils'.

PSIAS/REGULATORY BASIS OF OPERATION

2. The adoption of the PSIAS is mandatory and includes a

- Definition of Internal Auditing
- Code of ethics
- International Standards for the Professional Practice of Internal Auditing

3. The Mission of Internal Audit is: -

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

4. The Internal Audit Consortium adopts the PSIAS and the purpose and definition of Internal Audit as specified by the PSIAS: -

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

5. The Internal Audit Consortium also adopts and is mindful of the Core Principles for the Professional Practice of Internal Auditing. So, the Internal Audit Consortium: -

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

- Is insightful, proactive, and future-focused.
- Promotes organisational improvement.

The requirement for an internal audit function in local government is specified within the Accounts and Audit (England) Regulations 2015, which state:

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

.

6. The Consortium agreement details how the Consortium will operate in terms of finance, staffing, reporting and independence.

7. Internal Audit is also governed by policies, procedures, rules and regulations established by the host Council. These include Financial Regulations, Conditions of Service, Codes of Conduct and Anti-Fraud and Corruption strategies.

8. Where key services are to be provided to one of the partner Councils by other contractors or through a partnership, in order for internal audit to form an opinion on the risk management, governance and internal controls in place, a right of access to relevant information and documents should be included in contracts or agreements concerned.

DEFINITIONS

9. The PSIAS require that the Charter must define the terms "Board" and "Senior Management" for the purposes of internal audit activity.

10. The PSIAS glossary defines the board as:

    The highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the organisation. Typically this includes an independent group of directors (e.g. a board of directors, a supervisory board or a board of governors or trustees). If such a group does not exist, the "board" may refer to the head of the organisation, "Board" may refer to an audit committee to which the governing body has delegated certain functions.

11. At Chesterfield Borough Council the "Board" will be the Standards and Audit Committee.
    At Bolsover District Council the "Board" will be the Audit Committee
    At North East Derbyshire District Council the "Board" will be the Audit Committee.

12. In addition to this the Joint Board will approve and monitor the annual business plan and financial position of the Consortium.

13. "Senior Management" – those responsible for the leadership and direction of the Council. This will be each Council's Senior Management Team.

14. The PSIAS adopt the term “Chief Audit Executive”, this role is met by the Head of the Internal Audit Consortium.

SCOPE AND OBJECTIVES OF INTERNAL AUDIT

15. The scope of the Internal Audit Consortium encompasses the examination and evaluation of the adequacy and effectiveness of each organisation’s governance, risk management and internal control processes in relation to each organisation’s defined goals and objectives.

16. The Audit Consortium’s remit covers all functions and services for which the Council’s are responsible and this extends to the entire risk management, governance and internal control processes of the organisations and not just financial controls.

17. The Consortium will objectively examine, evaluate and report on the adequacy of the risk management, governance and internal controls in place as a contribution to the proper, economic, efficient and effective use of resources.

18. The internal audit service will be delivered on the basis of a risk assessment of auditable areas at each of the partner authorities. A predominantly systems based approach to most audits will be adopted.

19. The risk management, governance and internal control processes comprises the whole network of systems established within each partner authority to provide reasonable assurance that corporate objectives will be achieved, with particular reference to: -

- Consistency of operations with established objectives and goals,
- The reliability and integrity of financial and operational information,
- The effectiveness and efficiency of operations and programmes,
- Safeguarding of assets and interests from losses of all kinds, including those arising from fraud, irregularity and corruption,
- Compliance with laws, regulations, policies, procedures and contracts,
- The economic and efficient use of resources (value for money) and effective monitoring systems and optimum use of performance management information.

20. With the introduction of the PSIAS, internal audit may also provide “consultancy” services. This work could take any form, provided that the independence of the service is not compromised, but will typically include special reviews or assignments where requested by management, which fall outside the approved plan and for which a contingency is included in the audit plan. There will be no significant consultancy work undertaken without the approval of the relevant Audit Committee.

RESPONSIBILITIES AND REPORTING

21. The PSIAS requires that the Internal Audit Charter should establish the responsibilities and reporting arrangements of internal audit.

22. The Head of the Internal Audit Consortium reports directly to each Council's Audit Committee and to each Chief Financial Officer/ Director. The Head of the Internal Audit Consortium also has direct access to each Council's Chief Executive / Directors, Monitoring Officer and where necessary elected Members.

23. The Head of the Internal Audit Consortium will manage the provision of the Internal Audit service to each Council by: -

- Preparing each year in advance a risk- based audit plan for discussion and agreement by each council's Client Officer and approval by the Audit Committee. Any in-year significant changes to the audit plan shall be agreed by the respective Client Officers and Audit Committees,
- Preparing the internal audit budget and resource plan for approval by the Joint Board,
- Presenting an annual report to each Council's Audit Committee that meets the requirements of the PSIAS and includes: -
    - An overall opinion on the adequacy and effectiveness of the organisation's risk management, governance and internal control processes (including any qualifications to that opinion),
    - Presents a summary of the audit work from which the opinion is derived, including reliance placed on the work by other assurance bodies,
    - Draws attention to any issues the Head of the Internal Audit Consortium judges particularly relevant to the preparation of the Annual Governance Statement,
    - Compares work actually undertaken with work that was planned and to report relevant performance measures and targets.
- Presenting periodic reports to each Audit Committee summarising all internal audit reports issued and if considered necessary providing copies of the reports,
- Formally report the findings and recommendations of audit work to senior management and the respective Audit Committee throughout the year. Audit reports will: -
    - Include an audit opinion on the reliability of the risk management, governance and internal control processes in the system or area audited,
    - Identify inadequately addressed risks and non-effective control processes,
    - Detail management's response and timescale for corrective action,
    - Identify issues of good practice.
- Ensuring audit work is supervised, reviewed, recorded and reported,
- Implementing a follow up process for ensuring the effective implementation of audit recommendations or ensuring senior management are aware of the consequences of not implementing a recommendation and are prepared to accept the risk,

- Liaising as needed with the External Auditor for each Council and with other regulators,
- Maintaining and managing a risk assessment in relation to the functions of the Consortium,
- Ensuring that there is an up to date Audit Manual in place setting out expected standards for the service, and monitoring compliance with these standards, including in relation to the planning, conduct, quality assurance and reporting of audit assignments.

24. Senior managers should assist audit to discharge their duties by:

- The prompt provision of information and explanations,
- Providing input to the audit plan to ensure attention is focused on areas of greatest risk,
- Informing the Audit Consortium of any plans for change, including new systems,
- Responding to the draft internal audit report, including provision of management responses to recommendations, within the timescale requested by the audit team,
- Implementing agreed management actions in accordance with agreed timescales,

25. The respective Audit Committees must:

- Approve the Internal Audit Charter,
- Approve the risk based internal audit plan,
- Receive progress reports and an annual report from the Head of the Internal Audit Consortium in respect of the audit plan,
- Approve any large variances or consulting services not already included in the audit plan.

26. The Joint Board will:

- Approve the internal audit budget and outturn.

<u>AUDIT RESOURCES</u>

27. The Chief Financial Officer at each Council will ensure that the Audit Consortium has the necessary resource to enable the Head of the Internal Audit Consortium to be able to give an annual evidence-based opinion.

28. The staffing and budget of the Internal Audit Consortium will be kept under review by the Head of the Internal Audit Consortium, bearing in mind the resource requirements identified in the audit plan process. Where resources available do not match the resource requirements identified by the annual audit plans, the Head of the Internal Audit Consortium will report to the Joint Board.

29. The Head of the Internal Audit Consortium will be professionally qualified (CMIIA, CCAB or equivalent) and have wide internal audit and management experience. The Head of the Internal Audit Consortium

will ensure that the internal audit service is appropriately skilled in terms of qualifications, knowledge and experience.

QUALITY AND ASSURANCE PROGRAMME

30. The PSIAS state that a quality assurance and improvement programme must include both internal and external assessments. Internal assessments should be ongoing and periodical and external assessments must be undertaken at least once every 5 years.

31. All internal audits are subject to a management quality review. Policies and procedures to guide staff in performing their duties have been established within the audit manual.

32. The internal self- assessment of internal audit will be undertaken annually by completing the checklist for assessing conformance with the PSIAS included within the PSIAS Application Note.

33. External assessment can be satisfied by either arranging a full external assessment or by undertaking a self assessment with independent validation. External assessments must be by a qualified, independent assessor from outside the organisations. The Head of the Internal Audit Consortium must discuss the format of the external assessments and the qualifications and independence of the assessor with the Audit Committee.

34. An external assessment of the internal audit function will take place at least once every 5 years and the results reported back to the Audit Committee of each Council.

35. The results of the quality and assurance programme and progress against any improvement plans must be reported in the annual report.

INDEPENDENCE, AUTHORITY AND ETHICS

36. In order to achieve its objectives effectively, Internal Audit must be seen to be independent. Internal auditors must maintain an unbiased attitude that allows them to perform their engagements in such a manner that no quality compromises are made.

37. The scope of internal audit allows for unrestricted access at each partner authority to all records, personnel, premises and assets deemed necessary to obtain information and explanations as it considers necessary to fulfil its responsibilities in the course of the audit. Such access shall be granted on demand and not subject to prior notice.

38. This right of access is included in the agreement signed by the three authorities establishing the Internal Audit Consortium and in each authority's Financial Regulations. In addition, where necessary, the Head of the Internal Audit Consortium will have unrestricted access at each authority to:

- The Chief Executive / Relevant Director
- The Chief Financial Officer
- Members
- The Monitoring Officer
- The Chair and Members of the Audit Committee
- Individual Directors / Heads of Service
- All Other Employees
- The External Auditor

39. The Head of the Internal Audit Consortium will confirm to the Audit Committees' at least annually, the organisational independence of the internal audit activity.

40. Independence is further achieved by:

- Reporting to the Audit Committee and senior management at each authority,
- Not being part of system and procedures being audited,
- Rotating responsibility for audit assignments within the audit team,
- Completing declaration of interest forms on an annual basis,
- Internal Audit staff not undertaking an audit in an area where they have had operational roles for at least two years.

41. If any member of the Internal Audit Consortium considers there is or could be a conflict of interest, this must be declared to the Head of the Internal Audit Consortium who will direct alternative and independent resources to the audit.

42. Where internal audit staff are required to undertake non-audit duties, the Head of the Internal Audit Consortium will make it clear that those audit staff are not fulfilling those duties as internal auditors. The Head of the Internal Audit Consortium will ensure that within the service there remains sufficient impartiality to enable the actions and activities of those internal audit staff to be subject to audit by those independent from the activity.

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43. Internal auditors must conform to the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Ethics in addition to those of other professional bodies of which they hold membership.

44. The Code of Ethics promotes an ethical, professional culture to ensure fairness, objectivity and freedom from conflicts of interest. The key principles are: -
    - Integrity – to establish trust thus providing reliance on their judgement;
    - Objectivity – in gathering, evaluating and communicating information about the activity or process being examined in order to make a balanced assessment of all relevant circumstances without influence;
    - Confidentiality – to respect the value and ownership of information received which should not be disclosed without appropriate authority or a legal or professional obligation to do so, nor be used for personal gain; and

- Competence – to apply knowledge, skills and experience appropriately.

FRAUD AND CORRUPTION

45. Managing the risk of fraud and corruption is the responsibility of management. Each Council has an Anti Fraud and Corruption strategy and a zero tolerance towards fraud.

46. The Head of the Internal Audit Consortium should be notified of all suspected or detected fraud, corruption or impropriety in accordance with each Council's Financial Regulations and Anti Fraud and Corruption strategies, in order to inform their opinion of the risk management, governance and internal control arrangements in place.

47. Subject to availability of resources with the internal audit plan, internal audit may assist management in the investigation of suspected fraud and corruption.

48. The Head of the Internal Audit Consortium will report any instances of fraud detected as a result of audits undertaken to the Audit Committee.

REVIEW OF THE INTERNAL AUDIT CHARTER

49. The Internal Audit Charter will be reviewed every year by the Head of the Internal Audit Consortium and will be reported to each Council's Audit Committee for approval.

North East Derbyshire District Council

Audit Committee

22 January 2024

Treasury Strategy Reports 2024/25 - 2027/28

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

Classification: This report is public

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

Contact Officer: Jayne Dethick

PURPOSE/SUMMARY

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

RECOMMENDATIONS

1. That the Audit 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: **NEDDC:** **Revenue - £100,000 ☐ Capital - £250,000 ☐** ☒ *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 ☐ Cabinet ☐** **SMT ☐ Relevant Service Manager ☐** **Members ☐ Public ☐ Other ☐**	No Details:

Links to Council Plan priorities, including Climate Change, Equalities, and Economics and Health implications.
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 2021 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 along with a Flexible Use of Capital Receipts 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..

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 2024/25 to 2027/28. 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.

1.6 The Flexible Use of Capital Receipts Strategy focuses on the Council's plans to utilise capital receipts for service reform in strict adherence of S15 (1) of the Local Government Act 2003.

2 Reasons for Recommendation

2.1 This report outlines the Council's proposed suite of Treasury Strategies for the period 2024/25 to 2027/28 for consideration and approval by Council on 29 January 2024. 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 Flexible Use of Capital Receipts Strategy which details plans to utilise capital receipts for service reform in strict adherence with S15 (1) of the Local Government Act 2003.

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 2024/25 – 2027/28 and Appendices 1-4.
Background Papers	

North East Derbyshire District Council

Council

29 January 2024

Treasury Strategy Reports 2024/25 - 2027/28

Report of the Deputy Leader (Portfolio Holder for Finance)

Classification:	This report is public
Report By:	Jayne Dethick, Director of 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 2024/25 to 2027/28

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 2024/25

   c) Approve the Prudential Indicators for 2024/25, in particular:

Authorised Borrowing Limit	£238.4m
Operational Boundary	£234.2m

Capital Financing Requirement   £229.2m

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

4. That Council approve the Flexible Use of Capital Receipts Strategy at **Appendix 4**

Approved by the Portfolio Holder for Finance

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: **NEDDC:** **Revenue - £100,000 ☒ Capital - £250,000 ☒** ☒ *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:	Yes

Leader / Deputy Leader ☐ Cabinet ☐ SMT ☒ Relevant Service Manager ☒ Members ☒ Public ☐ Other ☐	Details: Audit and Corporate Governance Scrutiny Committee 18 January 2023

Links to Council Plan priorities, including Climate Change, Equalities, and Economics and Health implications.
All

REPORT DETAILS

1.1 Treasury risk management at the Council is conducted in compliance with the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2021 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 along with a Flexible Use of Capital Receipts Strategy. In addition, the 2018 Investment Guidance issued by the Department for Levelling Up, Housing and Communities also requires local authorities to produce an Investment Strategy.

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 2024/25 to 2027/28. 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).**

1.6 The Flexible Use of Capital Receipts Strategy focuses on the Council's plans to utilise capital receipts for service reform in strict adherence of S15 (1) of the Local Government Act 2003 **(Appendix 4).**

2 Reasons for Recommendation

2.1 This report outlines the Council's proposed suite of Treasury Strategies for the period 2024/25 to 2027/28 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 Flexible Use of Capital Receipts Strategy which details plans to utilise capital receipts for service reform in strict adherence with S15 (1) of the Local Government Act 2003.

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 2 3 4	Treasury Management Strategy 2024/25 – 2027/28 Capital Strategy 2024/25 – 2027/28 Investment Strategy 2024/25 – 2027/28 Flexible Use of Capital Receipts Strategy 2024/25 – 2027/28
Background Papers	

North East Derbyshire District Council

Treasury Management Strategy 2024/25 – 2027/28

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 2021 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 impact on the UK from higher interest rates and inflation, a weakening economic outlook, an uncertain political climate due to an upcoming general election, together with war in Ukraine and the Middle East, will be major influences on the Council's treasury management strategy for 2024/25.

1.5 The Bank of England (BoE) increased Bank Rate to 5.25% in August 2023, before maintaining this level for the rest of 2023. In December, members of the BoE's Monetary Policy Committee voted for by a 6-3 in favour of keeping Bank Rate at 5.25%. The three dissenters wanted to increase rates by another 0.25%.

1.6 The November quarterly Monetary Policy Report (MPR) forecast a prolonged period of weak Gross Domestic Product (GDP) growth with the potential for a mild contraction due to ongoing weak economic activity. The outlook for CPI inflation was deemed to be highly uncertain, with near-term risks to CPI falling to the 2% target coming from potential energy price increases, strong domestic wage growth and persistence in price-setting.

1.7 Office for National Statistics (ONS) figures showed CPI inflation was 3.9% in November 2023, down from a 4.6% rate in the previous month and, in line with the recent trend, lower than expected. The core CPI inflation rate declined to 5.1% from the previous month's 5.7%, again lower than predictions. Looking ahead, using the interest rate path implied by financial markets the BoE expects CPI inflation to continue falling slowly, but taking until early 2025 to reach the 2% target before dropping below target during second half 2025 and into 2026.

1.8 ONS figures showed the UK Economy contracted by 0.1% between July and September 2023. The BoE forecasts GDP will likely stagnate through 2024. The BoE forecasts that higher interest rates will constrain GDP growth, which will remain weak over the entire forecast horizon.

1.9 The labour market appears to be loosening, but only very slowly. The unemployment rate rose slightly to 4.2% between June and August 2023, from 4.0% in the previous 3-month period, but the lack of consistency in the data between the two periods made comparisons difficult. Earnings growth remained strong but has showed some signs of easing; regular pay (excluding bonuses) was up 7.3% over the period and total pay (including bonuses) up 7.2%. Adjusted for inflation, regular pay was 1.4% and total pay 1.3%. Looking forward, the MPR showed the unemployment rate is expected to be around 4.25% in the second half of calendar 2023, but then rising steadily over the forecast horizon to around 5% in late 2025/early 2026.

1.10 Having increased its key interest rate to a target range of 5.25-5.50% in August 2023, the US Federal Reserve appears now to have concluded the hiking cycle. It is likely this level represents the peak in US rates following a more dovish meeting outcome in December 2023.

1.11 US GDP grew at an annualised rate of 4.9% between July and September 2023, ahead of expectations for a 4.3% expansion and the 2.1% reading for Q2. But the impact from higher rates has started to feed into economic activity and growth will weaken in 2024. Annual CPI inflation was 3.1% in November.

1.12 Eurozone inflation has declined steadily since the start of 2023, falling to an annual rate of 2.4% in November 2023. Economic growth has been weak and GDP contracted by 0.1% in the three months to September 2023. In line with other central banks, the European Central Bank has increased rates, taking its deposit facility, fixed rate tender, and marginal lending rates to 3.75%, 4.25% and 4.50% respectively.

1.13 **Credit outlook:** Credit default swap (CDS) prices were volatile during 2023, spiking in March on the back of banking sector contagion concerns following the major events of Silicon Valley Bank becoming insolvent and the takeover of Credit Suisse by UBS. After then falling back in Q2 of calendar 2023, in the second half of the year, higher interest rates and inflation, the ongoing war in Ukraine, and now the Middle East, have led to CDS prices increasing steadily.

1.14 On an annual basis, CDS price volatility has so far been lower in 2023 compared to 2022, but this year has seen more of a divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities once again.

1.15 Moody's revised its outlook on the UK sovereign to stable from negative to reflect its view of restored political predictability following the volatility after the 2022 mini-budget. Moody's also affirmed the Aa3 rating in recognition of the UK's economic resilience and strong institutional framework.

1.16 Following its rating action on the UK sovereign, Moody's revised the outlook on five UK banks to stable from negative and then followed this by the same action on five rated local authorities. However, within the same update the long-term ratings of those five local authorities were downgraded.

1.17 There remain competing tensions in the banking sector, on one side from higher interest rates boosting net income and profitability against another of a weakening economic outlook and likely recessions that increase the possibility of a deterioration in the quality of banks' assets.

1.18 However, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

1.19 **Interest rate forecast:** Although UK inflation and wage growth remain elevated, the Council's treasury management adviser Arlingclose forecasts that Bank Rate has peaked at 5.25%. The Bank of England's Monetary Policy Committee will start reducing rates in 2024 to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. Arlingclose sees rate cuts from Q3 2024 to a low of around 3% by early-mid 2026.

1.20 Arlingclose expects long-term gilt yields to be broadly stable at current levels (amid continued volatility), following the decline in yields towards the end of 2023, which reflects the expected lower medium-term path for Bank Rate. Yields will remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

1.21 Yields Like the BoE, the Federal Reserve and other central banks see persistently high policy rates through 2023 and 2024 as key to dampening domestic inflationary pressure. Bond markets will need to absorb significant new supply, particularly from the US government.

1.22 A more detailed economic and interest rate forecast provided by Arlingclose is attached at **Appendix A.**

1.23 For the purpose of setting the budget, it has been assumed that new treasury management investments will be made at an average rate of around 4.50%, and that new long-term loans will be borrowed at an average rate of 4.86%.

Local Context

1.24 On 30th November 2023, the Council held £142.9m of borrowing and £28.0m 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

	31/3/23 Actual £m	31/3/24 Estimate £m	31/3/25 Forecast £m	31/3/26 Forecast £m	31/3/27 Forecast £m	31/3/28 Forecast £m
General Fund CFR	20.9	30.2	40.1	36.1	32.0	27.7
HRA CFR	171.4	181.0	189.1	197.7	204.6	205.2
Total CFR	**192.3**	**211.2**	**229.2**	**233.8**	**236.6**	**232.9**
Less: Other debt liabilities *	(0)	(0.3)	(0.8)	(0.6)	(0.4)	(0.2)
Loans CFR	192.3	210.9	228.4	233.2	236.2	232.7
Less: External borrowing **	(147.0)	(150.8)	(157.0)	(156.0)	(155.9)	(155.8)
Internal borrowing	45.3	60.1	71.4	77.2	80.3	76.9
Less: Balance sheet reserves	(71.3)	(77.1)	(81.4)	(87.2)	(90.3)	(86.9)
Investments	**26.0**	**17.0**	**10.0**	**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

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

1.26 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.

1.27 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 2024/25.

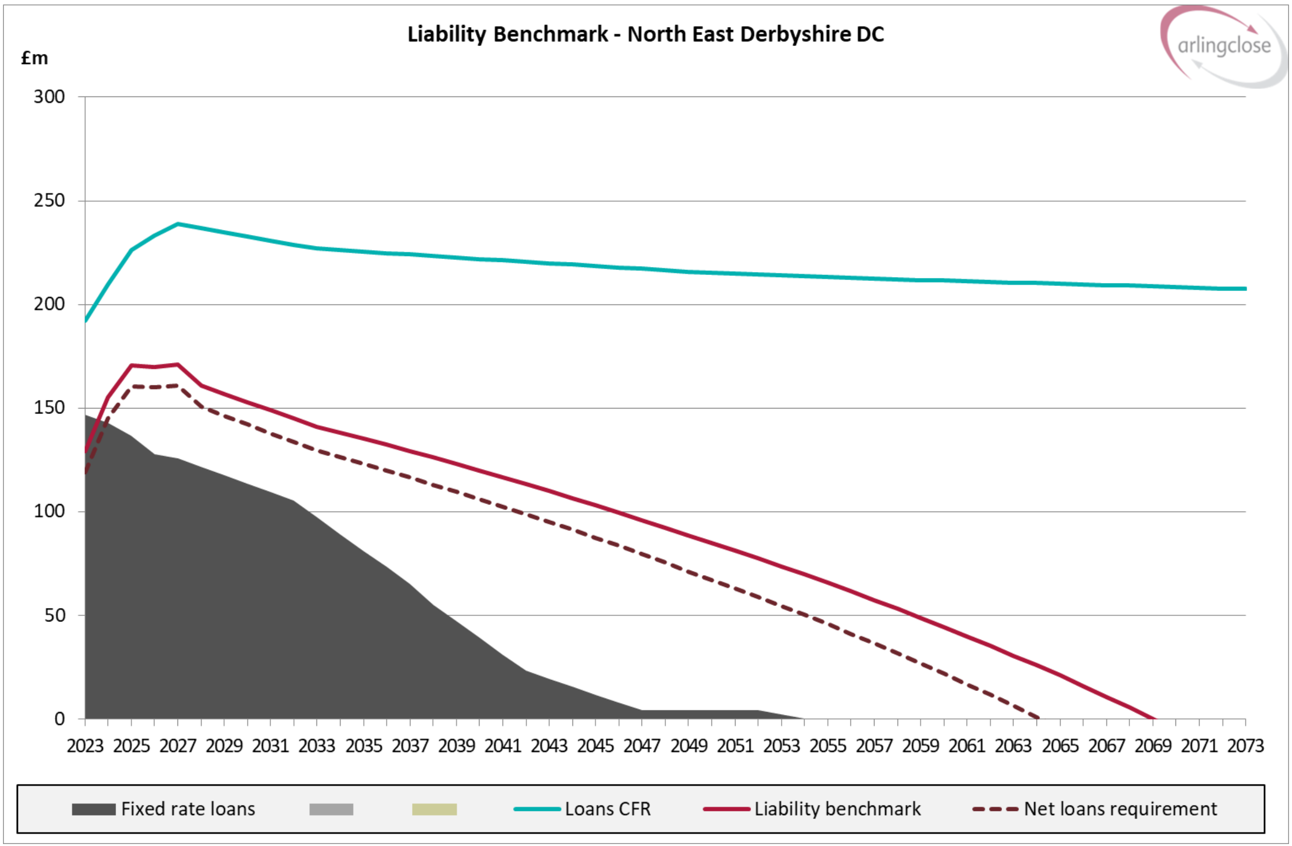
1.28 **Liability benchmark:** To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as **Table 1** above, but that cash and investment balances are kept to a minimum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

1.29 The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day to day cash flow.

Table 2: Prudential Indicator: Liability benchmark

	31/3/23 Actual £m	**31/3/24 Estimate £m**	**31/3/25 Forecast £m**	**31/3/26 Forecast £m**	**31/3/27 Forecast £m**	**31/3/28 Forecast £m**
CFR	**192.3**	**211.2**	**229.2**	**233.8**	**236.6**	**232.9**
Less: Balance sheet reserves	(71.3)	(77.1)	(81.4)	(87.2)	(90.3)	(86.9)
Net loans requirement	121.0	134.1	147.8	146.6	146.3	146.0
Plus: Liquidity allowance	10.0	10.0	10.0	10.0	10.0	10.0
Liability Benchmark	**131.0**	**144.1**	**157.8**	**156.6**	**156.3**	**156.0**

1.30 Following on from the medium-term forecasts in table 2 above, the long-term liability benchmark assumes capital expenditure funded by borrowing of £53.075m over the term of the report, minimum revenue provision on new capital expenditure based on a 50 year asset life and income, expenditure and reserves all decreasing slightly over the period of the report. This is shown in the chart below together with the maturity profile of the Authority's existing borrowing:



1.31 The minimum requirement is to show forecasts for loans CFR, net loans requirement and liability benchmark against actual borrowing for ten years. CIPFA recommends a longer period covering the current debt maturity profile with borrowing split into fixed rate, variable rate and LOBO.

1.32 The liability benchmark is a projection of the amount of loan debt outstanding that the Council needs each year into the future to fund its existing debt liabilities, planned prudential borrowing and other cash flows. The liability benchmark identifies the maturities needed for new borrowing in order to match future liabilities. It therefore avoids borrowing for too long or too short. The liability benchmark acts as a mechanism for preventing future over-borrowing. Once the benchmark has been established, new borrowing decisions that take the level of borrowing over the benchmark, or increase any existing over-benchmark positions, should be considered very carefully.

1.33 The graph provided above shows how the CFR remains constant at a level of approximately £210m but the fixed rate loans are reducing once they meet their maturity dates. The graph, however, doesn't take account of any potential reborrowing of the current fixed rate loans as they mature.

Borrowing Strategy

1.34 The Council currently holds £142.9m of loans, a decrease of £4.1m 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 expects to borrow in

2024/25. The Council may however, borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £239.1m.

1.35 **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.

1.36 **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. Short-term interest rates are currently at a 15-year high but are expected to fall in the coming years and it is therefore likely to be more cost effective over the medium-term to either use internal resources, or to borrow short-term loans instead.

1.37 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 2024/25 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

1.38 The Council has previously raised all 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.

1.39 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.

1.40 In addition, the Council may borrow short-term loans to cover unplanned cash flow shortages.

1.41 **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)
- UK Infrastructure Bank Ltd

- 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
- Retail investors via a regulated peer-to-peer platform
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

1.42 **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
- similar asset based finance

1.43 **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.

1.44 **LOBOs:** The Council doesn't hold or intend to hold any LOBO (Lender's Option Borrower's Option) loans.

1.45 **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).

1.46 **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. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.

Treasury Investment Strategy

1.47 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 £20.5m and £38.0m, however these levels are predicted to decrease following completion of works at Clay Cross Active.

1.48 **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. 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. The Council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

1.49 **Strategy:** As demonstrated by the liability benchmark above, the Council expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different sectors and boost investment income.

1.50 The CIPFA Code does not permit local authorities to both borrow and invest long-term for cash flow management. But the Council may make long-term investments for treasury risk management purposes, including to manage interest rate risk by investing sums borrowed in advance for the capital programme for up to three years; to manage inflation risk by investing usable reserves in instruments whose value rises with inflation; and to manage price risk by adding diversification to the strategic pooled fund portfolio.

1.51 **ESG policy**: Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Council's strategy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Council will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

1.52 **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.

1.53 **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

1.54 *** 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.

1.55 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.

1.56 **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.

1.57 **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.

1.58 **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.

1.59 **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.

1.60 **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.

1.61 **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.

1.62 **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.

1.63 **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.

1.64 **Operational bank accounts:** The Council may incur operational exposures, for example though 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.

1.65 **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.

1.66 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.

1.67 **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.

1.68 **Reputational aspects:** The Council is aware that investment with certain counterparties, while considered secure from a purely financial perspective, may leave it open to criticism, valid or otherwise, that may affect its public reputation, and this risk will therefore be taken into account when making investment decisions.

1.69 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008, 2020 and 2022, 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.

1.70 **Investment limits**: The Council's revenue reserves available to cover investment losses are forecast to be £26.9 million on 31st March 2024 and £26.5 million on 31st March 2025. In order that no more than 18.6% 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.

1.71 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.

1.72 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

1.73 **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.

1.74 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 Prudential Indicators

1.75 The Council measures and manages its exposures to treasury management risks using the following indicators:

1.76 **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** 1.36

1.77 **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	£21.7m

1.78 **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% rise in interest rates	£1.5m
Upper limit on one-year revenue impact of a 1% fall in interest rates	(£1.5m)

1.79 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.

1.80 **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%

1.81 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.

1.82 **Long-term treasury management investments:** 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 prudential limits on the long-term treasury management investments will be:

Price risk indicator	2023/24	2024/25	2025/26	No fixed date
Limit on principal invested beyond year end	£20m	£20m	£20m	£20m

Related Matters

1.83 The CIPFA Code requires the Council to include the following in its treasury management strategy.

1.84 **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).

1.85 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.

1.86 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.

1.87 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.

1.88 **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.

1.89 **Financial Implications**: The General Fund budget for investment income in 2024/25 is £0.176m with the HRA budget for investment income in 2024/25 being £0.324m, based on an average investment portfolio of £12.3m at an average interest rate of 4.08%. The General Fund budget for debt interest paid in 2024/25 is £0.395m with the HRA budget for debt interest paid in 2024/25 being £5.246m, based on an average debt portfolio of £153.9m at an average interest rate of 4.03%. 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

1.90 The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer, having consulted the Portfolio Holder 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

Arlingclose Economic & Interest Rate Forecast (November 2023)

Underlying assumptions:

- UK inflation and wage growth remain elevated but have eased over the past two months fuelling rate cuts expectations. Near-term rate cuts remain unlikely, although downside risks will increase as the UK economy likely slides into recession.

- The MPC's message remains unchanged as the Committee seeks to maintain tighter financial conditions. Monetary policy will remain tight as inflation is expected to moderate to target slowly, although some wage and inflation measures are below the Bank's last forecasts.

- Despite some deterioration in activity data, the UK economy remains resilient in the face of tighter monetary policy. Recent data has been soft but mixed; the more timely PMI figures suggest that the services sector is recovering from a weak Q3. Tighter policy will however bear down on domestic and external activity as interest rates bite.

- Employment demand is easing. Anecdotal evidence suggests slowing recruitment and pay growth, and we expect unemployment to rise further. As unemployment rises and interest rates remain high, consumer sentiment will deteriorate. Household and business spending will therefore be weak.

- Inflation will fall over the next 12 months. The path to the target will not be smooth, with higher energy prices and base effects interrupting the downtrend at times. The MPC's attention will remain on underlying inflation measures and wage data. We believe policy rates will remain at the peak for another 10 months, or until the MPC is comfortable the risk of further 'second-round' effects has diminished.

- Maintaining monetary policy in restrictive territory for so long, when the economy is already struggling, will require significant loosening in the future to boost activity.

- Global bond yields will remain volatile. Markets are currently running with expectations of near-term US rate cuts, fuelled somewhat unexpectedly by US policymakers themselves. Term premia and bond yields have experienced a marked decline. It would not be a surprise to see a reversal if data points do not support the narrative, but the current 10-year yield appears broadly reflective of a lower medium- term level for Bank Rate.

- There is a heightened risk of fiscal policy and/or geo-political events causing substantial volatility in yields.

Forecast:

- The MPC held Bank Rate at 5.25% in December. We believe this is the peak for Bank Rate.

- The MPC will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. We see rate cuts from Q3 2024 to a low of around 3% by early-mid 2026.

- The immediate risks around Bank Rate have become more balanced, due to the weakening UK economy and dampening effects on inflation. This shifts to the downside in the short term as the economy weakens.

- Long-term gilt yields are now substantially lower. Arlingclose expects yields to be flat from here over the short-term reflecting medium term Bank Rate forecasts. Periodic volatility is likely.

	Current	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00
Central Case	5.25	5.25	5.25	5.25	5.00	4.75	4.25	4.00	3.75	3.50	3.25	3.00	3.00
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
3-month money market rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00
Central Case	5.40	5.40	5.40	5.30	5.15	4.80	4.30	4.10	3.80	3.50	3.25	3.05	3.05
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
5yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.77	3.75	3.75	3.75	3.70	3.60	3.50	3.50	3.40	3.30	3.30	3.30	3.35
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
10yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.72	3.75	3.80	3.80	3.80	3.80	3.80	3.80	3.75	3.65	3.60	3.65	3.70
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
20yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.16	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.25
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
50yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.76	3.80	3.85	3.90	3.90	3.90	3.90	3.90	3.90	3.90	3.95	3.95	3.95
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00

PWLB Standard Rate = Gilt yield + 1.00%
PWLB Certainty Rate = Gilt yield + 0.80%
PWLB HRA Rate = Gilt yield + 0.40%
UK Infrastructure Bank Rate = Gilt yield + 0.40%

Appendix B

Existing Investment & Debt Portfolio Position

	30/11/23 Actual Portfolio £m	30/11/23 Average Rate %
External borrowing:		
Public Works Loan Board	142.9	3.53
Total external borrowing	**142.9**	**3.53**
Total other long-term liabilities:	**0**	**0**
Total gross external debt	**142.9**	**3.53**
Treasury investments:		
The UK Government	0.0	0.00
Local authorities	10.0	5.78
Banks (unsecured)	0.0	0.00
Money Market Funds	18.0	5.34
Total treasury investments	**28.0**	**5.56**
Net debt	**114.9**	

North East Derbyshire District Council

Capital Strategy 2024/25 – 2027/28

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 2024/25, the Council is planning capital expenditure of £49.6m as summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure

	2022/23 Actual £m	**2023/24 Forecast £m**	**2024/25 Budget £m**	**2025/26 Budget £m**	**2026/27 Budget £m**	**2027/28 Budget £m**
General Fund Services	9.0	28.7	21.1	5.2	2.0	1.7
Council Housing (HRA)	20.3	35.0	28.5	24.5	22.9	15.3
TOTAL	**29.3**	**63.7**	**49.6**	**29.7**	**24.9**	**17.0**

1.4 The main General Fund capital projects include replacement vehicles, asset refurbishment, ICT replacement, disabled facilities grant funded adaptations, Clay Cross Towns Fund programme and development of Clay Cross Active. Following a change in the Prudential Code, the Council no longer incurs capital expenditure on investments.

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 of council dwellings, a new build project at North Wingfield, a regeneration project at Stonebroom, a stock purchase programme and improvement works to the energy efficiency of the Council's non-traditional housing stock.

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 annually. 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 (Appendix A)

	2022/23 Actual £m	2023/24 Forecast £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m	2027/28 Budget £m
External Sources	6.4	21.5	11.5	4.1	0.8	0.8
Capital Receipts	2.7	6.0	3.0	2.0	2.2	1.3
Own Resources	18.4	17.7	16.6	15.0	14.9	14.3
Debt	1.8	18.5	18.5	8.6	7.0	0.6
TOTAL	**29.3**	**63.7**	**49.6**	**29.7**	**24.9**	**17.0**

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

	2022/23 Actual £m	2023/24 Forecast £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m	2027/28 Budget £m
Capital Resources	0	0	0	0	0	0
Minimum Revenue Provision (MRP)	0.1	0.2	0.5	1.0	1.0	1.0
Total	0.1	0.2	0.5	1.0	1.0	1.0

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 £18.0m during 2024/25. 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

	31/3/2023 Actual £m	31/3/2024* Forecast £m	31/3/2025 Budget £m	31/3/2026 Budget £m	31/3/2027 Budget £m	31/3/2028 Budget £m
General Fund Services	20.9	30.2	40.1	36.1	32.0	27.7
Council Housing (HRA)	171.4	181.0	189.1	197.7	204.6	205.2
TOTAL CFR	**192.3**	**211.2**	**229.2**	**233.8**	**236.6**	**232.9**

*£0.285m of the CFR increase in 2023/24 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. The Council is currently also permitted to spend capital receipts "flexibly" on approved service reform projects until 2024/25 under the flexible use of capital receipts strategy. Repayments of capital grants, loans and investments also generate capital receipts. The Council plans to receive £4.1m of capital receipts in the coming financial year as follows:

Table 5: Capital receipts receivable

	2022/23 Actual £m	**2023/24 Forecast £m**	**2024/25 Budget £m**	**2025/26 Budget £m**	**2026/27 Budget £m**	**2027/28 Budget £m**
Asset Sales	3.59	2.50	4.10	4.00	4.00	4.00
Loans Repaid	0	0	0	0	0	0
TOTAL	**3.59**	**2.50**	**4.10**	**4.00**	**4.00**	**4.00**

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 £142.9m borrowing at an average interest rate of 3.53% and £28.0m treasury investments at an average rate of 5.17%.

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 and long-term fixed rate loans where the future cost is known but higher.

1.16 The Council does not borrow to invest for the primary purpose of financial return and therefore retains full access to the Public Works Loans Board.

1.17 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

	31/3/2023 Actual £m	31/3/2024 Forecast £m	31/3/2025 Budget £m	31/3/2026 Budget £m	31/3/2027 Budget £m	31/3/2028 Budget £m
Debt (incl. leases)	147.0	150.8	157.0	156.0	155.9	155.8
Capital Financing Requirement	192.3	211.2	229.2	233.8	236.6	232.9

1.18 Statutory guidance is 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.

1.19 **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

	31/3/2023 Actual £m	31/3/2024 Forecast £m	31/3/2025 Budget £m	31/3/2026 Budget £m	31/3/2027 Budget £m	31/3/2028 Budget £m
Forecast Borrowing	147.0	150.8	157.0	156.0	155.9	155.8
Liability Benchmark	131.0	144.1	157.8	156.6	156.3	156.0

1.20 The table above shows that the Council expects to remain borrowed above its liability benchmark in the short term but slightly below in the longer term. This is because of the capital investment decisions made to borrow additional sums for the development of Clay Cross Active, the North Wingfield New Build Project and the Stonebroom Regeneration project.

1.21 **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

	2023/24 limit £m	**2024/25 limit £m**	**2025/26 limit £m**	**2026/27 limit £m**	**2027/28 limit £m**
Authorised Limit – Borrowing	220.9	238.4	243.2	246.2	242.6
Authorised Limit – Leases	0.3	0.8	0.6	0.4	0.3
Authorised Limit – Total External Debt	**221.2**	**239.2**	**243.8**	**246.6**	**242.9**
Operational Boundary – Borrowing	215.9	233.4	238.2	241.2	237.6
Operational Boundary – Leases	0.3	0.8	0.6	0.4	0.3
Operational Boundary – Total External Debt	**216.2**	**234.2**	**238.8**	**241.6**	**237.9**

1.22 **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.

1.23 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

	31/3/2023 Actual £m	**31/3/2024 Forecast £m**	**31/3/2025 Budget £m**	**31/3/2026 Budget £m**	**31/3/2027 Budget £m**	**31/3/2028 Budget £m**
Near-Term Investments	26.0	17.0	10.0	10.0	10.0	10.0
Longer-Term Investments	0	0	0	0	0	0
TOTAL	**26.0**	**17.0**	**10.0**	**10.0**	**10.0**	**10.0**

1.24 **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.

1.25 **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 the Audit and Corporate Governance Scrutiny Committee who are responsible for scrutinising treasury management decisions. Six monthly updates are provided for Council.

Investments for Service Purposes

1.26 The Council can make investments to assist local public services, including making loans to local service providers and businesses to promote economic growth.

1.27 **Risk Management:** 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. The risk of incurring unexpected losses is managed by the use of estimated credit losses. Provisions for expected credit losses are made to ensure that the Council can finance any sums due to the Council which are deemed to be irrecoverable after all recovery measures have been exhausted. A limit of £13.5m is placed on total investments for service purposes to ensure that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services. 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.

1.28 **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. The relevant service director is responsible for ensuring that adequate due diligence is carried out before investment is made.

Commercial Activities

1.29 With central government financial support for local public services declining, the Council has invested in developing residential property through Northwood Group Ltd. Currently, an investment of £8.039m has been made into Northwood Group Ltd and further future investment of £0.624m is approved to a total investment of £8.663m.

1.30 The Council has investment properties generating between £0.466m and £0.513m 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.

1.31 **Risk Management:** 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, and to ensure that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services. Contingency plans are in place should expected yields not materialise.

1.32 **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. The Chief Financial Officer is responsible for ensuring that adequate due diligence is carried out before investment is made.

Table 10 – Prudential Indicator: Net income from commercials & service investments to net revenue scheme.

	2022/23 Actual £m	2023/24 Forecast £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m	2027/28 Budget £m
Net income from commercial investments	0.513	0.473	0.468	0.468	0.467	0.466
Net income from service investments	0.629	0.648	0.654	0.557	0.344	0.262
Total net income from service and commercial investments	1.142	1.121	1.122	1.025	0.811	0.728
Proportion of net revenue stream	7.61%	6.53%	6.20%	5.50%	4.22%	3.68%
Proportion of usable revenue reserves	**4.22%**	**4.16%**	**4.23%**	**3.91%**	**3.11%**	**2.95%**

Other Liabilities

1.33 In addition to debt of £142.9m detailed above, the Council is committed to making future payments to cover its net pension fund deficit (valued at £6.4m). It has also set aside £0.8m to cover risks of business rates appeals and £1.1m to cover risks of water claims.

1.34 **Governance:** Decisions on incurring new discretional 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

1.35 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 11: Prudential Indicator: Proportion of financing costs to net revenue stream

	2022/23 Actual £m	2023/24 Forecast £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m	2027/28 Budget £m
Financing Costs	(0.355)	(0.520)	(0.030)	0.575	0.813	0.914
Proportion of Net Revenue Stream	(2.37%)	(3.03%)	(0.16%)	3.08%	4.23%	4.63%

1.36 **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 because all borrowing is repaid via the Revenue Account over the standard lives of the assets purchased.

Knowledge and Skills

1.37 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.

1.38 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.

1.39 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

1.40 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;
-

1.41 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 2022.

Banking Contract

1.42 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

1.43 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 2023-2028

Capital Expenditure	Revised Budget 2023/24 £	Original Budget 2024/25 £	Original Budget 2025/26 £	Original Budget 2026/27 £	Original Budget 2027/28 £
Housing Revenue Account					
HRA Capital Works	11,594,100	11,385,100	11,500,000	11,500,000	11,500,000
HRA Capital Works - Non Traditional Properties	9,743,000	9,743,000	500,000	500,000	500,000
Green Homes EWI - Mickley	0	0	0	0	0
Pine View, Danesmoor	110,000	0	0	0	0
Stock Purchase Programme (1-4-1)	4,964,000	1,000,000	3,000,000	3,000,000	3,000,000
Acquisitions and Disposals (RHL)	0	0	0	0	0
North Wingfield New Build Project	7,402,000	5,555,000	0	0	0
Stonebroom Regeneration	0	502,000	9,203,000	7,544,000	0
Garage Demolitions	83,000	23,000	23,000	23,000	23,000
Concrete Balconies	0	0	0	0	0
Parking Solutions	703,000	288,000	288,000	288,000	288,000
LADS3 Project	437,000	0	0	0	0
HRA - Capital Expenditure	**35,036,100**	**28,496,100**	**24,514,000**	**22,855,000**	**15,311,000**
General Fund					
Private Sector Housing Grants (DFG's)	820,000	820,000	820,000	820,000	820,000
ICT Schemes	518,700	80,000	133,000	248,000	248,000
Clay Cross Football Pitch	9,000	0	0	0	0
Asset Refurbishment - General	566,000	500,000	500,000	500,000	500,000
Asset Refurbishment - Mill Lane	870,000	450,000	0	0	0
Roller Shutter Doors	1,000	0	0	0	0
Eckington Pool Carbon Efficiencies Programme	4,000	0	0	0	0
Dronfield Sports Centre Carbon Efficiencies Programme	98,000	0	0	0	0
Coney Green Telephony System	36,000	80,000	65,000	0	15,000
Replacement of Vehicles	3,786,450	2,684,500	456,000	460,000	161,000
Contaminated Land	42,000	0	0	0	0
Killamarsh Leisure Centre	36,000	0	0	0	0
Sharley Park 3G pitch	0	1,000,000	0	0	0
CX Town Market Street Regeneration	5,871,000	6,000,000	3,000,000	0	0
CX Town Sharley Park Active Community Hub	12,655,000	8,605,000	0	0	0
CX Town Low Carbon Housing Challenge Fund	1,300,000	650,000	0	0	0
CX Town Rail Station Feasability	150,000	0	0	0	0
CX Town Programme Management	423,000	241,000	241,000	0	0
UK SPF Grants	1,534,000	0	0	0	0
General Fund Capital Expenditure	**28,720,150**	**21,110,500**	**5,215,000**	**2,028,000**	**1,744,000**
Total Capital Expenditure	**63,756,250**	**49,606,600**	**29,729,000**	**24,883,000**	**17,055,000**

Capital Financing	2023/24	2024/25	2025/26	2026/27	2027/28
Housing Revenue Account					
Major Repairs Reserve	(15,974,100)	(15,755,100)	(12,000,000)	(12,000,000)	(12,000,000)
Prudential Borrowing - HRA	(9,628,400)	(8,095,000)	(8,603,000)	(6,944,000)	(600,000)
Development Reserve	(886,000)	(311,000)	(2,911,000)	(2,911,000)	(2,311,000)
External Grant - SHDF	(5,195,000)	(3,005,000)	0	0	0
External Grant - LADS3	(437,000)	0	0	0	0
1-4-1 Receipts	(2,915,600)	(1,330,000)	(1,000,000)	(1,000,000)	(400,000)
HRA Capital Financing	**(35,036,100)**	**(28,496,100)**	**(24,514,000)**	**(22,855,000)**	**(15,311,000)**
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 - Clay Cross Towns Fund	(12,154,000)	(6,891,000)	(3,241,000)	0	0
External Grant - Sharley Park Rebuild (Sport E)	(1,500,000)	0	0	0	0
External Grant - Sharley Park 3G pitch	0	(750,000)	0	0	0
External Grant - UKSPF	(1,389,000)	0	0	0	0
Prudential Borrowing - Vehicle Replacement	(2,065,000)	(1,504,000)	0	0	0
Prudential Borrowing - Killamarsh Leisure Centre	(36,000)	0	0	0	0
Prudential Borrowing - Sharley Park Leisure Centre	(6,745,000)	(8,605,000)	0	0	0
Prudential Borrowing - Sharley Park Leisure Centre 3G pitch	0	(250,000)	0	0	0
RCCO - Killamarsh Skate Park	(14,150)	0	0	0	0
RCCO - Mill Lane Refurbishment	(657,000)	(450,000)	0	0	0
RCCO - Coney Green Telephony System	(36,000)	(80,000)	(65,000)	0	(15,000)
RCCO - Roller Shutter Doors	(1,000)	0	0	0	0
RCCO - UK SPF (Skate Park)	(95,000)	0	0	0	0
RCCO - Roller Shutter Doors	0	0	0	0	0
Useable Capital Receipts	(3,157,000)	(1,760,500)	(1,089,000)	(1,208,000)	(909,000)
General Fund Capital Financing	**(28,720,150)**	**(21,110,500)**	**(5,215,000)**	**(2,028,000)**	**(1,744,000)**
HRA Development Reserve					
Opening Balance	(892,067)	(6,067)	(44,154)	(789,098)	(1,437,558)
Amount due in year	0	(349,087)	(3,655,944)	(3,559,460)	(3,366,267)
Amount used in year	886,000	311,000	2,911,000	2,911,000	2,311,000
Closing Balance	**(6,067)**	**(44,154)**	**(789,098)**	**(1,437,558)**	**(2,492,825)**
Major Repairs Reserve					
Opening Balance	(970,498)	(851,498)	(851,498)	(851,498)	(851,498)
Amount due in year	(15,855,100)	(15,755,100)	(12,000,000)	(12,000,000)	(12,000,000)
Amount used in year	15,974,100	15,755,100	12,000,000	12,000,000	12,000,000
Closing Balance	**(851,498)**	**(851,498)**	**(851,498)**	**(851,498)**	**(851,498)**
Capital Receipts Reserve					
Opening Balance	(1,680,236)	(23,236)	(262,736)	(1,173,736)	(1,965,736)
Income expected in year	(1,500,000)	(3,000,000)	(3,000,000)	(3,000,000)	(3,000,000)
Allowable Debt/Pooling Expenses	0	1,000,000	1,000,000	1,000,000	1,000,000
Amount used in year	3,157,000	1,760,500	1,089,000	1,208,000	909,000
Closing Balance	**(23,236)**	**(262,736)**	**(1,173,736)**	**(1,965,736)**	**(3,056,736)**
Capital Receipts Reserve 1-4-1 receipts					
Opening Balance	(2,183,065)	(267,465)	(37,465)	(37,465)	(37,465)
Income expected in year	(1,000,000)	(1,100,000)	(1,000,000)	(1,000,000)	(1,000,000)
Amount used in year	2,915,600	1,330,000	1,000,000	1,000,000	400,000
Closing Balance	**(267,465)**	**(37,465)**	**(37,465)**	**(37,465)**	**(637,465)**
Total Capital Financing	**(63,756,250)**	**(49,606,600)**	**(29,729,000)**	**(24,883,000)**	**(17,055,000)**

Appendix B

Annual Minimum Revenue Provision Statement 2024/25

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 due to the adoption of the *IFRS 16 Leases* accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or incentives, 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, the Council will make nil MRP unless (a) the loan is an investment from commercial purposes and no repayment was received in year or (b) an expected credit loss was recognised or increase in-year, 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 on loans that are investments for commercial purposes, 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. Sufficient MRP will be charged to ensure that the outstanding capital financing requirement (CFR) on the loan is no higher than the principal amount outstanding less the expected credit loss. This option was proposed by the Government in its recent MRP consultation and in the Council's view is consistent with the current regulations.

- No MRP will be charged in respect of assets held within the Housing Revenue Account but depreciation on those assets will be charged in line with regulations.

Capital expenditure incurred during 2024/25 will not be subject to a MRP charge until 2025/26 or later.

Based on the Council's latest estimate of its Capital Financing Requirement on 31st March 2024, the budget for MRP has been set as follows:

	31/03/24 Estimated CFR £m	**2024/25 Estimated MRP £m**
Supported Capital Expenditure after 31.03.2008	0	0
Unsupported Capital Expenditure after 31.03.2008	29.927	0.418
Leases	0.285	0.072
Total General Fund	**30.212**	**0.490**
Assets in the Housing Revenue Account	53.885	0
HRA Subsidy Reform Payment	127.090	0
Total Housing Revenue Account	**180.975**	**0**
Total	**211.187**	**0.490**

<u>Revenue Account (HRA)</u>

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

Non-Treasury Investment Strategy 2024/25 – 2027/28

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.

1.3 The statutory guidance defines investments as "all of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios." The Council interprets this to exclude (a) trade receivables which meet the accounting definition of financial assets but are not investments in the everyday sense of the word and (b) property held partially to generate a profit but primarily for the provision of local public services. This aligns the Council's definition of an investment with that in the 2021 edition of the CIPFA Prudential Code, a more recent piece of statutory guidance.

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 £10.0m and £19.0m during the 2024/25 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 2024/25 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	**31/3/2023 actual**			**2024/25**
	Balance owing £m	**Loss allowance £m**	**Net figure in accounts £m**	**Approved limit £m**
Rykneld Homes Ltd	6.765	0	6.765	13.500
Northwood Group Ltd	8.039	0	8.039	8.663
Total	**14.803**	**0**	**14.803**	**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 had invested £0.150m 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. During 2023/24 the Council's interest in Northwood ceased following the sale of the company.

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	**31/3/2023 actual**			**2024/25**
	Amounts invested £m	**Gains or (losses) £m**	**Value in accounts £m**	**Approved Limit £m**
Northwood Group Ltd	0.150	(0.022)	0.128	0.000
TOTAL	**0.150**	**(0.022)**	**0.128**	**0.000**

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	31/3/2023 actual		31/3/2024 expected	
	Purchase cost £m	Gains or (losses) £m	Value in accounts £m	Gains or (losses) £m	Value in accounts £m
Industrial Units	4.7	5.5	10.2	0	10.2
Land	1.6	7.4	9.0	0	9.0
Commercial Properties	1.1	0.1	1.2	0	1.2
Shared Ownership Properties	1.0	0.4	1.4	0	1.4
TOTAL	**8.4**	**13.4**	**21.8**	**0**	**21.8**

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 2023/24 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.

Proportionality

1.23 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

	2022/23 Actual £m	**2023/24 Forecast £m**	**2024/25 Budget £m**	**2025/26 Budget £m**	**2026/27 Budget £m**	**2027/28 Budget £m**
Net Service Expenditure	12.377	14.837	15.591	16.020	16.372	16.837
Net Investment Income	0.513	0.473	0.468	0.468	0.467	0.466
Proportion	**4.1%**	**3.2%**	**3.0%**	**2.9%**	**2.9%**	**2.8%**

Borrowing in Advance of Need

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

Capacity, Skills and Culture

1.25 **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.

1.26 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.

1.27 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.

1.28 **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.

1.29 **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

1.30 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.

1.31 **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	**31/03/2023 Actual £m**	**31/03/2024 Forecast £m**	**31/03/2025 Forecast £m**
Treasury management investments	26.00	17.00	10.00
Service investments: Loans – Rykneld Homes Ltd	6.77	6.50	6.24
Service investments: Loans – Northwood Group Ltd	8.04	8.22	7.52
Service investments: Shares – Northwood Group Ltd	0.15	0.00	0.00
Commercial investments: Property	21.80	21.80	21.80
TOTAL INVESTMENTS	**62.76**	**53.52**	**45.56**
Commitments to lend	7.36	7.44	8.40
TOTAL EXPOSURE	**70.12**	**60.96**	**53.96**

1.32 **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	**31/03/2023 Actual £m**	**31/03/2024 Forecast £m**	**31/03/2025 Forecast £m**
Treasury management investments	0	0	0
Service investments: Loans – Rykneld Homes Ltd	6.77	6.50	6.24
Service investments: Loans – Northwood Group Ltd	8.04	8.22	7.52
Service investments: Shares – Northwood Group Ltd	0	0	0
Commercial investments: Property	0	0	0
TOTAL FUNDED BY BORROWING	**14.81**	**14.72**	**13.76**

1.33 **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	**2022/23 Actual £m**	**2023/24 Forecast £m**	**2024/25 Forecast £m**
Treasury management investments	1.89%	3.89%	4.08%
Service investments: Loans – Rykneld Homes Ltd	3.53%	3.52%	3.51%
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	2.35%	2.17%	2.15%

1.34 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

North East Derbyshire District Council

Flexible Use of Capital Receipts Strategy 2024/25

Introduction

1.1 As part of the November 2015 Spending Review, the Government announced that it would introduce flexibility for the period of the Spending Review for local authorities to use capital receipts from the sale of assets to fund the revenue costs of service reform and transformation.

The Guidance

1.2 The guidance issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003 specified that:

- Local authorities will only be able to use capital receipts from the sale of property, plant and equipment received in the years in which this flexibility is offered. They may not use their existing stock of capital receipts to finance the revenue costs of reform.

- Local authorities cannot borrow to finance the revenue costs of the service reforms.

- The expenditure for which the flexibility can be applied should be the up-front (set up or implementation) costs that will generate future ongoing savings and/or transform service delivery to reduce costs or to improve the quality of service delivery in future years. The ongoing revenue costs of the new processes or arrangements cannot be classified as qualifying expenditure.

- The key determining criteria to use when deciding whether expenditure can be funded by the new capital receipts flexibility is that it is forecast to generate ongoing savings to an authority's net service expenditure.

- In using the flexibility, the Council will have due regard to the requirements of the Prudential Code, the CIPFA Local Authority Accounting Code of Practice and the current edition of the Treasury Management in Public Services Code of Practice.

1.3 The Council is also required to prepare a “Flexible use of capital receipts strategy” before the start of the year to be approved by Council which can be part of the budget report to Council. This Strategy therefore applies to the financial year 2024/25.

Examples of qualifying expenditure

1.4 There are a wide range of projects that could generate qualifying expenditure and the list below is not prescriptive. Examples of projects include:

- Sharing back-office and administrative services with one or more other council or public sector bodies;
- Investment in service reform feasibility work, e.g. setting up pilot schemes;
- Collaboration between local authorities and central government departments to free up land for economic use;
- Funding the cost of service reconfiguration, restructuring or rationalisation (staff or non-staff), where this leads to ongoing efficiency savings or service transformation;
- Sharing Chief Executives, management teams or staffing structures;
- Driving a digital approach to the delivery of more efficient public services and how the public interacts with constituent authorities where possible;
- Aggregating procurement on common goods and services where possible, either as part of local arrangements or using Crown Commercial Services or regional procurement hubs or Professional Buying Organisations;
- Improving systems and processes to tackle fraud and corruption in line with the Local Government Fraud and Corruption Strategy – this could include an element of staff training;
- Setting up commercial or alternative delivery models to deliver services more efficiently and bring in revenue (e.g. through selling services to others);
- Integrating public facing services across two or more public sector bodies (e.g. children’s social care, trading standards) to generate savings or to transform service delivery.

The Council's Proposals

1.5 Government has provided a definition of expenditure which qualifies to be funded from capital receipts. This is: "Qualifying expenditure is expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any public sector delivery partners. Within this definition, it is for individual local authorities to decide whether or not a project qualifies for the flexibility."

1.6 The Government's use of flexible capital receipts directive has been extended until 31st March 2025.

1.7 The Council currently has no plans to utilise the use of flexible capital receipts during the period of the Medium Term Financial Plan 2024/25.

Impact on Prudential Indicators

1.8 The guidance requires that the impact on the Council's Prudential Indicators should be considered when preparing a Flexible Use of Capital Receipts Strategy. The Council's current capital programme does not utilise the capital receipts that will be generated to fund the above proposal. Therefore, there will be no change to the Council's Prudential Indicators that are contained in the Treasury Management Strategy Statement.

1.9 This strategy has been produced to fulfil the requirements of the DELTA return for the flexible use of capital receipts. As the Council is not utilising the flexible use of capital receipts within its current medium term financial plan this strategy was not needed and not taken through the usual Council committee, it will, in future be added to the normal Treasury Management Strategy Statement approval process

North East Derbyshire District Council

Audit Committee

22 January 2024

Accounting Policies 2023/24

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

Classification:	This report is public
Report By:	Jayne Dethick, Director of Finance and Resources (S151 Officer)
Contact Officer:	Jayne Dethick

PURPOSE/SUMMARY

To request approval by the Audit Committee of the accounting policies that it is proposed to adopt for the current financial year in the preparation of the Statement of Accounts 2023/24.

RECOMMENDATIONS

1. That the Audit Committee approves the Accounting Policies detailed at **Appendix 1** to this report.

2. Members are requested to note that any proposed amendments or changes to these policies will be reported back to this Committee, together with an explanation for the reasons a change is considered to be appropriate and detailing any financial implications of the amendments.

IMPLICATIONS

Finance and Risk **Yes ✓** **No**

There are no direct financial implications arising from this report. The accounting policies will however be used to determine the accounting treatment of the financial transactions of the Council for 2023/24 and will therefore influence the presentation and understanding of the financial position of the Council as at 31 March 2024.

None of the policies outlined in **Appendix 1** are considered to be in conflict with legislative or IFRS requirements therefore the risk of adopting a policy that contravenes good practice is considered minimal. The greater risk is the failure to ensure that the policy and the actual accounting treatment are consistent. To minimise this risk the accounts production timetable for 2023/24 has officer review time built in to cross check the policies to the actual treatment of items within the accounts.

On Behalf of the Section 151 Officer

Legal including Data Protection **Yes ✓** **No**

The agreement of appropriate Accounting Policies is part of the process of ensuring that the Council satisfies its legal obligation to prepare a Statement of Accounts. The accounting policies adopted by the Council must comply with current legislation, the Code of Practice on Local Government Accounting and IFRS requirements. Officers have given careful consideration to the policies detailed at **Appendix 1** to ensure that they meet all these requirements.

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: **NEDDC:** **Revenue - £100,000 ☒ Capital - £250,000 ☒** ☒ *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 ☐ Cabinet ☐** **SMT ☐ Relevant Service Manager ☐** **Members ☐ Public ☐ Other ☐**	No Details:

Links to Council Plan priorities, including Climate Change, Equalities, and Economics and Health implications.
All

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1 REPORT DETAILS

1.1 The Accounting Policies adopted by the Council determine the accounting treatment that is applied to transactions during the financial year and in the preparation of the Statement of Accounts at the year end. They determine the specific principles, bases, conventions, rules and practices that will be applied by the Council in preparing and presenting its financial statements. The accounting policies themselves are published within the Statement of Accounts in accordance with the Code of Practice on Local Government Accounting and incorporate the requirements of International Financial Reporting Standards (IFRS).

1.2 The approval of the accounting policies to be applied by the Council demonstrates that due consideration is being given to which policies to adopt and apply and that those charged with corporate governance are fully informed prior to the commencement of the Statement of Accounts preparation of the policies that are being adopted.

1.3 This report therefore presents the accounting policies that the Council will apply in the preparation of the Statement of Accounts 2023/24.

Accounting Policies

1.4 Officers have assessed the accounting policies that are deemed necessary to explain clearly and underpin the accounting treatment of transactions within the Council's Statement of Accounts for 2023/24. In undertaking this assessment a review of all accounting policies previously agreed has been undertaken to check their relevance, clarity, legislative compliance and that they are in accordance with the latest version of the code of practice and IFRS requirements.

1.5 With regard to the policies proposed in respect of 2023/24 these are largely unchanged from previous years with only minor changes to aid understanding. As the Statement of Accounts for 2023/24 are prepared it may be necessary to amend a policy in order to adopt a more appropriate accounting policy. If this occurs, the change and the reason for the change will be reported back to the Audit Committee at its next available meeting. Full details of all the proposed accounting policies are provided at **Appendix 1**.

2 Reasons for Recommendation

2.1 This report sets out the Accounting Policies which it is proposed to adopt in respect of the 2023/24 Statement of Accounts for consideration by the Audit Committee. Given that the policies adopted have a significant influence upon the Accounting Statements it is important that these are given appropriate consideration at the outset of the preparation of the Statement of Accounts. This helps ensure that they are applied consistently in the preparation of the Accounts. The Policies which are recommended for adoption are largely in line with those that were used in the previous financial year (2022/23) with no significant changes at this time.

3 Alternative Options and Reasons for Rejection

4.1 The Council is required to have appropriate Accounting Policies within its Statement of Accounts. Officers have developed what they consider to be an appropriate set of policies based upon those adopted in previous financial years and taking account of changes as required by current legislation. The preparation and consideration of this report is part of a process intended to ensure that alternative options are given appropriate consideration.

DOCUMENT INFORMATION

Appendix No	Title
1	Accounting Policies
Background Papers	

Accounting Policies and General Notes

1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2023/24 financial year and its position at the year-end of 31st March 2024. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 which require them to be prepared in accordance with proper accounting practices. These practices primarily consist of the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 supported by UK endorsed International Financial Reporting Standards (IFRS).

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

The Council does not have any transactions that are re-classifiable to the Surplus or Deficit on the Provision of Services. As such we have not grouped the items in Other Comprehensive Income and Expenditure into amounts that may be re-classifiable and amounts that are not.

The Council has followed the requirements of International Accounting Standard (IAS) 1 in preparing the Statement of Accounts. Its objectives are to ensure that for all material items the Council:

- Adopts accounting policies most appropriate to its particular circumstances for the purpose of giving a true and fair view;
- Reviews the accounting policies regularly to ensure that they remain appropriate, and changes them when a new policy becomes more appropriate;
- Ensures that sufficient information is disclosed in the financial statements to enable users to understand the accounting policies adopted and how they have been implemented.

The general principles adopted in compiling the accounts are those set out by CIPFA in the Code of Practice on Local Authority Accounting in the United Kingdom, which is recognised by statute as representing proper accounting practice. In addition, the Local Authority Accounting Panel Standards Committee periodically issue bulletins on accounting practice. These accounting policies conform with those principles, which are applicable to Local Authorities.

2 Accounting Concepts

The concepts used in selecting and applying the most appropriate policies and estimation techniques are as follows:

- The qualitative characteristics of financial information – relevance, reliability, comparability, and understanding;

- Materiality (all major transactions and events are included);

- The accounting concepts of accruals, going concern and primacy of legislative requirements.

3 Accruals of Income and Expenditure

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

- Revenue from fees, charges and rents due from customers are recognised when the Council transfers the risk and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet;

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

- Interest receivable on investments and payable on borrowings is accounted for in the year to which it relates and are based on an effective interest rate for the relevant financial instrument rather than the cash flow fixed or determined by the contract;

- Where income and expenditure has been recognised but cash has not been received or paid a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

An exception to this principle relates to electricity and other similar periodic payments which are charged at the date of meter reading rather than being apportioned between financial years. This policy is consistently applied each year and therefore does not have a material effect on the year’s accounts.

Income and expenditure are credited and debited to the relevant service revenue account, unless they properly represent capital receipts or capital expenditure.

Grant claims are submitted on an actual basis wherever possible, however if the information to do this is not available then a best estimate basis is adopted.

4 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are short-term, highly liquid investments that mature within three months and are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

5 Charge to revenue for Non-Current Assets

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

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

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

The Council's policy for the calculation of the statutory provision for the repayment of debt is determined each year by the Council in the Treasury Management Strategy. The Council has decided that for 2023/24 the outstanding general fund debt prior to 1 April 2007 will be repaid at a rate of £56,000 per year until the debt is extinguished. All other prudential borrowing for the General Fund is repaid based on the life of the asset.

6 Collection Fund

The transactions of the Collection Fund are wholly prescribed by legislation. Billing authorities have no discretion to determine which receipts and payments are accounted for within the fund and which outside.

<u>NNDR – Impairment of Appeals</u>

Each year the Council commissions an independent assessment of the outstanding appeals lodged with the Valuation Office. The assessment has reviewed every individual appeal and estimate of the likelihood of the appeal succeeding based on the category of appeal and previous appeal determinations.

The rateable value and the period covered by the appeal have been used to establish a prudent provision to meet the estimated costs of successful appeals.

7 Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent assets are not recognised in the accounting statements; they are disclosed by way of notes where it is probable that there will be an inflow of economic benefit or service potential.

8 Contingent Liabilities

A contingent liability arises when an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required, or the amount of the obligation cannot be measured reliably. Contingent Liabilities are not recognised in the accounting statements; but are disclosed in a note to the accounts.

9 Expected Credit Losses

The Council's accounting policy does not strictly comply with the expectations of IFRS9 which requires a credit loss estimation approach. The Council is satisfied that there are no material differences in the overall value of the estimated loss and provision under the two approaches. Provisions for expected credit losses are made to ensure that the Council can finance any sums due to the Council which are subsequently deemed to be irrecoverable after all recovery measures have been exhausted. This sum is reduced annually by sums written off and increased by any contributions from the revenue account. The provision is netted off against debtors in the Balance Sheet and not included in the provisions total.

The provision in respect of overdue council tax, housing benefit overpayments, rents and NNDR is calculated by category on a percentage basis based upon previous experience of the recovery of debts of that type. The provision for other sundry debts is calculated by reference to the age of the debt involved, and the Council's previous experience of recovering such debt.

10 Employee Benefits

<u>Benefits Payable during Employment</u>

Short term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end, but which can be carried forward into the next financial year. The accrual is made at the salary rates applicable in the following accounting year, as this is the period in which the employee takes the benefit. The accrual is charged to the relevant service area of the Comprehensive Income and Expenditure Statement, but then is reversed out through the Movement in Reserves Statement so that the annual leave is charged to revenue in the financial year in which the annual leave occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date, or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the appropriate service or, where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the Pension Fund or pensioner in year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with accrued debits for the cash paid to the Pension Fund and pensioners and any such amounts payable but unpaid at the year end.

Post Employment Benefits

Employees of the Council are members of the Local Government Pension Scheme administered on behalf of the Council by Derbyshire County Council. The scheme provides defined benefits to members (lump sums and pensions) earned as employees working for the Council.

The Local Government Pension Scheme

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

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

- Liabilities are discounted to their value at current prices using a discount rate.

- The assets of the Derbyshire County Council Pension fund attributable to the Council are included in the Balance Sheet at their fair value:

    - quoted securities – current bid price;
    - unquoted securities – professional estimate;
    - unitised securities – average of the bid and offer rates;
    - property – market value.

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

- Current Service Cost – the increase in liabilities as result of years of service earned this year. This is allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.

- Past Service Cost – the increase in liabilities arising because of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years. These costs are debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement, as part of Non-Distributed Costs.

- Interest Costs – the expected increase in the present value of liabilities during the year as they move one year closer to being paid. The cost is debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Remeasurements – comprising:

- The Return on Plan Assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pension Reserve as Other Comprehensive Income and Expenditure.

- Actuarial Gains and Losses – change in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve as Other Comprehensive Income and Expenditure.

- Contributions paid to the County Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

<u>Discretionary Benefits</u>

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

11 Events after the Reporting Period

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

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.

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

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

12 Exceptional Items

Exceptional items are included in the cost of the service to which they relate or on the face of the Comprehensive Income and Expenditure Statement if that degree of prominence is necessary to give a fair presentation of the accounts. An adequate description of each exceptional item is given within the notes to the accounts.

13 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result in a change of accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made it is applied retrospectively by adjusting the opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in the prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the period.

14 Financial Instruments

The Council is required to recognise, measure, present and disclose information about any financial instruments. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Typical financial assets include bank deposits, trade receivables and other receivables, loans receivable and advances. Typical financial liabilities include trade payables and other payables, borrowings and financial guarantees. Non-exchange transactions, such as those relating to taxes and government grants, do not give rise to financial instruments.

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest). Interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics.

There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest.

Financial Assets Measured at Amortised Cost

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

When loans are made at less than market rates (a soft loan) a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost that the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the organisation, with the difference serving to increase the amortised cost of the loan in the balance sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year.

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

Expected Credit Loss Model

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

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

Financial Assets Measured at Fair Value through Profit or Loss

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

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

- instruments with quoted market prices – the market price.

- other instruments with fixed and determinable payments – discounted cash flow analysis.

- equity shares with no quoted market prices – multiple valuation techniques (which include market approach, income approach and cost approach).

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

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date.

- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.

- Level 3 inputs – unobservable inputs for the asset.

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

Where fair value cannot be measure reliably, the instrument is carried at cost (less any impairment losses).

15 Government Grants and Contributions

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

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

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

16 Heritage Assets

Heritage assets are a distinct class of asset which are reported separately from property, plant and equipment and intangible assets.

<u>Recognition</u>

Heritage assets are classed as “a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge or culture” or “an intangible asset with cultural, environmental or historical significance”. A general de-minimis limit of £10,000 is applied to all fixed assets.

<u>Measurement</u>

Only heritage assets that have a cost or value available are required to be entered into the Balance Sheet. Where information on the cost or value is not available and the cost of obtaining the information outweighs the benefits to the user of the statements, the code does not require that the asset is recognised in the Balance Sheet, although appropriate disclosure is needed where heritage assets are not recognised in the Balance Sheet.

Unlike other assets, a full valuation every five years is not required. Valuations can be done whenever the Council requires. The valuations may be made by any method that is appropriate and relevant, this may include insurance valuations.

However, the code does require that authorities review the carrying amounts of heritage assets with sufficient regularity to ensure they remain current. Because of this the Council has determined that a five year review will be carried out.

<u>Impairment</u>

Impairment reviews are only required in limited circumstances. However, the Council has determined that a five year review will be carried out. An immediate review will need to be carried out where an asset has suffered physical deterioration or breakage of a heritage asset; or where new doubts arise as to the authenticity of a heritage asset.

Where impairment is identified as part of this review and it is deemed material, or as a result of a valuation exercise, this is accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the accumulated gains).

- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service lines in the Comprehensive Income and Expenditure Statement.

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

Depreciation

Depreciation is provided for on some heritage assets, ones with a definite life, by the systematic allocation of their depreciable amounts over their useful lives.

- Depreciation is calculated on a straight-line allocation over the useful life of the asset.

For any heritage assets with indefinite lives no depreciation is required.

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

Disposals

When it becomes probable that an asset is to be sold it is reclassified as an Asset Held for Sale. The asset is revalued before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to the fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

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

Assets that are abandoned or scrapped are not classified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposal are credited to the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received from disposal proceeds in excess of £10,000 are categorised as capital receipts. The balance of receipts is credited to the Capital Receipts Reserve and can only be used either to finance new capital investment or set aside to reduce the Council's underlying need to borrow. Receipts are appropriated to the Reserve from the Movement on Reserves Statement.

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

17 Intangible Assets

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

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Intangible Assets are initially measured at cost. Amounts are only re-valued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice no intangible asset, held by the Council, meets this criterion and they are therefore carried at amortised cost.

The depreciable amount of an intangible asset is amortised over its useful life to the relevant service lines in the Comprehensive Income and Expenditure Statement.

Each intangible asset is tested for impairment each year to see if there is an indication that the asset might be impaired; any losses recognised are posted to the relevant service lines in the Comprehensive Income and Expenditure Statement. Any gain or loss arising from the disposal of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

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

18 Interests in Companies and Other Entities

The Council has a material interest in Rykneld Homes Limited, a company limited by guarantee, which is an Arms Length Management Organisation (ALMO).

The ALMO is a wholly owned subsidiary, which was formed on 1 April 2007 and as a result the Council are required to prepare Group Accounts. In the Council's own single-entity accounts, the interests in companies and other entities are recorded as investments, i.e. at cost, less any provision for losses, however, due to the low value of this investment (£1) this is not included in the financial statements as this is below our materiality level.

19 Inventories

Inventories are included in the Balance Sheet at the lower of cost and net realisable value.

20 Investment Property

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

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are re-valued according to market conditions at the year end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

21 Jointly Controlled Operations and Jointly Controlled Assets

Jointly controlled operations are activities undertaken by the Council in conjunction with other ventures' that involve the use of assets and resources of the ventures' rather than the establishment of a separate entity. The Council recognises on its Balance Sheet the assets that it controls and the liabilities it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the share of expenditure it incurs and the share of income it earns from the operation.

Jointly controlled assets are items of property, plant and equipment that are jointly controlled by the Council and other ventures', with the assets being used to obtain benefits for the ventures'. The joint venture does not involve the establishment of a separate entity. The Council accounts for only its share of the jointly controlled assets, the liabilities and expenses it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

The Council has the following jointly controlled operations:

Internal Audit Services – with Bolsover District Council and Chesterfield Borough Council

ICT Services – with Bolsover District Council and Derbyshire Dales District Council

Environmental Health Services – with Bolsover District Council

The Council does have jointly controlled assets with Chesterfield Borough Council and Bolsover District Council regarding the operation of a crematorium. Based on materiality, the Council does not include any figures for the joint crematorium within the Statement of Accounts.

22 Leases

The Council accounts for leases as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee (the Council). All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey the right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

<u>The Council as Lessee</u>

Finance Leases

Property, plant and equipment held under finance leases are recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease inception. The asset recognised is matched by a liability for the obligation to pay the lessor.

Lease payments are apportioned between:

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

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

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

Operating Leases

The Council also has operating leases where the risk and rewards relating to the leased property remains with the lessor. Rentals payable are charged to the relevant service revenue account on a straight line basis over the term of the lease, generally meaning that rentals are charged when they become payable.

<u>The Council as Lessor</u>

Finance Leases

Where the Council grants a finance lease over a property, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council’s net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal, matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

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

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund balance and is required to be treated as a capital receipt.

The Council currently has no finance leases for property where this policy applies.
Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained on the Balance Sheet. Rental Income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments e.g. there is a premium paid at the start of the lease. Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the asset and charged as an expense over the lease term on the same basis as rental income.

23 Property, Plant and Equipment

Property, Plant and Equipment are non-current assets that have physical substance are held for use in the provision of services, for rental to others, or for administrative purposes and are expected to be used during more than one financial year.

Recognition

Expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis, provided that it yields benefits to the Council and the services that it provides is for more than one financial year. Expenditure that secures but does not extend the previously assessed standards of performance of the asset (e.g. repairs and maintenance) is charged to revenue as it is incurred. A general de-minimis limit of £10,000 is applied to non-current assets.

Measurement

Assets are initially measured at cost, comprising the purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its current value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). If an asset is acquired via an exchange the cost of acquisition is the carrying amount of the asset exchanged by the Council.

Donated assets are measured at fair value. The difference between fair value and the consideration paid is credited to the Taxation and Non Specific Grant income line of the Comprehensive Income and Expenditure Statement, unless the donated asset has been made conditionally. Until all conditions are met the gain is held in the Donated Assets Account. Gains that are credited to the Comprehensive Income and

Expenditure Statement are reversed out of the General Fund balance to the Capital Adjustment Account in the Movement in Reserves Statement.

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

- Infrastructure, community assets and assets under construction – depreciated historical cost;
- Dwellings – current value, determined using the basis of existing use for social housing;
- Surplus assets – fair value, estimated at the highest and best use from a market participant's perspective;
- All other assets – current value, determined as the amount that would be paid for the asset in its existing use.

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

Where non property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at current value are re-valued where there have been material changes in the value, but as a minimum every five years. Valuations are undertaken by a professionally qualified valuer. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

Where decreases in value are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance, up to the value of the accumulated gains;

- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service lines in the Comprehensive Income and Expenditure Statement.

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

Impairment

At the end of each reporting period an assessment is made of whether there is any indication that an asset may be impaired. If there is an indication of impairment, and it is deemed material. The recoverable amount of the asset is estimated to determine the impairment loss.

Where impairment losses are identified they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance, up to the value of accumulated gains;

- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service lines in the Comprehensive Income and Expenditure Statement.

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

Depreciation

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

Depreciation is calculated on the following bases: -

- Land – Not depreciated
- Dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer.
- Infrastructure Assets – Straight-line allocation over life of asset
- Vehicles, plant furniture and equipment – straight-line allocation over the useful life of the asset.
- Community assets – are not depreciated.
- Council Dwellings – Straight Line allocation over the life of the property (also, subject to componentisation)

Items of property, plant and equipment are not depreciated until they become available for use (i.e. when the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management). Depreciation ceases at the earlier of the date that items of property, plant and equipment are classified as held for sale and the date they are derecognised.

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

Where an item of Property, Plant and Equipment exceed £1m in value and has major components whose costs are significant in relation to the total cost of the item, the components are depreciated separately. The Council deems “significant” to be 25% or more of the total cost of the asset. The Council also applies the following de minimis levels with regard to component accounting.

Components are not separately identified where:

- The useful life of the asset is less than 10 years
- The depreciation charge based on the life of the component would differ from that for the total asset by less than £10,000.
- The component life must be materially different to the main asset to be treated as a component.

For grouped assets such as Council Dwellings a practical level of componentisation has been applied which links to the work programmes carried out within capital programme. An appropriate life has been assigned to each of these components.

Disposals

When it becomes probable that an asset is to be sold it is reclassified as an Asset Held for Sale. The asset is re-valued before reclassification at its existing use value then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to the fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

To be classified as an asset held for sale an asset must meet the following criteria:

- The asset must be available for immediate sale in its present condition subject to terms that are usual and customary for sales of such assets;
- The sale must be highly probable, the appropriate level of management must be committed to a plan to sell the asset and an active programme to locate a buyer and complete the plan must have been initiated;
- The asset must be actively marketed for sale at a price that is reasonable in relation to its current value;
- The sale should be expected to qualify for recognition as a completed sale within one year of the date of classification and action required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

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

Assets that are abandoned or scrapped are not classified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposal are credited to the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal).

Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for disposals, in excess of £10,000 are treated as capital receipts. A proportion of Housing receipts is payable to central government. The balance of receipts is credited to the Capital Receipts Reserve and can only be used for new capital investment or set aside to reduce the Council's underlying need to borrow. Receipts are appropriated to the Reserve from the General Fund balance in the Movement in Reserves Statement.

The gain or loss on the sale of assets is not a charge against council tax. Amounts are appropriated to the Capital Adjustment Account in the Movement in Reserves Statement

24 Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential and a reliable estimate can be made of the amount of the obligation.

Provisions are charged to the appropriate service revenue account in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured as a best estimate at the balance sheet date of the expenditure required to settle the obligation taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of the financial year – where it becomes more likely than not that a transfer of economic benefit will not be required (or lower settlement anticipated) the provision is reversed and credited back to the relevant service revenue account.

25 Reserves

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

Certain reserves are kept to manage accounting processes for non-current assets, financial instruments, and retirement and employee benefits and do not represent usable resources for the Council.

26 Revenue Expenditure Funded from Capital under Statute

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

27 Value Added Tax (VAT)

The Council is normally able to recover all VAT. Where this is the case VAT is not included in the income and expenditure statements. Where the Council is unable to recover VAT it is charged to the appropriate service.

28 Segmental Analysis

The Council operates with three directorates. All services of the Council fall into one of these directorates. The main service areas within each directorate are as follows:

Organisation & Place Directorate – Environmental Health, Streetscene, Planning, Legal, Governance, Elections, Scrutiny, Human Resources, Health and Safety.

Finance & Resources Directorate – Payroll, Procurement, Financial Services, Revenues and Benefits, Audit (client), Community Safety, ICT, Communications, Housing (client lead for Rykneld Homes), Housing Strategy, Homelessness

Growth & Assets Directorate – Emergency Planning, Regeneration & Programmes; Tourism, Property Estates & Assets; Leisure.

North East Derbyshire District Council

Audit Committee

22 January 2024

Committee Work Programme 2023/2024

Report of the Assistant Director of Governance and Monitoring Officer

Classification: This report is public

Report By: Tom Scott – Governance and Scrutiny Officer

Contact Officer: Tom Scott thomas.scott@ne-derbyshire.gov.uk 01246 217045

PURPOSE / SUMMARY

To enable the Audit Committee to review the proposed Work Programme for the the municipal year 2023/2024.

RECOMMENDATIONS

1. That the Committee notes and approves the proposed Audit Committee Work Programme for the 2023/2024 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 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 and accountability arrangements remain robust. The Programme is designed to allow the Audit Committee to continue its flexible approach to its and consider work 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: **NEDDC:** **Revenue - £100,000 ☐ Capital - £250,000 ☐** ☒ *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 ☐ Cabinet ☐** **SAMT ☐ Relevant Service Manager ☐** **Members ☒ Public ☐ Other ☐**	Yes Details: Members of the Audit Committee

Links to Council Ambition (NED) priorities or Policy Framework including Climate Change, Equalities, and Economics and Health implications.
None.

REPORT DETAILS

1 Background

1.1 The Audit 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 Committee to review the Work Programme for the municipal year 2023/24.

3 Reasons for Recommendation

3.1 To enable the Committee to consider the Work Programme for the 2023/24 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 2023/24
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) you must provide copies of the background papers)	

Appendix 1

AUDIT COMMITTEE: PROPOSED WORK PROGRAMME 2023/24

DATE OF MEETING	ITEM
3 July 2023	• Induction Session • External Audit Progress Report • Risk Management Update • Treasury Management Presentation
4 December 2023 **Accounts Sign off Meeting**	• Annual Governance Statement and Code of Corporate Governance 2022/23 • Annual Statement of Accounts and Going Concern Report 2022/23 • Audit Completion Report 2022/23 • Letter of Representation 2022/23 • Internal Audit Annual Report • Internal Audit Progress Report • Monitoring the implementation of Internal Audit recommendations • Risk Management Update • Treasury Management update • Safeguarding update
22 January 2024	• Treasury Management Strategies 2023/24 – 2026/27 • External Audit Progress Report • Internal Audit Progress Update • Risk Management Update – update of review by Zurich Municipal • Proposed Accounting Policies 2023/24 • Review of the Internal Audit Charter
15 April 2024	• Annual Review of Effectiveness of Internal Audit • Internal Audit Progress Update • Monitoring the implementation of Internal Audit recommendations • External Audit Progress Update • Internal Audit Plan 2024/25 • Evaluate the Effectiveness of the Audit Committee • Risk Management Update