25 January 2023

AUDIT AND ETHICS COMMITTEE – 2 FEBRUARY 2023

A meeting of Audit and Ethics Committee will be held at 6pm on Thursday 2 February 2023 in the Committee Room 1 at the Town Hall, Rugby.

Mannie Ketley
Chief Executive

A G E N D A

PART 1 – PUBLIC BUSINESS

1. Minutes.

   To confirm the minutes of the meeting held on 1 December 2022.

2. Apologies.

   To receive apologies for absence from the meeting.

3. Declarations of Interest.

   To receive declarations of:

   (a) non-pecuniary interests as defined by the Council's Code of Conduct for Councillors;

   (b) pecuniary interests as defined by the Council's Code of Conduct for Councillors; and

   (c) notice under Section 106 Local Government Finance Act 1992 – non-payment of Community Charge or Council Tax.

   Note: Members are reminded that they should declare the existence and nature of their non-pecuniary interests at the commencement of the meeting (or as soon as the interest becomes apparent). If that interest is a pecuniary interest the Member must withdraw from the room unless one of the exceptions applies.

Membership of Warwickshire County Council or any Parish Council is classed as a non-pecuniary interest under the Code of Conduct. A Member does not need to declare this interest unless the Member chooses to speak on a matter relating to their membership. If the Member does not wish to speak on the matter, the Member may still vote on the matter without making a declaration.

4. Member Complaints and Ethical Governance Update (report to follow).

5. 2023/24 Capital Strategy and the Treasury Management Strategy incorporating the Annual Investment Strategy.

6. Appointment of External Auditor.

7. Accounting Policies Update 2022/23.

8. Internal Audit Plan Progress Update.

9. Development of Internal Audit Plan for 2023/24.

10. Motion to Exclude the Public under Section 100(A)(4) of the Local Government Act 1972.

    To consider passing the following resolution:

    "Under Section 100(A)(4) of the Local Government Act 1972 the public be excluded from the meeting for the following items on the ground that they involve the likely disclosure of information defined in paragraphs 1, 2 and 3 of Schedule 12A of the Act."

PART 2 – EXEMPT INFORMATION

1. Whistle Blowing Incidents – Standing Item – to receive any updates.

2. Fraud and Corruption Issues – Standing Item – to receive any updates.

Any additional papers for this meeting can be accessed via the website.

The Reports of Officers are attached.

Membership of the Committee: Mr P Dudfield (Chairman), Mr J Eves (Vice-Chairman), Councillors Mistry, Mrs Roberts, Roodhouse and Willis

Named Substitutes: Councillors Mrs A'Barrow, Lewis, Moran and Ms Watson-Merret

If you have any general queries with regard to this agenda please contact Veronika Beckova, Democratic Services Officer (01788 533591 or e-mail veronika.beckova@rugby.gov.uk). Any specific queries concerning reports should be directed to the listed contact officer.

AGENDA MANAGEMENT SHEET

Report Title:	2023/24 Capital Strategy and the Treasury Management Strategy incorporating the Annual Investment Strategy
Name of Committee:	Audit and Ethics Committee
Date of Meeting:	2 February 2023
Report Director:	Chief Officer - Finance and Performance
Portfolio:	Finance, Performance, Legal and Governance
Ward Relevance:	All
Prior Consultation:	None
Contact Officer:	Dawn Lewis Ward Lead Accountant 01533 5353408; dawn.lewis-ward@rugby.gov.uk
Public or Private:	Public
Report Subject to Call-In:	No
Report En-Bloc:	No
Forward Plan:	No
Corporate Priorities: **(C) Climate** **(E) Economy** **(HC) Health and Communities** **(O) Organisation**	This report relates to the following priority(ies): ☐ Rugby is an environmentally sustainable place, where we work together to reduce and mitigate the effects of climate change. (C) ☐ Rugby has a diverse and resilient economy that benefits and enables opportunities for all residents. (E) ☐ Residents live healthy, independent lives, with the most vulnerable protected. (HC) ☒ Rugby Borough Council is a responsible, effective and efficient organisation. (O) [Corporate Strategy 2021-2024] ☐ This report does not specifically relate to any Council priorities but
Summary:	This report provides the committee with the latest Capital Strategy and the Treasury Management Strategy. Included in the Treasury Management Strategy are limits and indicators that embody the risk management approach that the Council

	believes to be prudent. The strategies are set against the Medium-Term Financial Strategy, the context of the UK economy and projected outlook on interest rates.
Financial Implications:	The capital finance and treasury management indicators are set to ensure that the Council is guided into making prudent decisions on treasury management activities.
Risk Management/Health and Safety Implications:	There are no risk management implications for this report.
Environmental Implications:	There are no environmental implications for this report.
Legal Implications:	There are no legal implications for this report.
Equality and Diversity:	There are no equality and diversity implications for this report.
Options:	As this report complies with the Prudential and Treasury Management Codes of Practice, which have been approved by Council, no other options have been considered.
Recommendation:	IT BE RECOMMENDED TO COUNCIL THAT: (1) The Treasury Management Strategy incorporating the Annual Investment Strategy including associated limits and specific indicators be approved. (2) The Minimum Revenue Provision Policy be approved (Section A of strategy). (3) The Capital Strategy including continuation capital programme for 2023/24 be approved.
Reasons for Recommendation:	To comply with the Codes of Practice.

Agenda No 5

Audit and Ethics Committee - 2 February 2023

2023/24 Capital Strategy and the Treasury Management Strategy incorporating the Annual Investment Strategy

Public Report of the Chief Financial Officer

Recommendation

IT BE RECOMMENDED TO COUNCIL THAT:

(1) The Treasury Management Strategy incorporating the Annual Investment Strategy including associated limits and specific indicators be approved.

(2) The Minimum Revenue Provision Policy be approved (Section A of strategy).

(3) The Capital Strategy including continuation capital programme for 2023/24 be approved.

1. INTRODUCTION

1.1. This report and associated appendices fulfil legislative requirements governed by the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code.

1.2. Local Authorities should have in place a Capital Strategy that sets out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes. The Treasury Management Strategy incorporating the Annual Investment Strategy (TMSS) currently includes a four-year programme which aligns to the Medium-Term Financial plans within the General Fund and Housing Revenue Account funds.

1.3. The TMSS also includes the Council's Minimum Revenue Provision (MRP) policy statement and key prudential indicators relating to the cost and affordability of the Council's capital plans. There are strong links between the Capital and TMSS as the Council's approach to treasury management, is a critical component of capital planning.

1.4. The TMSS jointly demonstrates how the Council's treasury service will support capital decisions made as part of the capital programme and the funding thereof, the day-to-day treasury management activities and the limitations on borrowing activity through treasury and prudential indicators and limits.

1.5. The key prudential indicator is the Authorised Limit, the maximum amount of debt the Council can enter in accordance with the CIPFA Prudential Code. Other prudential and treasury indicators are contained within either the TMSS or the Capital Strategy where appropriate in accordance with the CIPFA Prudential Code or the CIPFA Treasury Management Code.

1.6. The strategy outlined above provides the approved framework within which the officers undertake the day-to-day capital and treasury activities.

1.7. The Council's Constitution requires that the Council approve the Prudential Code indicators and the TMSS.

2. TREASURY MANAGEMENT STRATEGY

2.1. The proposed updated strategy is attached at Appendix 1 to the report.

Enhancements from 2022/23

2.2. As part of the 2022/23 strategy, Table 10 detailing the counterparty limits has been updated in line with advice from Link, our treasury management advisors. Banks/building societies secured and banks/building societies unsecured have been combined so there is no differential. The monetary limit has been set at £10m, in line with the previous secured limit and our operational bank account and time period has been set per the previous unsecured limit.

2.3. With effect from 2023/24, a new treasury management indicator of a liability benchmark is to be introduced. This indicator will be reported in the mid-year and annual report for 2023/24.

Future Requirements

2.4. The IFRS16 leases standard becomes effective for local authorities with effect from 1 April 2023. This has been deferred from 2022. The standard requires entities to treat all leases where they are acting as a lessee, except for low value or short-term leases, as finance leases.

2.5. The accounting changes mean that the Council will have to recognise a Right of Use asset on its balance sheet with a corresponding liability. The identification of a liability will mean that lease payments will now have to split into elements covering service costs, interest and repayment of liability. The recognition of an asset will require the Council to identify a sum to cover MRP.

2.6. The net impact on the Council's revenue costs is likely to be small, if not nil, but it will mean that the Council will have to update its prudential indicators to recognise the impact of a new liability. A full analysis of the Council's leases will be undertaken during 2023/24.

3. CAPITAL STRATEGY

3.1. The proposed updated strategy is attached at Appendix 2 to the report.

3.2. There have been no material changes to the strategy for 2023/24.

3.3. Appendix A continuation programmes has been updated to include 2026/27. This programme will require approval from Council.

Name of Meeting: Audit and Ethics Committee

Date of Meeting: 2 February 2023

Subject Matter: 2023/24 Capital Strategy and the Treasury Management Strategy incorporating the Annual Investment Strategy

Originating Department: Finance and Performance

DO ANY BACKGROUND PAPERS APPLY ☐ **YES** ☐ **NO**

LIST OF BACKGROUND PAPERS

Doc No	Title of Document and Hyperlink

The background papers relating to reports on planning applications and which are open to public inspection under Section 100D of the Local Government Act 1972, consist of the planning applications, referred to in the reports, and all written responses to consultations made by the Local Planning Authority, in connection with those applications.

☐ Exempt information is contained in the following documents:

Doc No	Relevant Paragraph of Schedule 12A

APPENDIX 1

Treasury Management Strategy incorporating Investment Strategy 2023/24 - 2025/26

Treasury Management Strategy

Contents

Section A – Capital Expenditure and Financing

Introduction

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. 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 or leasing).

Budget managers are required to present a report to Cabinet or Council to include projects in the Council's capital programme. Full details on the process can be found in the Capital Strategy 2023/24.

Capital Expenditure & Financing

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

It will be revised, if necessary, as the 2023/24 budget process develops, and the final figures are incorporated into the Budget in February 2023.

The table below summarises capital expenditure plans, and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need. This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and includes current estimates for capital bids for 2022/23 and beyond.

Financing of capital expenditure	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
General Fund	**7.440**	**2.451**	**2.027**	**2.027**
HRA	**10.150**	**4.241**	**4.341**	**4.341**
To be financed by:				
Capital grants/contributions	2.577	0.785	0.785	0.785
Capital reserves/receipts	5.752	3.025	3.170	3.170
Revenue	2.336	1.290	1.245	1.245
Net financing need for the year	**6.925**	**1.592**	**1.168**	**1.168**

Table 1 Financing of Capital Expenditure 2022/23 – 2025/26

Capital Financing Requirement

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

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

The CFR includes any other long-term liabilities, for example Private Finance Initiative schemes ("PFI") and finance leases. Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility by the PFI or lease provider and so the Council is not required to separately borrow for these schemes. The Council currently does not have any finance lease or PFI/PPP commitments within the CFR.

The current CFR projections are included in Table 2 below

	2021/22 Actual £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Capital Financing Requirement					
CFR – Non housing	24.033	26.747	27.042	26.820	26.502
CFR – HRA	62.849	65.649	65.649	65.649	65.649
Total CFR	**86.882**	**92.396**	**92.691**	**92.469**	**92.151**
Movement in CFR	**0.138**	**5.514**	**0.295**	**(0.222)**	**(0.318)**

Movement in CFR represented by					
Net financing need for the year	1.5970	6.926	1.591	(1.167)	(1.167)
Less: MRP/VRP and other financing movements	(1.459)	(1.412)	(1.296)	(1.389)	(1.485)
Movement in CFR	**0.138**	**5.514**	**0.295**	**(0.222)**	**(0.318)**

Table 2 Capital Financing Requirement 2021/22-2025/26

Minimum Revenue Provision (MRP) Policy Statement

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

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

For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, (*central government support for local authority capital expenditure is the amount of expenditure towards which revenue support grant will be paid to a local authority on the cost of its borrowing*) MRP will be charged on a 2% straight line basis.

From 1 April 2008 for all unsupported borrowing (*capital expenditure for which no direct central government support is available and is undertaken with reference to the Prudential Code*) (including PFI and finance leases) the MRP policy will be:

- **Asset life (annuity) method –** MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction)

MRP Overpayments – The DLUHC MRP Guidance allows that any charges made over the statutory MRP – VRP, or overpayments – can be reclaimed in later years, if deemed necessary or prudent. For these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until 31 March 2022 the total amount of VRP overpayments were £6.453m

These options provide for a reduction in the borrowing need over approximately the asset's life.

There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made.

Commercial Activity

Commercial property investment, particularly the 'bricks and mortar' retail environment, has seen considerable volatility during recent years with the demise of many established high-street brands. This trend is expected to continue in the foreseeable future as the retail market adapts to the continuing growth of on-line markets. Due diligence which will include utilising the expertise of consultants in the relevant fields will be applied in considering direct or indirect (pooled funds, etc) investment in this sector to examine sensitivity around asset valuations, assumed rental yields, and tenant strength. Emphasis will be given to exit strategies and risks associated with asset obsolescence and/or changing market conditions.

Service Investments: Loans

The Council can lend money to local bodies or its subsidiaries to support local public services and stimulate local economic growth. Historically the Council has only done this in very limited circumstances where a significant service outcome is expected. There are currently two loans that have been approved by Council.

1. A loan of up to **£5.414m** has been approved as the Council became a partner in the Sherbourne Recycling Facility to be located in Coventry. The facility will be the location for the processing of all recyclate material for the partners with also the opportunity to sell any surplus capacity in the private market. The scheme which has 8 partner local authorities

   - Coventry City Council
   - Solihull MBC
   - Walsall MBC
   - Nuneaton and Bedworth BC
   - North Warwickshire BC
   - Rugby BC
   - Warwick BC
   - Stratford BC

   This loan is scheduled to be repaid over a 25-year term and the first tranche of the Council's contribution was paid in 2021. The centre is scheduled to be operational from Summer 2023.

2. The Council now has a corporate structure for its trading activity which is flexible enough to establish a variety of subsidiary companies. The structure has been created in such a way that the activity of the housing development Joint Vehicle will be operated separately under the same umbrella structure.

   In June 2021, the Council agreed a loan facility of up to £9.760m to the Caldecott Developments Ltd (CDL). The oversight of this company is undertaken by Caldecott Group Ltd, a subsidiary of the Council, and the governance will include elected members.

   The loan is to provide the company with capital and revenue for the next 5 years to allow them to complete feasibility studies on several proposals which, if successful, will provide Rugby with a number of redeveloped or new houses. Drawdown of the loan facility will only be actioned following approval from the Shareholder's Committee. To date there have been no drawdowns of the loan.

CDL is expected to pay RBC interest on the Loan at commercial rates to ensure compliance with the Subsidy Control regime, replacing the EU State Aid rules pursuant to the terms of the Project Plan.

To limit the risk and ensure that total exposure to service loans remains proportionate to the size of the Council, upper limits on the outstanding exposure is currently set at £20m.

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 will be shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum due and has appropriate credit control arrangements in place to recover overdue repayments.

Assessment:

The Council will assess the risk of loss before entering service loans by assessing the counterparty's resilience, the service users' needs that the loan is designed to help meet and how these will evolve over time. During the life of the loan any change in original assumptions will be monitored. The Council will use external advisors if felt appropriate by the Chief Officer Finance & Performance. All loans will be subject to contract agreed by Chief Officer Legal & Governance. All loans must be approved by full Council and will be monitored by the Chief Officer Finance & Performance.

Service Investments: Shares

The Council has a minimal committed shareholding of up to £0.095m as part of its investment in the Sherbourne Recycling Facility.

The trading structure now has a joint venture, Caldecott Development Limited, which is a partnership with the Norse Group and the shareholding is split 50:50 between the partners. The Council has a nominal value of £1. Caldecott Developments Limited is a subsidiary of Caldecott Group Limited which is wholly owned by Rugby Borough Council

The Council has the limit on investment in this type which will be set at £0.120m and any change to the limit would be addressed in the report to the Council in setting up any further subsidiaries.

a. Security: One of the risks of investing in shares is that they potentially fall in value meaning that the initial outlay may not be recovered. To limit this risk upper limits on the sum invested in local subsidiaries will be set at the lowest practical level, if and when exposure is allowed.

b. Risk assessment: The Council would assess the risk of loss before entering and whilst holding shares by going through an extensive process of risk analysis. The risk analysis will include an assessment of the market that the subsidiarity will be active in including the nature and level of competition, how the market/customer needs will evolve over time, the barriers to entry and exit and any ongoing investment requirements. The

Council will use external advisors as thought appropriate by the Chief Officer Finance & Performance.

c. Liquidity: Although this type of investment is fundamentally illiquid, to limit this the Council, when it sets a limit in this area, will initially set out the maximum periods for which funds may prudently be committed and how the Council will ensure it stays within its stated investment limits.

d. Non-specified Investments: The limits on share investments will be included in the Council's required upper limits on non-specified investments.

Commercial Investments: Property

The Council owns a small portfolio of Investment Property which are predominantly 'legacy' properties. Investment properties are defined as those that are used solely to earn rentals and/or for capital appreciation.

As financial return through rental income and/or capital appreciation is the main objective, the Council recognises the higher risk on commercial investment compared with treasury investments. The principal risk exposures include:

- individual vacancies
- falls in market value
- changes in the overall and local economy.

Individual property risks are constantly monitored and managed by the Property Manager. In order that commercial investments remain proportionate to the financial capacity of the Council, these are subject to an overall maximum investment limit which is set at £60m. Should income not meet expectations the Council holds c.£8m of General Fund reserves available to balance the revenue budget in the short term while the Property Manager reviews the performance of the portfolio. The movement in the fair value of the investment properties in 2021/22 is as follows:

	£m
Balance at 1 April 2021	0.690
Derecognition - disposals	0
Balance at 31 March 2022	0.690

Table 3 Movement in Fair Value of Investment Property 2021/22

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 revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

Decisions on new commercial investments are made by the leadership Team and Cabinet after recommendation from the Asset Management Strategy Group in line with the criteria and limits approved by the Council in this strategy. Property and most other commercial investments are also capital expenditure and purchases will therefore also be approved as part of the capital programme.

Liquidity and Security Fair Value Hierarchy

The fair value of investment property has been measured using a market approach, which considers quoted prices for similar assets in active markets, existing lease terms and rentals, research into market evidence including market rentals and yields, the covenant strength for existing tenants, and data and market knowledge gained in managing the Council's Investment Asset portfolio. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised as level 2 on the fair value hierarchy.

a. 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.

The commercial properties are revalued each year-end by external valuers so the Council will each year consider whether the underlying assets provide security i.e. are not below their purchase cost. Should this be the case the Council will consider whether its current holding of the assets is appropriate and bring any alternative actions to Members in an update to the Investment Strategy.

b. Risk assessment: The Council assesses the risk of loss before entering and whilst holding property investments by:

i. assessing the relevant market sector including the level of competition, the barriers to entry and exit and future market prospects.

ii. using advisors if thought appropriate by the Chief Officer Finance and Performance.

iii. consulting Council's Asset Management Working Group

iv. taking a final comprehensive report on all new investments to Cabinet

v. continually monitoring risk in the whole portfolio and any specific assets

c. Liquidity: Clearly 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. Given that the Council's portfolio is comprised of only of 4 properties, liquidity is not considered to be an issue currently, but should numbers increase then this will need to be assessed further.

Loan Commitments and Financial Guarantees

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. The Council does not provide such commitments and guarantees, and this strategy does not include them for 2023/24. As noted above, if the Council creates a potential subsidiary which may, or may not, require commitments or guarantees dependent on its legal structure. the required limits will be set as a part of the Council report on the setting up of a subsidiary.

Investment Indicators

The Council has set the following quantitative indicators to allow elected Members and the public to assess its total risk exposure as a result of its investment decisions.

Total risk exposure: The first indicator shows the total exposure to potential investment losses.

Total investment exposure (anticipated)	2022/23 £m	2023/24 £m	2024/25 £m
Treasury management investments	101.000	55.911	56.133
Service investments: Loans	4.325	5.414	5.414
Service investments: Shares	0.095	0.095	0.095
Commercial Investments: Property	-	-	-
TOTAL INVESTMENTS	**105.420**	**61.420**	**61.642**
Commitments to lend	-	9.760	9.760
Guarantees issued on loans	-	-	-
TOTAL EXPOSURE	**105.420**	**71.180**	**71.402**

Table 4 Total Risk Exposure

How investments are funded: Government guidance is that these indicators should include how investments are funded. The Council does not currently hold **any** investment assets with liabilities (i.e. associated borrowing). All the Council's investments are funded by usable reserves and income received in advance of expenditure.

The DLUHC guidance lists other indicators including:

- Commercial income to net service expenditure ratio.
- Benchmarking of returns – ratio of property income yield to the Investment Property Databank (IPD) property yield index averaged over 5-year period.
- Average vacancy level; and
- Operating overheads of property section attributable to commercial property as a proportion of net property income

These indicators will be published in future reports at the point when the Council invests in significant service investments (loans and shares) or commercial property acquisition.

Revenue Budget Implications

Whilst capital expenditure is not directly charged to revenue, the consequences of capital expenditure are through interest payments and minimum revenue provision (MRP) on sums borrowed to finance projects. MRP is not chargeable to the HRA. The sums charged to revenue are the first call on the resources of the General Fund and HRA and if these costs escalate then there may need to be offsetting savings elsewhere within budgets to compensate. Details of the current estimated sums due to be charged to revenue are set out below.

	2021/22 Actual £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
General Fund					
- Interest Payable	0.539	0.531	0.514	0.514	0.499
- MRP	1.459	1.412	1.296	1.389	1.485
Total General Fund	**1.988**	**1.943**	**1.810**	**1.903**	**1.984**
HRA					
- Interest Payable	1.838	1.295	1.104	1.104	1.085
Total	**3.836**	**3.238**	**2.914**	**3.007**	**3.069**

Table 5, Revenue Implications of Capital Expenditure

The information in the table is based on the approved current projects and will be subject to change as new capital projects are approved or reprofiling of existing projects occur.

As the costs of financing capital charged to revenue must be considered a first call on the available resources, it is important to identify how much of the revenue income streams are committed to financing capital.

Ratio of financing costs as a proportion of the net revenue stream

	2021/22 Actual %	**2022/23 Estimate %**	**2023/24 Estimate %**	**2024/25 Estimate %**	**2025/26 Estimate %**
General Fund	3.5	6.2	11.9	12.2	13.0
HRA	32.8	27.3	22.3	21.2	20.5

Table 6 Ratio of financing costs as a proportion of the net revenue stream

In the context of the General Fund, Actual of MRP/Interest charges relate to borrowing for the following large schemes approved by Council in recent years:

- Queens Diamond Jubilee Leisure Centre;
- Rainsbrook Cemetery and Crematorium
- Sherbourne Recycling Facility

In the context of the Housing Revenue Account, financing costs can be split into two major items

- £73m borrowing undertaken at the point of self-financing in 2012. The final loan relating to self-financing, will be repaid in March 2023.
- £66m of borrowing undertaken for the planned Biart place/Rounds Gardens high rise replacement scheme to take advantage of the preference PWLB rates

From April 2023, the Council will account for leases in line with the requirements of IFRS16 – Leases. This standard requires that local authorities will have to treat all leases where they are acting as a lessee, except for low value or short-term leases, as finance leases. This means that the Council will need to bring an asset valuation and a corresponding liability onto its balance sheet with effect from 1 April 2023. As the Council will have a liability, it will have to recognise interest payments and minimum revenue provision requirements as separate elements of the lease payments whereas previously the lease payment was accounted for as cost of supplies and services. This will have a direct impact on the Council's prudential indicators. The impact has not yet been determined for Rugby, but it is not expected to be material.

Section B - Treasury Management

Introduction

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

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

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

ESG (Environmental, Social and Governance)

As a Local Authority using public funds, a consideration of ESG is an aspiration with treasury management activity. There are potentially financial benefits to be gained in the long – term from recognising the impact of climate change, efficient energy consumption, sustainable resources, inclusion, diversity, equality, and strong corporate governance. There is no target for ESG in this strategy because the authority takes a risk based approach to investment activity with the founding principles being

- security
- liquidity
- yield

If an investment meets the Council's criteria for investing and delivers ESG benefits it will be pursued and highlighted specifically to the Audit and Ethics Committee through the Treasury Management reporting framework.

Further information of ESG considerations are detailed in TMP1

Cash Resources

The table below demonstrates that, over the term of the medium-term financial planning period, the Council will be relying more on internal borrowing i.e. using reserves and other cash resources that it holds rather than borrow from external sources. From projections of the capital programme and use of reserves this strategy is seen as sustainable in the medium term although the Chief Officer Finance and Performance will monitor the actual position against the projections to be ready to respond should long-term external borrowing become advisable.

External Debt	2021/22 Actual £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Debt at 1 April	**156.00**	**90.600**	**83.300**	**83.300**
Expected change in Debt	(65.400)	(7.300)	(0.000)	0.000
Other long-term liabilities (OLTL)	0	0	0	0
Expected change in OLTL	0	0	0	0
Gross debt at 31 March	**90.600**	**83.300**	**83.300**	**83.300**
The Capital Financing Requirement	86.882	92.396	92.691	92.469
Under / (over) borrowing	**(3.718)**	**9.096**	**9.391**	**9.169**

Table 7 Gross Debt and the CFR 2021/22 – 2024/25

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

Affordable borrowing limit and Operational boundary

Irrespective of plans to borrow or not, the Council is legally obliged to set an *affordable borrowing limit* (also termed the authorised limit for external debt) each year.

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

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

The table below identifies the current borrowing limit:

Authorised limit £m	2021/22 Actual £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Debt and other long-term liabilities	190.000	190.000	190.000	190.000

Table 8 Authorised Limit 2021/22 – 2024/25

In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

In most cases, this would be a similar figure to the CFR but may be higher or lower depending on the levels of actual debt and the ability to fund under borrowing by other cash resources.

Operational boundary £m	2021/22 Actual £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Debt and other long-term liabilities	180.000	180.000	180.000	180.000

Table 9 Operational Boundary 2021/22 – 2024/25

The Council's policy on treasury investments is to prioritise security and liquidity over yield that 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 and building societies, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds 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 investments to buy, and the Council may request its money back at short notice.

Governance

Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Chief Officer Finance and Performance and staff, who must act in line with the approved Treasury Management Strategy. The Audit and Ethics Committee receives a mid-year and full year report and is responsible for scrutinising treasury management decisions made.

Borrowing Strategy

The Council will move towards achieving an under-borrowed position by the end of 2023/24. This means that the total capital borrowing need (the CFR), will not have been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow is used as a temporary measure. This strategy was prudent whilst investment returns have remained low until recently and to mitigate counterparty risk.

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

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

Currently there is no borrowing requirement until 2024, but any decisions will be reported to the appropriate decision-making body when necessary.

Sources of Borrowing

The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- Any institution approved for investments (see below)
- Any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds
- Capital market bond investors
- UK Municipal Bond Agency and other special purpose companies created to enable joint local authority bond issues

In addition, capital finance may be raised using leases and hire purchase that are not borrowing but may be classed as other debt liabilities.

The Council has previously raised most of its long-term borrowing from the PWLB, but it will, if required, investigate other sources of finance amongst the sources listed above, that may be available at more favourable rates.

Short-term and variable rate loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.

Treasury Investment Strategy

The Council holds significant funds, representing income received in advance of expenditure plus balances and reserves held. In the past year, the Council's total investments have ranged between £96m and £106m and although the level of reserves is expected to reduce in the longer term, there will still be significant short to medium-term cash flow surpluses leading to larger sums being held than the core reserves of the Council would indicate.

Both the CIPFA Prudential Code and the DLUHC Guidance require the Council to invest its 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 will look to diversify its investment portfolio so far as possible. This diversification will represent a continuation of the present strategy that has moved investment into pooled funds and other local authorities.

Business models: Under the IFRS 9 accounting standard introduced in 2018/19, 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 rather than buying and selling investments and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Approved Counterparties

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

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

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

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

2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political

environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as **"credit default swaps"** and overlay that information on top of the credit ratings.

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

4. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are categorised as either 'specified' or 'non-specified' investments.

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

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

5. **Non-specified and loan investment limits.** The Council has determined that it will set a limit to the maximum exposure of the total treasury management investment portfolio to non-specified treasury management investments of £70m.

6. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table 10

7. **Transaction limits** are set for each type of investment (as per table 10)

8. This authority will set a limit for its investments which are invested for **longer than 365 days**, (see Table 13).

9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating** of AA-.

10. This authority has engaged **external consultants**, to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

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

12. As a result of the change in accounting standards for 2020/21 under IFRS 9, the authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG (now DLUCH) concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31 March 2023. On 5 January 2023 DLUHC has announced that the IFRS 9 statutory override in local government will be extended for another two years until 31 March 2025.

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

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

- Banks 1 - good credit quality **–** the Council will only use banks which:

i. are UK banks; and/or
ii. are non-UK and domiciled in a country which has a minimum sovereign

Long-Term rating of A- and have, as a minimum the following credit rating (where rated):

Long Term - *A-*

The Council uses credit ratings from the three main rating agencies, Fitch, Standard & Poors and Moodys. The lowest available credit rating will be used to determine credit quality

- Banks 2 – Part nationalised UK bank – Royal Bank of Scotland ring-fenced operations. This bank can be included provided they continue to be part nationalised or meet the ratings in Banks 1 above.

- Banks 3 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time invested. The minimum credit rating for operational bank accounts will be BBB-, and with assets greater than £25bn.
- Bank subsidiary and treasury operation -. The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.
- Building societies - The Council will use all societies which have a minimum credit rating of BBB.
- Money Market Funds (MMFs) CNAV (Constant Net Asset Value)
- Money Market Funds (MMFs) LVNAV (Low Volatility Net Asset Value)
- Money Market Funds (MMFs) VNAV (Variable Net Asset Value)

- Ultra-Short Dated Bond Funds with a credit rating of at least – AA
- UK Government (including gilts, Treasury Bills and the Debt Management Account Deposit Facility – “DMADF”)
- Local authorities, parish councils etc
- Housing associations/Registered Providers
- Supranational institutions
- Corporate loans, bonds and commercial paper
- Property and equity pooled funds

A limit of £70m will be applied to the use of non-specified investments

The Council may invest with any of the counterparty types in the table below; subject to the cash limits (per counterparty) and the time limits shown in Table 10. These limits will cover both specified and non-specified investments.

<table>
<tr><th colspan="5">Approved counterparties (limit per counterparty)</th></tr>
<tr><th>Credit Rating</th><th>Banks / Building Societies</th><th>Non-UK Government</th><th>Corporate</th><th>Registered Providers</th></tr>
<tr><td>AAA</td><td>£10m
5 years</td><td>£5m
10 years</td><td>£5m
10 years</td><td>£15m
10 years</td></tr>
<tr><td>AA+</td><td>£10m
5 years</td><td>£5m
7 years</td><td>£5m
7 years</td><td>£15m
10 years</td></tr>
<tr><td>AA</td><td>£10m
4 years</td><td>£5m
5 years</td><td>£5m
5 years</td><td>£15m
10 years</td></tr>
<tr><td>AA-</td><td>£10m
3 years</td><td>£5m
4 years</td><td>£5m
4 years</td><td>£15m
10 years</td></tr>
<tr><td>A+</td><td>£10m
12 months</td><td>£5m
3 years</td><td>£5m
3 years</td><td>£15m
5 years</td></tr>
<tr><td>A</td><td>£10m
12 months</td><td>£5m
2 years</td><td>£5m
2 years</td><td>£15m
5 years</td></tr>
<tr><td>A-</td><td>£10m
6 months</td><td>£5m
1 year</td><td>£5m
1 year</td><td>£15m
5 years</td></tr>
<tr><td>BBB- and assets > £25bn</td><td colspan="4">Council's UK operational bank account only
£10m 1 day</td></tr>
<tr><td>No credit rating</td><td>UK unrated Building Societies £3m
6 months</td><td colspan="2">Corporates
£1m
1 year</td><td>Registered Providers
£10m
3 years</td></tr>
<tr><td>UK Govt</td><td colspan="4">Central government: £unlimited 50 years
UK Local Authority: £20m 10 years</td></tr>
<tr><td colspan="2">Pooled Funds (incl. Money Market Funds) and Real Estate Investment Trusts</td><td colspan="3">£5m per Fund or Trust
Overall limit on aggregate amounts invested across Funds or Trusts of £30m</td></tr>
</table>

Table 10 Counterparty Limits

Table 10 must be read in conjunction with the notes below.

Where appropriate the council will carry out thorough due diligence in order to minimise the risk that it could be exposed to. This will involve independent credit analysis acquired from a Treasury Management advisory company shows them to be suitably creditworthy.

a. **Credit Rating**: Investment limits are set with reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. <u>However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be considered.</u>

b. **Banks 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.

c. **Banks Secured**: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they 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 highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

d. **Building Societies**: Although the regulation of building societies is no longer any different to that of banks the Council takes additional comfort from building societies' business model. The Council will therefore consider investing with unrated building societies where independent credit analysis acquired from a Treasury Management advisory company shows them to be suitably creditworthy.

e. **Government**: Loans, 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 an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years and with a UK local government body up to £20m for up to 10 years. The Council is confident that as a sector local authority are secure investments in the context of support from Central Government and the legal surcharging framework that guarantees debts will be paid.

f. **Corporates**: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made either following an external credit assessment as part of a diversified pool in order to spread the risk widely.

g. **Registered Providers**: Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services; they retain the likelihood of receiving government support if needed.

h. **Pooled Funds**: Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

i. **Bond, equity and property funds** 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. These types of funds were introduced in 2013/14 and have provided increased yield although their capital value has shown some volatility requiring continued monitoring.

k. **Real estate investment trusts (REITs)**: Shares in companies that invest mainly in real estate and pay most 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. The Council will carry out detail appraisal and take advice before any possible investment.

l. **Operational bank accounts**: The Council may incur exposure though its current accounts to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. 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. The Council currently banks with Lloyds Banking Group rated A+.

m. **Long Term investments**: Alongside pooled funds the Council may use long term investments when they are appropriately secure over the term of the investment. A limit of £70m has been set total long term (over a year) investments.

n. **Risk Assessment and Credit Ratings**: Credit ratings are monitored by the Council's treasury advisors, who will notify changes in ratings as they occur. 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 ended 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.

Where a credit rating agency announces that a rating is on review for possible downgrade (also known as “rating watch negative” or “credit watch negative”) so that it may fall below the approved rating criteria, then no investments other than call investments 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.

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

a) **Non-specified treasury management investment limit.** The Council has determined that it will limit the maximum total exposure of treasury management investments to non-specified treasury management investments as being £70m of the total treasury management investment portfolio.

b) **Country limit.** The Council has determined that it will only use approved counterparties from the UK and from countries with a **minimum sovereign credit rating of AA-** from Fitch or equivalent. The range of countries that qualify using this credit criteria will be added to, or deducted from, by officers should ratings change in accordance with this policy.

c) **Other limits.** In addition:

- no more than £20m will be placed with outside the United Kingdom at any time.
- limits in place above will apply to a group of companies.
- sector limits will be monitored regularly for appropriateness.

Treasury Management consultants – the Council uses Link Treasury Services Ltd. as its external treasury management advisors.

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

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

Investment performance

This Council will use an investment benchmark to assess the performance of investment portfolio using the 12-month compounded / SONIA.

For reference, SONIA is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.

External fund managers – As at 31 December 2022 £6m of the Council's funds is externally managed on a discretionary / pooled basis by CCLA and Lothbury Property Funds

The Council's external fund manager(s) will comply with the Annual Investment Strategy. The agreement(s) between the Council and the fund manager(s) additionally stipulate guidelines on duration and other limits to contain and control risk.

The Council fully appreciates the importance of monitoring the activity and resultant performance of its appointed external fund manager. To aid this assessment, the Council is provided with a suite of regular reporting from its manager. This includes receiving quarterly statements and annual reports.

In addition to formal reports, the Council also meets with representatives of the fund manager on a semi-annual basis. These meetings allow for additional scrutiny of the manager's activity as well as discussions on the outlook for the fund as well as wider markets.

Investment Security and Borrowing

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 and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the Council's credit rating criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, 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 will cause a reduction in the level of investment income earned but will protect the principal sum invested.

Investment limits: The Council's revenue reserves available to cover investment losses are forecast to be in the region of £4.7m on 31 March 2023. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors 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.

Cash flow management: The Council's officers maintain a detailed cash flow forecast for each coming year revising it as more information is available. This informs the short-term investments such as those to cover precept payments. The forecast is compiled on a prudent basis, with receipts under-estimated and payments over-estimated, creating a buffer to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Long term investment strategy is based on the Council's medium term financial strategy.

Treasury Management Indicators

Security benchmark: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the historic risk of default of its investments against a maximum target rate.

As an example, based on historic data, a AAA (least risk) rated investment has 0.04% chance of default within 1 year and a 0.17% chance of default within 3 years. A -BBB (most risk) rated investment has a 0.65% chance of default within 1 year and a 3.22% chance of default within 3 years.

	Target
Historic risk of default	0.25% (max)

Table 11 Security Benchmark Target

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 (fixed rate and variable rate) borrowing are shown below.

Maturity structure of fixed & variable interest rate borrowing		
	Lower	**Upper**
Under 12 months	0%	75%
12 months to 2 years	0%	75%
2 years to 5 years	0%	75%
5 years to 10 years	0%	75%
10 years to 20 years	0%	75%
20 years to 30 years	0%	75%
30 years to 40 years	0%	75%
40 years to 50 years	0%	75%

Table 12 Limits on maturity structure of borrowing

Principal sums invested for periods longer than a year: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total long-term principal sum invested to final maturities beyond the period end will be:

Maximum principal sums invested > 365 days			
	2023/24 £m	2024/25 £m	2025/26 £m
Limit on principal sums invested for longer than 365 days	70.0	70.0	70.0

Table 13 Maximum Principal Invested more than 365 days

Liability Benchmark: This is a new indicator of 2023/24. As a minimum, the Council will estimate and measure the liability benchmark for the forthcoming financial year and the following two financial years. However, CIPFA strongly recommends that the liability benchmark is produced for at least ten years and should ideally cover the full debt maturity profile. A strong grasp of both their existing debt maturity profile and how minimum revenue provision (MRP) and other cash flows affect the Council's future debt requirement.

The liability benchmark should be analysed as part of the annual treasury management strategy, and any substantial mismatches between actual loan debt outstanding and the liability benchmark should be explained. Any years where actual loans are less than the benchmark indicate a future borrowing requirement; any years where actual loans outstanding exceed the benchmark represent an overborrowed position, which will result in excess cash requiring investment (unless any currently unknown future borrowing plans increase the benchmark loan debt requirement). The treasury strategy should explain how the treasury risks inherent in these mismatched positions will be managed.

The result of liability benchmark indicator will be reported as part of our mid-year and annual performance during 2023/24.

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 Officer Finance and Performance believes this to be the most appropriate status.

Economic Background

Against a backdrop of an inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, the UK interest rates have been volatile during 2022.

Key points to note:

- CPI was at 10.7% at December 2022
- Increases in gas and electricity prices
- GDP has fallen
- Interest rate have risen to 3.5% during 2022

Credit Outlook

The anticipated impact of the economic factors detailed above on interest rates is set out in the table below.

%	March 2023	June 2023	September 2023	December 2023	March 2024	June 2024	September 2024	December 2024
Bank Rate	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25
5yr PWLB Rate	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50
10yr PWLB Rate	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60
25yr PWLB Rate	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90
50yr PWLB Rate	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60

Table 14 Interest Rate Forecast March 2023 – March 2024

Present Position and Forecast

On 31 December 2022 the Council held £90.6m of borrowing and £106.1m of investments at market value; broken down as follows:

	31 December 2022 £m
Call Accounts	
Other Local Authorities / Registered Providers	55.5
Banks / Building Societies – rated	42.6
Banks / Building Societies – unrated	
Total managed in-house	**98.1**
Pooled Funds	6.0
Bonds and Certificates of Deposit	2.0
Total managed externally	**8.0**
Total Treasury Investments	**106.1**
PWLB	76.9
Other Long-Term Borrowing	13.7
Short Term Borrowing	-
Total External Borrowing	**90.6**
Net Treasury Investments / (Borrowing)	**15.5**

Table 15 Net Investments Summary

The balance sheet of the Council can be projected to estimate the amounts available for investments. Below is the current projected analysis of the balance sheet to illustrate the trajectory of the Council's funds.

Year End Resources	2021/22 Actual £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Fund balances / reserves	35.596	35.596	35.596	35.596	35.596
Capital receipts	15.854	15.854	15.854	15.854	15.854
Provisions	3.852	3.852	3.852	3.852	3.852
Total core funds	**55.302**	**55.302**	**55.302**	**55.302**	**55.302**
Working capital (surplus) / deficit	**10.000**	**10.000**	**10.000**	**10.000**	**10.000**
Under/(over) borrowing	**(4.403)**	**9.096**	**9.391**	**9.169**	**9.851**
Expected Investments	**81.729**	**56.206**	**55.911**	**56.133**	**55.451**

Table 16 Balance Sheet Analysis 2021/22 – 2025/26

Section C Knowledge and Skills

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Chief Officer Finance & Performance is a qualified accountant with over 14 years' experience and the Property Manager is a fellow of RICS with over 20 years of experience in commercial property. The Council will support all staff involved in treasury management to attend any appropriate training to develop their knowledge and keep up to date with requirements of the code of practice, through our external treasury advisors.

CIPFA require the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Appropriate treasury training will be offered to members on an annual basis. The training needs of treasury management officers are periodically reviewed.

Where Council staff do not have the knowledge and skills required, use is made of external advisers that are specialists in their field. The Council currently employs Link Group, Treasury Solutions as treasury management advisers.

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

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

Appendix A – Summary of Treasury Limits (Non-Counterparty)

Treasury Limits – Non-Counterparty	£m
Service Loans	20.000
Service Investment Shares	0.120
Non-specified Investments	70.000
Overseas Investments	20.000

APPENDIX 2

Capital Strategy 2023/24-2026/27

Capital Strategy

Contents

1. Introduction

1.1 Aim

The overall aim of the Capital Strategy is to support delivery of the Corporate Strategy priorities and ensure support for the delivery of the Council's core functions.

The Capital Strategy for Rugby Borough Council provides a high-level overview of how capital expenditure, financing and treasury management activity supports the Council's Corporate Strategy for 2021-2024. It sets out the principles to determine priorities for our capital investments, risks, monitoring and financing.

1.2 Overview

The Capital Strategy applies to a detailed four year medium term financial plan (MTFP) to align with the revenue MTFP and a ten year longer term outline financial plan. The strategy is also applied to longer term capital horizon planning up to thirty years. This strategy will serve as a useful point of reference when determining or reviewing the Council's Capital Programme.

This strategy document is not intended to repeat information held in other strategy and policy documents. References are made throughout this document and a list of the reference documents is included in Appendix B.

Reference is made throughout the document to a Budget Working Group or Programme Board. These are Leadership Team Boards with delegated authority to carry out the activities described in this Capital Strategy.

Capital expenditure is under significant financial pressure. This Capital Strategy will play a key role in ensuring that we build for the future, deal with issues arising from the cost of living crisis and ensure long term resilient economic growth.

Information about the Rugby area is included in the Rugby Local Plan (adopted in 2019). To provide some context to this Capital Strategy, the area of Rugby covers:

- An area of 138 square miles within Warwickshire
- 41 parishes with over 114,000 residents
- Growth in the numbers of people over the age of 65
- An average deprevation score of 50
- A total of 57 designated Local Sites of which 3 are Local Geological Sites and 54 Local Wildlife Sites (as at 2016)
- 19 Conservation Areas, 6 Grade 1 Listed Buildings, 30 Grade II* Listed Buildings and 460 Grade II Listed Buildings. Spread throughout the Borough are 26 Scheduled Monuments and 5 Registered Gardens (as at 2018)

Rugby Borough Council also manages a housing stock in the region of 3,475 dwellings (2021/22).

2. Strategic Approach

2.1 Regulatory Background

Capital Strategy Development

Rugby Borough Council's Capital Strategy has been developed in line with the Capital Strategy Guidance produced by CIPFA in 2021. The Capital Strategy will be reviewed annually to ensure it is kept up to date and references to other strategies and policies are accurately reflected.

Capital Finance

Local authorities are required by regulation to have regard to the Prudential Code for Capital Finance in Local Authorities (2021). The Code requires that all Council's should have a capital investment strategy which aligns capital delivery plans to their organisational objectives, as well as demonstrating sound financial management and prudent borrowing.

Transparency

Rugby Borough Council operates within the Local Government Transparency Code (2015) which requires local authorities in England to publish information related to specific themes. These include expenditure over £500, purchase order over £5,000, local land assets and social housing asset value, all of which are relevant to capital expenditure and investments.

2.2 Corporate Strategy

This Capital Strategy has been developed in line with the Corporate Strategy and the Medium-Term Financial Strategy. It is also closely linked to the Treasury Management Strategy to ensure capital expenditure is affordable and appropriately funded.

Consideration has been given to the Asset Management Strategy which outlines best practice for the deployment and utilisation of land, buildings and other assets to support delivery of front line services.

The medium-term capital strategy and long-term horizon planning will also consider the Local Development Plan (2019) for Rugby which outlines the type of place we aspire to be in the future and provides a framework that will manage change and growth until 2031.

2.3 Capital Strategy Main Principles

The capital programme will be developed and maintained along the following principles:

Reporting

- Annual reporting of the four year medium term financial plan and the ten year long term plan for the capital programme. This annual report will not introduce new capital expenditure but will forecast the expenditure for existing approved schemes and projects along with the planned financing of that expenditure.

- There will be an annual presentation to the Budget Working Group of the anticipated thirty year horizon planning for capital expenditure, how it fits with corporate strategy and an outline of the potential financing options. This is not a fixed plan and is expected to change over time to reflect the completion of current projects and changes in the corporate approach and financing.
- Annual reporting of capital outturn, reprofiling, savings and pressures, and the impact on the current and future programme.
- Quarterly reporting for quarters 1, 2 and 3 on performance against budget, forecast, variances and impact on future year budgets.
- Monthly exception reporting between the quarters will also take place on an informal basis to the Leadership Team.

Approval

- All new proposals for capital expenditure will undergo a rigorous capital appraisal and must be presented as a business case with proposed financing. All new proposals, up to £50,000 will require Cabinet approval. Those over £50,000 will require Council approval. Where the expenditure is a new project, appraisals must follow the relevant Project Management arrangements.
- All proposals for additional financing on existing programmes will require Cabinet approval and must include a summary business case and proposed financing.
- The capital programme will be flexible to allow the movement of expenditure and financing across years without needing recourse to further member approval. Movement across years will be subject to any financing restrictions imposed on the Council e.g. capital grant funding restricted to a single financial year. Movement across years will also be subject to approval from the Chief Officer-Finance and Performance. This will ensure adequate cash availability in terms of the timing of expenditure and allow investments to be maximized and/or other schemes to be accelerated or slipped.
- At each financial year end, financing of the capital expenditure will be reviewed to ensure optimum use of the overall resources available to the Council. Any changes will be determined by the Chief Officer-Finance and Performance. Additional member approval is not specifically required. Details will be reported to Cabinet in the Council's financial outturn report.
- Continuation Programmes that are not project based e.g. annual budgets for IT development or vehicle purchase, will be reviewed every two years. The current list of continuation programmes is included in Appendix A. See also the Continuation Programmes section of this strategy for further details. In summary, these reviews will need to consider:
    a. past spending patterns and the effectiveness on services
    b. how the expenditure supports the relevant corporate plans
    c. whether changes could be implemented to reduce costs, increase effectiveness or better meet the Council's corporate strategy

Budget Management

- All capital expenditure and projects must have a designated budget manager who is accountable for the approved budget and delivery of the programme.
- Where projects/capital expenditure has been identified but financing is not available, an outline business case will need to be developed. This will then be held on an ‘unapproved capital proposals’ register and allocated a priority rating in accordance with pre-determined criteria. This register will be managed by the Budget Working Group Board. As financing is identified, schemes will be selected on a priority basis to proceed to full business case for approval.
- Prioritisation and acceleration of schemes on the ‘unapproved capital proposals’ register will be the responsibility of the Budget Working Group/ Programme Board.

2.4 Capital Programme

Rugby Borough Council will have a single Capital Programme covering both General Fund and HRA Projects. This will provide an overview of the capital expenditure and investment for Rugby.

Within the overall programme, the General Fund and HRA elements will have specifically identified financing to enable those elements to be reported on separately. The Capital Programme will be included in the annual budget setting and rent setting reports for information. Annual approval will not be required for the Capital Programme as any additions and adjustments will be managed and approved as outlined elsewhere within this strategy. New proposals and additional expenditure will require separate Cabinet approval.

The Capital Programme is a dynamic document and is not included as part of this strategy. A snapshot of the Capital Programme and financing will be reported each quarter and included in the quarterly financial monitoring reports.

2.5 Long-term Investment Needs

Rugby Borough Council will continue to develop the long-term investment needs for the area, and this will inform the thirty year horizon planning. This long term view is informed by:

- Consultation and engagement with businesses and residents, such as the emerging Rugby Town Centre Strategy.
- The Council’s Local Development Plan which includes Rugby’s spatial vision for a prosperous town with a strong economy, including the development of sustainable housing, employment, leisure facilities and public transport. The Plan also includes a commitment to protect natural species present in the Borough by improving habitats and to meet the challenges of climate change.
- The Asset Management Strategy is intended to help optimise the deployment and utilisation of land, buildings and other assets to support delivery of front line services including operational buildings such as the Town Hall and the provision

of social housing to meet the objectives set out in the Council's Housing Strategy.

2.6 Management of Risks

The resilience of the capital programme depends on the longer term planning and a joined up Corporate Strategy across the different strategies and plans. It also depends on strong financial planning, project appraisals, funding sources and other available resources.

Risks beyond the control of the Council (such as criminal acts, environmental risks, political risks and health crises) will be considered for each project during the planning phase. If external events raise risks for the Council, this will be managed through the usual risk management processes.

The Council is exposed to a range of risks that may impact on the capital programme and these include:

- Financial risks related to the investment of the Council's assets
- Macroeconomic risks related to the growth or decline of the economy. Local as well as national or global. Interest rates, inflation, Covid, continuing impact of Brexit, etc.
- Credit risks related to investments and loans to other institutions
- Reputational risks related to the Council's actions
- Environmental and social risks
- Governance risks related to ensuring that the Council has the correct level of oversight and scrutiny
- Changes in Government policy

The Council's Risk Management Strategy sets out the governance framework for managing risk. framework. The Strategic and Operational Risk Registers consider the risks around capital investment, including the areas outlined above. Detailed risks for each project will be considered on a case by case basis and documented and managed through the use of project risk registers. The strategic risk register informs the medium term and horizon planning for capital.

3. Operational Approach

3.1 Skills and Knowledge

Management of an effective capital programme requires managers with the appropriate level of skills and expertise. To ensure this is in place, the Financial Services Team will:

- Employ suitably qualified and knowledgeable team members to co-ordinate the overall capital programme and financing, support the monitoring of progress across the schemes, highlight variances and prepare the relevant consolidated reports.
- Provide financial support to budget managers in preparing project appraisals and business cases for new projects.
- Provide an annual training event for budget managers to ensure they are aware of their responsibilities and have the skills to carry them out.
- Ensure one-off training is provided to any new budget managers. This may be carried out by the Financial Services Team or existing budget managers who will be able to also impart their experiences.

3.2 Planning and Monitoring

The Financial Services Team is responsible for co-ordinating, managing and maintaining the overall capital programme and financing. Individual capital schemes and purchases are the responsibility of the designated budget manager. The planning process is as follows:

1. Initially, each month, all capital budget managers will receive an expenditure report for their existing approved scheme(s) showing the agreed annual profile of spend, expenditure against budget for the year and, for projects, expenditure to date since the start of the project.
2. Once training has been provided to budget managers, they will be expected to run their own reports from the finance system and monitor their expenditure monthly. Budget managers will be provided with guidance on their responsibilities. Support will be provided by the relevant Finance Business Partner.
3. Budget managers are expected to review their monthly report in conjunction with their Finance Business Partner and where appropriate, provide a revised forecast and/or profile of expenditure for the year and/or the remaining life of the project.
4. It is important that delays or acceleration of a project is clearly distinguished from savings or pressures. Reprofiling a budget does not require member approval but needs to be highlighted as early as possible with the relevant Finance Business Partner for cash management purposes.
5. The default funding for additional pressures will be the relevant revenue budget and will require member approval. Budget managers will need to identify equivalent savings elsewhere or alternative funding.
6. The revised forecast will feed back into the next iteration of the report and expenditure will be monitored regularly. As long as the expenditure remains

within the approved envelope of spend for that scheme or project, and any financing criteria continues to be met, no further action will be required.

7. Budget managers are responsible for providing all forecast information to their Finance Business Partners in accordance with the quarterly reporting timetable to ensure it can be included in the quarterly dashboards that are provided to budget managers, Chief Officers and Cabinet.
8. Where budget managers are forecasting project savings or pressures, this will be included in the quarterly financial report to Cabinet along with an up to date snapshot of the capital programme. Budget managers are responsible for providing explanations for the overall variances and the impact on services. Where additional spending is forecast on existing projects, refer to the section above Capital Strategy Main Principles (Approvals). The Financial Services Team is responsible for ensuring that the overall Council financing requirements are appropriately adjusted.
9. Each quarter, the Financial Services Team will prepare a snapshot of the full capital programme and financing schedule for the four year medium term financial plan. Annually, this will also include a ten year longer term outline plan and financing in addition to information on the direction of travel for the 30 year horizon plan. This will ensure the availability of up to date information for decision making purposes.
10. Where additional financing is available, the quarterly Cabinet report will include options to accelerate potential projects from the reserve list in priority order. A priority rating will be provided following consideration of the outline business case, and this will be managed by the Budget Working Group.
11. Where unexpected variances mean that more resource than expected will need to be used, the quarterly report will include options to defer projects and schemes where possible.

3.3 Project Appraisal

Current Process

The current process for including projects in the Capital Programme requires a report to be presented to Cabinet/Council. The report should include:

- Project details
- The reason for the request including evidence to support the business case
- How it delivers on the Corporate Strategy delivery plan
- Demonstration of best value/value for money
- Financial implications, both capital and revenue and how the project is to be funded
- Implications of not approving the project

Prior to the report being presented to members, the financial implications need to be reviewed by the Financial Services Team and be appraised by the Budget Working Group.

3.4 Investments – Capital Loans

The Council can lend money in limited circumstances to support local public services and stimulate local economic growth. This is expected to be relatively infrequent, and all such proposals will be assessed in terms of risk. The Council will use external advisors if felt appropriate by the Chief Officer- Finance and Performance. All loans will be subject to a contract agreed by Chief Officer-Legal and Governance and must be approved by full Council.

To limit risk the current limit on the outstanding exposure is set at £20m. A loss allowance will be provided for in accordance with accounting policy.

All capital loans will be included in the Council's Capital Programme and financing must be identified as with other capital projects and procurement. All repayments of capital loans will be treated as capital receipts. Where financing of the capital loan was from borrowing, those capital receipts will be prioritised for the repayment of the Council's debt.

Further details for loans and other investments, including property investments, are included in the Treasury Management Strategy.

3.5 Continuation Programmes

This is where the Council has an annual programme of capital expenditure that is not a specific project or scheme. The current approved continuation programmes are included in Appendix A with the current annual budget levels. Whilst there are current budget differences across years, it is anticipated that this stabilises to a consistent annual value.

This list is subject to review every two years, as mentioned in the principles section above. This will be reviewed throughout the financial year, so any changes are implemented prior to the budget setting process. The review will be presented as a report to the Budget Working Group with changes highlighted for approval. For each of the continuation programmes, the review will include:

1. A brief outline of what the programme is for and how it supports corporate plans
2. The relevant Portfolio, Chief Officer and budget manager
3. The annual budget and any external financing that offsets the cost to Rugby BC
4. How it will be financed and whether it is General Fund or HRA
5. Last three year's expenditure and what the impact on services was
6. Alternative options, the potential to reduce costs, increase effectiveness or better meet the Council's strategy

The review will be co-ordinated by the Financial Services Team and the programme information will be provided by the budget managers. The review would recommend any proposed changes to the annual budget value which would come into effect from the following financial year. The approved, revised values will then be included in the capital programme presented in the budget and rent setting reports.

The budget values may be reprofiled to future years or accelerated, subject to the Council's cash requirements. This does not require member approval but will be reported to Cabinet through the quarterly Finance and Performance report. The overall total may not be increased without specific Cabinet approval.

3.6 Procurement

Any procurement exercise should start with the early engagement of the Procurement Team to ensure compliance with current legislation and Contract Standing Orders. Procurement can advise on the most suitable route to market to attaining value for money and compliance.

Link to Sharepoint guidance documents

https://rugby.sharepoint.com/sites/RBC/SitePages/Procurement%20Policy.aspx

3.7 Financing

In any report or review of the capital programme or schemes, it must be clear how that expenditure will be financed and what revenue implications there will be. Financing will be included at the point the proposal is approved, following the relevant project appraisal process. 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 or leasing).

Treasury Management Strategy

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

- **Capital Financing Requirement (CFR)** – This is the total capital expenditure which is not paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and is the underlying borrowing need. Any capital expenditure which has not immediately been paid for through a revenue or capital resource, will increase the CFR.
- **Minimum Revenue Provision (MRP)** – This is the statutory annual revenue charge which charges the economic consumption of capital assets to revenue as they are used. It broadly reduces the indebtedness in line with each asset's life.
- **Voluntary Revenue Provision (VRP)** – This is similar to MRP but is voluntary. Currently Rugby BC do not make any VRP, but this will be kept under review.
- **Depreciation** – There is no requirement for the HRA to make MRP but there is a requirement for depreciation to be charged. This is done in line with accounting policy.

- **Financing of capital expenditure** – Financing of capital expenditure can come from revenue, reserves, external grant funding, capital receipts or borrowing. All borrowing will be managed in accordance with the Treasury Management Strategy. Most borrowing is arranged to support overall cash requirements rather than specific capital projects although there may be exceptions.

Financing Considerations

- External financing such as grant funding is likely to have specific requirements and obligations that the Council must meet. Before accepting such funding, the Council must be confident of meeting those obligations. If those obligations include the provision of matched funding, the financing of the matched funding must be identified prior to the bid for grant funding being submitted. Such requirements and obligations will form part of the ongoing project monitoring by the budget manager.
- The Council's current de-minimis level for capital expenditure is £10,000. Even if the expenditure meets all of the other definitions for capital expenditure, it will be charged to revenue if it is under that value.
- Joint ventures and partnership arrangements must be thoroughly appraised prior to being entered into and, if required by the Chief Officer–Finance and Performance, external advice must be sought. This must be part of the overall project appraisal and in accordance with guidance from the Capital Programme Board.
- Leasing guidance is provided by the Treasury function in the Financial Services Team. All proposals that include any lease agreements must be agreed with the Financial Services Team to ensure the financial implications are thoroughly assessed and accounting implications determined in accordance with IFRS16.
- As a general default, all unringfenced funding will be pooled to support the overall capital programme. There will be specific exceptions from this such as HRA financing, restricted grant funding and other specific obligations that need to be managed. Use of capital receipts to fund capital expenditure will be determined based on Treasury management advice and is also subject to the relevant regulations regarding the application of capital receipts (e.g. limits on the use of RTB receipts for new builds).
- Section 106 monies come from developer contributions through the planning system. Most have restrictions on use defined in the agreements. Where this is not the case, the monies should be used to support existing Council priorities and commitments and be allocated in line with Council's capital scheme priorities.
- Revenue contributions can either be made during the year, e.g. a capital purchase funded from a revenue budget, or revenue contributions made be added to a reserve each year for later use.

Financing of unplanned capital spend

There may be occasions where unplanned capital expenditure occurs (e.g. emergencies, necessary purchases with prices increases that tip over the £10k revenue de minimis, etc.). Each case must be brought to the attention of the Chief Officer– Finance and Performance as soon as possible and approved through an urgent decision.

3.8 Revenue Charges

Revenue Implications

During the project appraisal process, any revenue implications will need to be identified so they can be included in the revenue medium term financial plans (i.e. General Fund or Housing Revenue Account). These are likely to include the following:

- Ongoing revenue implications of maintaining the asset. For example, the ongoing maintenance of a new apartment block.
- Impact on other future service budgets. For example, a new apartment block may increase cost of grounds maintenance, housing benefit subsidy, etc.
- The minimum revenue provision (MRP). An estimate of the MRP should be made during the appraisal process.
- Where depreciation is charged, that should be calculated during the appraisal process
- The impact on the net cost of borrowing (NCoB) and the debt cap
- Revenue budget availability and coverage
- Cash flow implications
- Implications of accounting rules (e.g. for projects that include leasing)
- Tax implications
- External revenue funding – timing, value and any obligations

MRP

Briefly, this is an amount charged to revenue to pay off the capital spend funded from borrowing. It is calculated according to the capital financing requirement (CFR) so only relates to borrowing and debt. If capital expenditure is funded from revenue or grant funding, this does not increase the MRP. This applies only to the general fund capital expenditure and is in place of a depreciation charge. See the Treasury Management Strategy for further details.

NCoB

The net cost of borrowing is calculated by the Financial Services Team. In summary, it represents investment income and interest received less interest on borrowing and some reserves. It is not a revenue implication in itself, but capital expenditure funded from borrowing will impact on this calculation and the overall financial cost to the Council.

4. Project Completion

4.1 Project Completion

Practical completion of a project occurs when (for example) the build is complete, and the asset is in use. At that point, a completion report should be compiled by the Project Manager to include:

- Has the project met the desired objective(s)?
- Will the outcomes be different to those originally planned?
- Financial report of actuals compared to budget and variances, with changes explained.
- What could have been done better?
- What worked really well?
- What points can usefully help other projects?
- What is the outstanding retention, timescale and conditions?

As mentioned in the Project Appraisal section above, developments are underway to improve project management processes and that may impact on the requirements outlined here.

4.2 Financial Completion

This is when the last payment/financial transaction occurs on the capital project and is often the payment of the last retention. Once in operation, there may be ongoing revenue costs, but these will form part of the annual revenue budget.

On financial completion, the total project spend should be recorded and the project closed on the capital programme. This will be noted in the next quarterly report.

4.3 Learning Points

Learning points from capital schemes may be varied but they should be noted along with actions and a responsible person. They may include actions such as:

- Changes to the risk register
- Changes to processes
- Changes to the responsible person
- Changes in reporting
- Changes in the timing of decision making
- Seeking new funding opportunities and/or partnership arrangements
- Etc.

The Learning Points Register should be maintained and monitored quarterly by the Financial Services Team. Once the action has been taken, the outcome should be noted. It does not require reporting to members as it is an internal management process.

5. Sales and Disposals

An asset will be identified as surplus to requirements and suitable for disposal if, in its current condition, it does not meet any of the corporate objectives outlined in the policy and strategy documents listed in Appendix B. Information will need to be provided as to why the asset cannot be brought to a condition where it could otherwise meet Council objectives.

Assets to be considered for disposal will be identified through periodic review of the Asset Register.

Authorisation of disposals will be in accordance with the Council's constitution.

5.1 Land and Property

The Council has a general power of disposal of land, contained in Section 123 of the Local Government Act 1972. Local authorities are not permitted to dispose of land for a consideration which is less than the best which is reasonably obtainable, unless they first obtain consent from the Secretary of State.

It will need to be established whether there are any legal constraints, such as restrictions on land that would prevent disposal. All negotiations for disposals should be advised by a suitably qualified property professional, preferably a member of the Royal Institution of Chartered Surveyors. This will include the production of Market Appraisals to demonstrate best consideration where appropriate.

The Council will aim to maximise its capital receipts, where possible, by enhancing the land prior to disposal; for example, by obtaining planning permission if this would result in a reasonable uplift in capital receipt after costs are taken into account.

A business case will be drafted and follow the appropriate governance arrangements. A communication plan will also be considered to ensure residents and other stakeholders are aware of the Councils plans for site disposal when appropriate. The Local Government Act 1972 and Town and Country Planning Act 1990 require a public consultation by placing advertising its intentions to dispose of public open space. Any objections will need to be considered prior to any final decisions on disposal.

Land asset disposal, if being considered, must be undertaken in accordance with Government guidance published by the Department for Levelling Up, Housing and Communities. Guidance published in 2016 by the Department for Communities and Local Government can be found at:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/508307/160316_Land_disposal_guidance.pdf

The Council will dispose of land and property assets by:

- Tender (Formal / Informal): by advertising and inviting sealed bids

- Private Treaty: In the case of limited interest, a marketing exercise would still need to be completed.
- Public Auction: If appropriate a reserve price will be set.

5.2 Other Assets

Disposal of assets other than land and property is expected to be minimal. This would include, for example, vehicles, plant and operational equipment. Any assets identified for disposal will require a business case to be drafted and follow the appropriate governance arrangements.

Officers must take into consideration all legislative requirements before undertaking any disposal. These include, but are not limited to:

- The WEEE (Waste Electrical & Electronic Equipment) Regulations
- Health and Safety considerations:
    - Equipment which may be contaminated with hazardous substances must be cleaned appropriately before being disposed of and a signed decontamination statement provided contact the Health & Safety Office.
- Any internal policy guidance on the disposal of IT equipment

The Council will dispose of other assets by:

- Tender (Formal / Informal): by advertising and inviting sealed bids
- Private Sale: In the case of limited interest, a marketing exercise would still need to be completed.
- Public Auction: If appropriate a reserve price will be set.

Where public disposal options are unsuccessful, consideration may be given to employee offers. This would need to be subject to any health and safety issues.

Gifting to charity may be considered if other options have been exhausted. This will be subject to health and safety considerations and assessment of any financial or legal risks and implications.

Scrapped, obsolete and damaged assets may be disposed of as waste. Evidence of their state must be retained for audit purposes and the Financial Services Team must be informed so the asset is removed from the asset register and the relevant accounting entries completed.

Damaged, destroyed, lost or stolen assets must be communicated to the Financial Services Team for insurance and accounting purposes. In appropriate circumstances a police report must be made. These assets will need to be removed from the asset register and the relevant accounting entries completed.

6. Action Plan

The following developments will aid the smooth internal management of the capital programme and are expected to be completed during 2023/24:

1. Continuation of the training plan for finance and non-finance staff
2. A clear, written guide for budget managers on what their responsibilities are and what they are accountable for
3. A schedule of what gets reported, where it gets reported and a clear schedule of both internal management reporting and reporting to members
4. Training for Budget Working Group on responsibilities of endorsing capital expenditure
5. Updated sections on project appraisal and completion to ensure this document complements the new project management processes.

This action plan will be undertaken by the Financial Services team.

Appendix A: Continuation Programmes

This is a list of the capital continuation programmes and the value of the annual budget. Some of the annual values have been approved at different amounts. From 2025/26 this annual value will be stabilised.

Reprofiling may occur in accordance with the approval processes described in the capital strategy. The overall total spend cannot be increased without further Cabinet approval.

Programme	2023/24	2024/25	2025/26	2026/27
	£000s	£000s	£000s	£000s
General Fund				
ICT Refresh Programme – Desktop	135	114	114	114
ICT Refresh Programme – Infrastructure	145	90	90	90
ICT Refresh Programme – AV Equipment	18	18	18	18
Digitalisation and Development Programme	45	45	45	45
Disabled Facilities Grants*	768	768	768	768
Vehicle Replacement	805	357	357	357
Waste Bins	88	88	88	88
Open Spaces Refurbishment – Street Furniture	42	42	42	42
Open Spaces Refurbishment – Leisure Facilities	150	150	150	150
Open Spaces Refurbishment – Safety Improvements	50	50	50	50
Memorial Safety	30	30	30	30
Housing Revenue Account				
Improvements and Capitalised Repairs**	2,145	2,290	2,812	2,812
Housing Management System	60	60	60	60
Disabled Adaptations	206	206	206	206
Lifeline Renewal Programme	60	60	0	0
Purchase of Council Homes	1,685	1,685	1,685	1,685

* Dependent on external funding

** As included in the HRA capital programme. The ongoing annual value to be reviewed.

Other Approved Capital Schemes

	2023/24	2024/25	2025/26	2026/27
	£000s	£000s	£000s	£000s
General Fund				
Caldecott Development	9,760	0	0	0
CCTV Cameras & Lighting	15	0	0	0

For further details, portfolio and funding information, please refer to the capital programme.

The above does not include any reprofiled budgets from 2022/23

Appendix B: Reference Documents

This is a list of other documents to be read in conjunction with the Capital Strategy

Asset Management Strategy	To optimise the deployment and utilisation of land, buildings and other assets to support delivery of front line services and the provision of social housing.
Corporate Strategy	The Council’s overriding strategy
Property Acquisition and Disposal Policy	Policy for delivering, increasing, managing and maintaining the supply of quality affordable housing.
Housing Strategy – currently under review	Strategy for the provision of social housing for the borough.
Local Plan 2011-2031 (adopted in 2019)	The Council’s policies and proposals to support the development of the Borough through to 2031
Medium Term Financial Plan (MTFP)	The financial plan for the Council for revenue and capital spending
Procurement Toolkit	Guidance on the appropriate procurement routes for expenditure
Risk Management Strategy	The Council's Risk Management Strategy sets out the governance framework for managing risk
Treasury Management Strategy	Capital financing and general treasury management

AGENDA MANAGEMENT SHEET

Report Title:	Appointment of External Auditor
Name of Committee:	Audit and Ethics Committee
Date of Meeting:	2 February 2023
Report Director:	Chief Officer - Finance and Performance
Portfolio:	Finance, Performance, Legal and Governance
Ward Relevance:	All
Prior Consultation:	Chairman of the Audit and Ethics Committee Vice Chairman of the Audit and Ethics Committee
Contact Officer:	Jon Illingworth Chief Officer - Finance and Performance 01788 533410; jon.illingworth@rugby.gov.uk
Public or Private:	Public
Report Subject to Call-In:	Yes
Report En-Bloc:	No
Forward Plan:	No
Corporate Priorities: **(C) Climate** **(E) Economy** **(HC) Health and Communities** **(O) Organisation**	This report relates to the following priority(ies): ☐ Rugby is an environmentally sustainable place, where we work together to reduce and mitigate the effects of climate change. (C) ☐ Rugby has a diverse and resilient economy that benefits and enables opportunities for all residents. (E) ☐ Residents live healthy, independent lives, with the most vulnerable protected. (HC) ☒ Rugby Borough Council is a responsible, effective and efficient organisation. (O) Corporate Strategy 2021-2024 ☐ This report does not specifically relate to any Council priorities but
Summary:	Following on from the approval to enter the national procurement exercise for the five years of external audit from 2023/24 this is an update as the process has been concluded.

Financial Implications:	As a result of the process it is has been confirmed that the fees for new contract will be increased by 150% compared to the 2022/23 value. A growth item of £55,000 has been included in the draft budget report which will seek approval as part of the Council Tax Setting on 22 February.
Risk Management/Health and Safety Implications:	
Environmental Implications:	None as a result of this report.
Legal Implications:	The tender process was required as the current five-year contract ends following the completion of the 2022/23 external audit of the accounts. The council is bound by the results of the exercise.
Equality and Diversity:	None as a direct result of this report.
Options:	Not applicable
Recommendation:	The change of auditor to Azets Audit Services and the increase in fee as a result of the exercise be noted.
Reasons for Recommendation:	In entering into the national tender exercise the Council was able to enable the greatest opportunity to secure a new contract.

Agenda No 6

Audit and Ethics Committee - 2 February 2023

Appointment of External Auditor

Public Report of the Chief Officer - Finance and Performance

Recommendation The change of auditor to Azets Audit Services and the increase in fee as a result of the exercise be noted.

1. BACKGROUND

1.1. At the meeting held on 14 December 2021 the Audit and Ethics Committee approved that Rugby Borough Council opt-in to the sector-led body procurement, conducted by Public Sector Audit Appointments (PSAA) Limited, for the appointment of the Authority's external auditors from April 2023.

2. PROGRESS

2.1. In October the PSAA announced the outcome for the 470 local government, police and fire bodies (99% of eligible local bodies) that had opted into the national scheme for the next appointing period spanning the audits from 2023/24 to 2027/28.

2.2. It was highlighted the bid prices that were received in this procurement reflect a significant increase compared to our previous procurement in 2017. At this stage our advice to bodies is to anticipate a major re-set of total fees for 2023/24 involving an increase of the order of 150% on the total fees for 2022/23. The actual total fees will depend on the amount of work required.

3. CURRENT POSITION

3.1. Following consultation, it has now been confirmed in writing that the appointment of Azets Audit Services Limited as external auditor of Rugby Borough Council for five years from 2023/24 to 2027/28.

3.2. This appointment is made under regulation 13 of the Local Audit (Appointing Person) Regulations 2015 and was approved by the PSAA Board at its meeting on 16 December 2022.

4. AZETS AUDIT SERVICES

4.1. Azets is a UK Top 10 audit, accounting and business advisory firm. The firm provides external audit, internal audit and other assurance services across the public sector and has extensive experience of auditing large Scottish councils on behalf of the Accounts Commission. While the firm operates from around 80 local offices spread across the UK, it delivers public sector audit using specialist teams in selected locations in the North, Midlands and London.

4.2. Azets Audit Services has been awarded the contract with all of the Warwickshire District Councils.

5. FEES

5.1. The expected fees for the 2022/23 audit have been assessed as £52,417. The auditor's proposed final fee for 2021/22 was £63,925 (PSAA scale fee of £42,325 plus agreed variations for additional work) We would expect that the final fee for 2022/23 will be in line with the 2021/22 final proposed fee. This is still subject to final confirmation so there may still be some variation.

5.2. The 2023/24 Fee consultation on scale fees for 2023/24 will launch in Autumn. 2023, and will publish confirmed scale fees for 2023/24 for opted-in bodies on our website by 30 November 2023. As indicated in the recent PSAA press release which announced the procurement outcome PSAA anticipate an increase of the order of 150% on the total fees for 2022/23 (£131,043).

Name of Meeting: Audit and Ethics Committee

Date of Meeting: 2 February 2023

Subject Matter: Appointment of External Auditor

Originating Department: Finance and Performance

DO ANY BACKGROUND PAPERS APPLY ☐ **YES** ☒ **NO**

LIST OF BACKGROUND PAPERS

Doc No	Title of Document and Hyperlink

The background papers relating to reports on planning applications and which are open to public inspection under Section 100D of the Local Government Act 1972, consist of the planning applications, referred to in the reports, and all written responses to consultations made by the Local Planning Authority, in connection with those applications.

☐ Exempt information is contained in the following documents:

Doc No	Relevant Paragraph of Schedule 12A

Agenda No 7

AGENDA MANAGEMENT SHEET

Report Title:	Accounting Policies Update 2022/23
Name of Committee:	Audit and Ethics Committee
Date of Meeting:	2 February 2023
Report Director:	Chief Officer - Finance and Performance
Portfolio:	Finance, Performance, Legal and Governance
Ward Relevance:	ALL
Prior Consultation:	None
Contact Officer:	Jon Illingworth Section 151 and Chief Finance Officer 01788 533410; jon.illingworth@rugby.gov.uk
Public or Private:	Public
Report Subject to Call-In:	No
Report En-Bloc:	No
Forward Plan:	No
Corporate Priorities: **(C) Climate** **(E) Economy** **(HC) Health and Communities** **(O) Organisation**	This report relates to the following priority(ies): ☐ Rugby is an environmentally sustainable place, where we work together to reduce and mitigate the effects of climate change. (C) ☐ Rugby has a diverse and resilient economy that benefits and enables opportunities for all residents. (E) ☐ Residents live healthy, independent lives, with the most vulnerable protected. (HC) ☒ Rugby Borough Council is a responsible, effective and efficient organisation. (O) Corporate Strategy 2021-2024 ☐ This report does not specifically relate to any Council priorities but
Summary:	The report sets out the proposed accounting policies to be used in preparing the 2022/23 financial statements.
Financial Implications:	The report ensures that Cabinet is aware of the policies for 2022/23.

Risk Management Implications:	Risk management considerations are set out within the report.
Environmental Implications:	There are no environmental implications for this report.
Legal Implications:	There are no legal implications for this report.
Equality and Diversity:	There are no equality and diversity implications for this report.
Options:	As this report complies with the Treasury Management Code of Practice, which was approved by Council, no other options have been considered.
Recommendation:	The council's accounting policies (Appendix A) underpinning the production of the 2022/23 Statement of Accounts be approved.
Reasons for Recommendation:	At the end of each financial year, we are required by the Accounts and Audit Regulations 2015 to publish a Statement of Accounts setting out the financial position of the council and the transactions that have been made during the year.

Agenda No 7

Audit and Ethics Committee - 2 February 2023

Accounting Policies Update 2022/23

Public Report of the Chief Officer - Finance and Performance

Recommendation
The council's accounting policies (Appendix A) underpinning the production of the 2022/23 Statement of Accounts be approved.

1. INTRODUCTION

1.1. This report provides the Committee with some context within which the 2022/23 Statement of Accounts (the Accounts) are being produced.

2. STATEMENT OF ACCOUNTS APPROVAL AND PUBLICATION

2.1. At the end of each financial year, we are required by the Accounts and Audit Regulations 2015 to publish a Statement of Accounts setting out the financial position of the council and the transactions that have been made during the year.

2.2. After being approved by the council's Chief Financial Officer as a true and fair view, the draft accounts for the year are published, along with the council's annual governance statement. For 2022/23 the deadlines have reverted to the statutory timetable:

- Available for public inspection by 31 May 2023, on the council's website.
- Audit accounts published on the council's website by 30 September 2023.

2.3. Once the draft accounts are approved, they must be made available for public inspection, along with the supporting accounting records and associated documents for 30 working days. During this period, local electors can ask the external auditors questions about the draft accounts or raise objections to them.

3. LOCAL AUTHORITY ACCOUNTING FRAMEWORK

3.1. For the completion of the 2022/23 Statement of Accounts there are no material updates to the CIPFA Code of Practice from 2021/22 that the Committee needs to be aware of.

4. ACCOUNTING POLICIES

4.1. Accounting policies are the specific principles, bases, conventions, rules and practices applied in preparing and presenting financial statements and is detailed within Appendix A.

4.2. The Chief Financial Officer is responsible for the preparation of the council's Statement of Accounts in accordance with proper practices and, in preparing those Accounts, is responsible for selecting suitable accounting policies and applying them consistently.

4.3. The Audit and Ethics Committee is responsible for approving the Statement of Accounts and should therefore be aware of and understand the basis on which those Accounts have.

Name of Meeting: Audit and Ethics Committee

Date of Meeting: 2 February 2023

Subject Matter: Accounting Policies Update 2022/23

Originating Department: Finance and Performance

DO ANY BACKGROUND PAPERS APPLY ☐ **YES** ☒ **NO**

LIST OF BACKGROUND PAPERS

Doc No	Title of Document and Hyperlink

The background papers relating to reports on planning applications and which are open to public inspection under Section 100D of the Local Government Act 1972, consist of the planning applications, referred to in the reports, and all written responses to consultations made by the Local Planning Authority, in connection with those applications.

☐ Exempt information is contained in the following documents:

Doc No	Relevant Paragraph of Schedule 12A

Draft Accounting Policies 2022/23

1. General Principles

The Statement of Accounts (the Accounts) summarises the Council's transactions for the 2022/23 financial year and its position at the year-end of 31 March 2023. The Council is required to prepare annual Accounts by the Accounts and Audit Regulations 2015, which require the Accounts to be prepared in accordance with proper accounting practices.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code), supported by International Financial Reporting Standards (IFRS).

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

2. Accruals of Income and Expenditure

The Council's revenue and capital activity is accounted for in the year that it takes place, by including sums due to or from the Council in the year, not simply when cash payments are made or received.

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

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue in financing and investment income and expenditure for the income that might not be collected.

3. 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 investments that mature in no more than one month from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

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

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

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

5. Charges to Revenue for Non-current Assets

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

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

The authority 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 either an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance (England and Wales) or the statutory repayment of loans fund advances (Scotland)]. Depreciation, revaluation and impairment losses, and amortisation are therefore replaced by the contribution in the General Fund balance [MRP (Minimum Revenue Provision) or the statutory repayment of loans fund advances], by way of an adjusting transaction with the capital adjustment account in the Movement in Reserves Statement for the difference between the two.

6. Council Tax and Non-Domestic Rates

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the collection fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the collection fund, billing authorities, major preceptors, and central government (for NDR) share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

Accounting for Council Tax and NDR

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement (CIES) is the authority's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the authority's General Fund. Therefore, the difference between the income included in the CIES and the amount required by regulation to be credited to the General Fund is taken to the collection fund adjustment account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the authority's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made, the asset is written down and a charge made to the taxation and non-specific grant income and expenditure line in the CIES. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

7. Employee Benefits

Benefits payable during employment

Short term employee benefits are those due to be settled within 12 months of the year-end. They include salaries, wages and other employment related payments and are recognised as an expense in the year in which the service is rendered by the employees. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end which employees can carry forward into the following financial year.

The accrual is made at the wage and salary rates applicable in the in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that leave benefits are charged to revenue in the financial year in which the leave of absence occurs.

Termination Benefits

Termination benefits are amounts payable because of the Council's decision to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. These are charged on an accrual's basis to the relevant service line in the Comprehensive Income and Expenditure Statement when the Council can no longer withdraw the offer of those benefits or when the Council recognises the costs for restructuring.

Pension Costs

Pension Benefits

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments for those benefits and to disclose them at the time that the employees earn their future entitlement.

The pension scheme is operated under the framework of the Local Government Pension Scheme and the governance of the scheme is the responsibility of the Pensions Investment sub-committee of Warwickshire County Council. Policy is determined in accordance with the Pensions Fund Regulations.

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

<u>Recognition and Measurement</u>

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

- The liabilities of the pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method, which is an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections of future earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of xx.x% (broadly equivalent to the yield available on high quality corporate bonds with duration, consistent with the term of the liabilities).
- The fair value of the assets of the pension fund attributable to the Council are included in the Balance Sheet at their fair value:
    - Market quoted investments – current bid price on the final day of the accounting period
    - Fixed interest securities – net market value based on their current yields
    - Unquoted investments – professional estimate

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

<u>Service Cost</u> comprising:

- Current year service cost – the increase in the liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
- Past service cost – the increases in liabilities because of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.

- Net interest on the net defined liability – the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period – taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.

Remeasurements comprising:

- The return on plan assets – excluding amounts including in net interest on the net defined benefit liability/(asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

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

8. Events after the Reporting Period

Events taking place 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 Accounts are authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of 2022/23 – the Accounts are adjusted to reflect such events
- Those that are indicative of conditions that arose after the 31 March 2023 – the Accounts are not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made of the nature of the event and their estimated financial effect.

9. 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 (CIES) for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the Council's borrowings, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the CIES is the amount payable for the year according to the loan agreement.

Where premiums and discounts have been charged to the CIES, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid.

The reconciliation of amounts charged to the CIES to the net charge required against the General Fund and Housing Revenue Account Balances is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

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 cashflow 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 (i.e., where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost

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

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

Expected Credit Loss Model

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

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

Financial Assets Measured at Fair Value through Profit of Loss (FVPL)

Financial assets that are measured at 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 arrive in the Surplus or Deficit on the Provision of Services.

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

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

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

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the 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.

10. Government Grants and Contributions

Grants

Whether paid on account, by instalments or in arrears, government grants and third-party contributions and donations are recognised as due to the Council and credited to the Comprehensive Income and Expenditure Statement 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.

Monies advanced as grants or 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 line 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 it has been applied to finance capital expenditure, it is posted to the Capital Adjustment Account. Where the grant has yet to be applied, it is posted to the Capital Grant Unapplied reserve. Amounts in the Capital Grant Unapplied reserve are subsequently transferred to the Capital Adjustment Account once they have been used to fund capital expenditure.

Revenue from contracts with customers

Where revenue is charged or received for goods or services provided to customers there will be an assessment of this income following the following five step approach:

1) Identify contract - agreement that creates enforceable rights and obligations
2) Identify performance obligations in the contract
3) Determine transaction price
4) Allocate transaction price to performance obligations
5) Recognise revenue when or as an entity satisfies performance obligations

The outcome of this evaluation will determine how this will be accounted for within the statement of accounts.

11. Heritage Assets

Heritage assets are assets that are held by the Council principally for their contribution to knowledge and culture. They are a distinct class of asset which is reported separately from Property, Plant, and Equipment. Previously the majority of these assets had been held as Community Assets with the exception of one or two which were held in Infrastructure Assets or Other Land and Buildings. The heritage assets held by the Council have been categorised as follows:

- Art and Social History Collections
- Monuments and Statues
- Historic sites/buildings
- Civic Regalia

The Code requires councils to recognise heritage assets where the Council has information on the cost or value of the asset. However, the unique nature of many heritage assets makes reliable valuation complex. Where it is not practical to obtain a valuation for an asset (at a cost which is commensurate with the benefits to users of the financial statements) and cost information is available, the asset will be carried at historical cost (less any accumulated depreciation, amortisation, and impairment losses) as permitted by the Code.

Valuations may be made by any method that is appropriate and relevant to the heritage asset: this includes insurance valuations for museum collections, monuments and statues, historic sites, and civic regalia. It is not a requirement of the Code for valuations to be carried out or verified by external valuers. Although there is no prescribed minimum period between full valuations, the Council considers it appropriate to seek a full valuation every five years.

Impairment reviews will only take place where there is physical deterioration or new doubts as to the authenticity of the heritage asset. Any impairment recognised will be treated in accordance with the Council’s policy on impairments.

12. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance are identifiable and controlled by the Council is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council. Normal examples are those of software or software licences, which are initially recognised at cost, and which have a useful life, of 3 –10 years and the depreciable amount is therefore written down over that useful life.

13. Interests in Companies and Other Entities

The authority has material interests in companies and other entities that have the nature of subsidiaries, associates, and joint ventures and currently it is not required to prepare group accounts. In the authority's own single-entity accounts.

The interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

14. Inventories and Long-term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. Long-term contracts are accounted for based on charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

15. Investment Properties

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

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 revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

16. Joint Operations

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Council in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the Council as a joint operator recognises:

- Its assets, including any held jointly
- Its liabilities, including any share of any liabilities incurred jointly
- Its revenue from the sale of its share of the output arising from the joint operation
- Its expenses, including its share of any expenses incurred jointly
- The Council has a 50% interest in the Rainsbrook Crematorium Joint Committee with the other 50% relating to Daventry District Council. The decision making and operational arrangements of the Joint Committee fulfil the features associated with a jointly controlled operation in that:
    - Each operator incurs its own expenses and liabilities and raises its own finance, which represent its own obligations; and
    - The joint operation agreement provides a means by which the revenue from the service and any expenses incurred in common are shared among the operators.

Therefore, in line with the contractual arrangements set out in the joint agreement, the Council recognises its share of the operational assets and liabilities of the Joint Committee on its Balance Sheet and debits and credits the Comprehensive Income and Expenditure Statement with 50% of the expenditure and income of the Joint Committee. This is also recognised in the Movement in Reserves Statement and the Cash Flow Statement as appropriate. Further detail on this Joint Operation is also provided in Note XX Related Party Transactions.

17. Leases

Leases are classified 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. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and building elements are considered separately for classification. Arrangements that do not have the legal status of a lease but convey a 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. This definition includes rental agreements, contract hire and licences.

18. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received.

19. Property Plant and Equipment

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

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis provided it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably.

Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e., repairs and maintenance) is charged as a revenue expense when it is incurred. The Council has established a de-minimis level of £10,000. Expenditure on assets under this level is not capitalised within the Accounts and the assets are fully depreciated within the year.

Measurement

Assets are initially measured at cost, comprising:

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

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

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

- Infrastructure assets, community assets and assets under construction are carried at historic cost, net of depreciation where appropriate.
- Surplus assets – the current value measurement base is fair value, estimated at 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 (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value. This includes assets such as the Queen's Diamond Jubilee Leisure Centre, the Benn Hall and the John Barford Car Park.

Where non-property assets have short useful lives and/or low values, for example, vehicles and IT equipment, they are measured at depreciated historical cost as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Land and building assets under £10,000 are not revalued except for investment properties. Increases in valuation are matched by credits to the Revaluation Reserve to recognise unrealised gains or may be credited to the Comprehensive Income and Expenditure Statement to reverse a previous downward revaluation.

Where decreases in value are identified, they are accounted for where there is:

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

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

<u>Impairment</u>

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

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

<u>Impairment Losses</u>

No impairments were recognised in the year following a review of asset compliance with our componentisation policy.

<u>Depreciation</u>

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

Where depreciation is provided for, assets are depreciated using the straight-line method over the following periods:

- Dwellings and other buildings – 5-60 yrs
- Vehicles, plant, and equipment – 3-25 yrs
- Infrastructure – 7-40 yrs

Depreciation is charged on council dwellings in the year of disposal.
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.

Componentisation

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. The Council has established a threshold of £500,000 for determining whether an asset needs to be componentised and an individual asset cost of more than 25% to determine whether an asset is considered as a component.

The carrying amount of a replaced or restored part of an asset (component) is derecognised, with the carrying amount of the new component being recognised subject to the principles set out in Recognition and Measurement above. This recognition and derecognition takes place regardless of whether the replaced part had been depreciated separately.

Subsequent Expenditure on Property Plant and Equipment

Subsequent costs incurred on an asset previously recognised as Property, Plant and Equipment will only be capitalised if they result in items with physical substance and meet the recognition principle that:

- it is probable that future economic benefits or service potential associated with the item will flow to the Council; and
- the cost of the item can be measured reliably.

Exceptions to the general approach of comparing the outcome of expenditure compared to previously assessed levels of performance where:

- subsequent expenditure will increase the level of performance of an asset in generating economic benefits or providing service potential but does not increase the level of performance previously assessed by the Council for that asset, then the assessment can be updated (through a revaluation adjustment) and the new expenditure capitalised; and
- where subsequent expenditure represents the replacement of a component of an existing asset provided that the old component can be written out of the Balance Sheet.

Disposals

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposal are credited to the Other Operating Expenditure line in 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 a disposal of £10,000 or more are categorised as capital receipts, whereas amounts below £10,000 are classed as revenue income. A proportion of receipts relating to Right-to-Buy housing disposals are payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve and can then only be used for new capital investment. Receipts are appropriated to the Reserve from the

General Fund or HRA (Housing Revenue Account) Balance in the Movement in Reserves Statement.

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

Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and its fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any 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 classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale, adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as held for sale, and their recoverable amount at the date of the decision to sell.

20. Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions represent amounts set aside to meet future liabilities which are likely or certain to be incurred but where it is not possible to determine exactly the amounts or timing of such events.

Provisions in respect of bad and doubtful debts are maintained, including amounts relating to rent, council tax and business rate arrears, which have been estimated in accordance with recommended practice and past experience and are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement. When payments are eventually made, these are charged to the provision carried in the Balance Sheet.

Contingent Liabilities

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

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent assets are not recognised in the Balance Sheet but are disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

21. Reserves

The authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies [not Scotland]. Reserves are created by transferring amounts out of the General Fund balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement. The reserve is then transferred back into the General Fund balance so that there is no net charge against council tax for the expenditure. Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, local taxation, retirement, and employee benefits and do not represent usable resources for the authority – these reserves are explained in the relevant policies.

22. Revenue Expenditure Funded from Capital Under Statute (REFCUS)

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

23. Value Added Tax (VAT)

VAT is included in service revenue or capital income and expenditure accounts only when it is not recoverable.

24. Fair Value Measurement of Non-Financial Assets

The authority’s accounting policy for fair value measurement of financial assets is set out in note x. The authority also measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings [other financial instruments as applicable] at fair value at each reporting date. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset takes place either:

a) in the principal market for the asset, or
b) in the absence of a principal market, in the most advantageous market for the asset.

The authority measures the fair value of an asset using the assumptions that market participants would use when pricing the asset, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets for which fair value is measured or disclosed in the authority's financial statements are categorised within the fair value hierarchy, as follows:

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

Agenda No 8

AGENDA MANAGEMENT SHEET

Report Title:	Internal Audit Progress Update
Name of Committee:	Audit and Ethics Committee
Date of Meeting:	2 February 2023
Report Director:	Chief Officer - Finance and Performance
Portfolio:	Finance, Performance, Legal and Governance
Ward Relevance:	None
Prior Consultation:	Chief Officer - Finance and Performance
Contact Officer:	Chris Green Corporate Assurance Manager and Transformation Lead 01788 533451; chris.green@rugby.gov.uk
Public or Private:	Public
Report Subject to Call-In:	No
Report En-Bloc:	No
Forward Plan:	No
Corporate Priorities: **(C) Climate** **(E) Economy** **(HC) Health and Communities** **(O) Organisation**	This report relates to the following priority(ies): ☐ Rugby is an environmentally sustainable place, where we work together to reduce and mitigate the effects of climate change. (C) ☐ Rugby has a diverse and resilient economy that benefits and enables opportunities for all residents. (E) ☐ Residents live healthy, independent lives, with the most vulnerable protected. (HC) ☒ Rugby Borough Council is a responsible, effective and efficient organisation. (O) Corporate Strategy 2021-2024 ☐ This report does not specifically relate to any Council priorities but
Summary:	The report sets out progress towards delivery of the annual internal audit plan and provides an update on service performance.
Financial Implications:	None

Risk Management/Health and Safety Implications:	Non delivery of an adequate internal audit plan would have an adverse impact on the level of assurance provided in the Annual Governance Statement.
Environmental Implications:	None
Legal Implications:	None
Equality and Diversity:	No implications
Options:	None
Recommendations:	1) The internal audit progress update be noted. 2) The amendment to the internal audit plan be approved.
Reasons for Recommendations:	To comply with the requirements of the terms of reference of the Audit and Ethics Committee, and to discharge the Committee's responsibilities under the Constitution.

Agenda No 8

Audit and Ethics Committee - 2 February 2023

Internal Audit Progress Update

Public Report of the Chief Officer - Finance and Performance

Recommendations
1) The internal audit progress update be noted. 2) The amendment to the internal audit plan be approved.

1. Introduction

1.1 The purpose of this report is to set out progress against the Internal Audit Plan for 2022/23.

The Council has a legal duty to maintain an adequate and effective Internal Audit service. The primary role of Internal Audit is to provide independent assurance that the Council has put in place appropriately designed internal controls to ensure that:

- the Council's assets and interests are safeguarded;
- reliable records are maintained;
- Council policies, procedures and directives are adhered to; and
- services are delivered in an efficient, effective and economic manner.

This work is normally referred to as Section 151 work.

2. Summary of Audit Work

2.1 The Internal Audit plan for 2022/23 was approved by the Audit and Ethics Committee on 29 March 2022. Progress against delivery of that plan is set out at Appendix A.

3. Revisions to the 2022/23 Audit Plan

3.1 The Committee's role as gatekeeper requires it to approve any significant changes to the internal audit plan, in accordance with the Public Sector Internal Audit Standards. It is also good practice to continually review the audit plan in light of emerging issues, to ensure that the work of internal audit adds maximum value by proactively responding to and aligning its work with the most significant risks facing the organisation. There is one proposed amendment to the internal audit plan and this is set out in the table below, including the rationale:

Assignment Title	**Proposed Amendment**	**Number of Days**	**Rationale**
Planning Enforcement	Removal from the plan	-20	This was originally intended to be an advisory review and evaluation of the efficiency and effectiveness of processes and resource utilisation in the planning enforcement service. This is now being commissioned by management as an external specialist review and as such internal audit resource is no longer required. Given that this was scheduled as advisory support, there will be no impact on the annual opinion of internal audit.
Corporate Investigations	Add additional time allocation	+20	The amount of time required for internal corporate investigation work is difficult to predict up to a year in advance but will be higher than originally budgeted for 2022/23.

Name of Meeting: Audit and Ethics Committee

Date of Meeting: 2 February 2023

Subject Matter: Internal Audit Progress Update

Originating Department: Finance and Performance

DO ANY BACKGROUND PAPERS APPLY ☒ **YES** ☐ **NO**

LIST OF BACKGROUND PAPERS

Doc No	**Title of Document and Hyperlink**
Appx A	Internal Audit Progress Update February 2023

The background papers relating to reports on planning applications and which are open to public inspection under Section 100D of the Local Government Act 1972, consist of the planning applications, referred to in the reports, and all written responses to consultations made by the Local Planning Authority, in connection with those applications.

☐ Exempt information is contained in the following documents:

Doc No	**Relevant Paragraph of Schedule 12A**

INTERNAL AUDIT PROGRESS UPDATE

FEBRUARY 2023

RIGHT FOR RUGBY

Introduction

1.1 The Public Sector Internal Audit Standards (the Standards) require the Audit and Ethics Committee to scrutinise the performance of Internal Audit and to satisfy itself that it is receiving appropriate assurance that the controls put in place by management address the identified risks to the Council. This report aims to provide the Committee with details on progress made in delivering planned work, the key findings of audit assignments completed since the last Committee meeting, updates on the implementation of actions arising from audit reports and an overview of the performance of the team.

Performance

2.1 Will the Internal Audit Plan be delivered?

The expected position by the date of the Committee meeting is as follows:

- 3 final reports have been issued;
- 4 draft reports have been issued;
- 7 assignments are in progress;
- 8 assignments are at the planning stage (7 of which are being delivered by external contractors); and
- 3 assignments have not yet been started (2 of these assignments will be delivered by external contractors).

Internal audit work is now being delivered in a hybrid manner, with officers spending at least 40% of their time in the office and the rest of their time working remotely. This approach is enabling face to face meetings to take place where necessary for internal audit purposes, alongside online MS Teams meetings.

<u>Resources Update</u>

Delivery of the full internal audit plan on time is at risk; however, the risk is being actively managed. The Auditor (Development Role) has left the Council and this has left a gap in resources. As previously reported, there have been difficulties filling the vacancy. Since the last meeting there has been a third attempt to recruit. At the time of writing, an offer has been made to a preferred candidate who has accepted, and an appointment date is in the process of being confirmed. The external contractor has been commissioned to deliver 9 additional audit assignments for the current year. Delivery of this work is being actively managed by the Corporate Assurance Manager & Transformation Lead.

At this stage it is likely that there will be some audit fieldwork still being completed in April. However, most of this work will be external and as a result the impact on the availability of resources to deliver the 2023/24 internal audit plan is expected to be minimal.

Whilst there is a significant amount of work to be completed in the next 3 months, the Corporate Assurance Manager & Transformation Lead is confident that the annual internal audit report with a soundly based opinion will be provided for 2022/23 as expected. To provide additional context, there are 19 assurance assignments in the current year plan, an increase on recent years.

Progress on individual assignments is shown at pages 6 to 11 of this report.

2.2 Based upon recent Internal Audit work, are there any emerging issues that impact upon the Internal Audit opinion of the Council's Control Framework?

At this stage there are no emerging issues arising from the work of Internal Audit which significantly impact upon the Internal Audit opinion of the Council's Control Framework.

2.3 Are clients progressing audit recommendations with appropriate urgency?

At the date of reporting, a combined **69% of management actions have been implemented by the agreed implementation date, with a further 28% implemented late, giving an overall implementation rate of 97%.** A summary analysis of progress on implementation of audit recommendations is shown at pages 12 to 13. **At the time of reporting there are 4 agreed management actions for which implementation is overdue, none of which are regarded as High Risk and none of which are regarded as Medium risk.** The details of the actions related to High or Medium risks, along with a summary of the latest position, are set out at page 14. Implementation of the actions will continue to be monitored by the Corporate Assurance team and reported to each Committee meeting.

2.4 Internal Audit Performance Indicators

The effectiveness with which Internal Audit discharges its section 151 responsibilities is being measured by the following indicators, as agreed by the Audit and Ethics Committee:

Theme	**Title of Performance Indicator**	**Current Performance**
Delivery	Average end to end time for audits (number of days)	88 days Stable in comparison with 87 days in March 2022 and 85 days in July 2022.
Adding Value	Customer Satisfaction – Average Rating	Reported as an annual measure.
Timeliness	Timeliness of Reporting – Average time taken to issue draft reports following fieldwork completion	5.8 days Stable in comparison with 6 days in March 2022 and 5.4 days in July 2022, and well below the 10 days considered to be the benchmark followed by peers.
Effectiveness	Implementation of Agreed Actions – Percentage implemented on time	69% - at the time of reporting there are 4 recommendations which are past their agreed implementation date, none of which are regarded as High risk and none as Medium risk. Refer to page 12 onwards for detail.

Limitations and Responsibilities

Limitations inherent to the Internal Auditor's work

Internal Audit is undertaking a programme of work agreed by the council's senior managers and approved by the Audit and Ethics Committee subject to the limitations outlined below.

Opinion

Each audit assignment undertaken addresses the control objectives agreed with the relevant responsible managers. There might be weaknesses in the system of internal control that Internal Audit are not aware of because they did not form part of the programme of work were excluded from the scope of individual internal audit assignments or were not brought to the attention of Internal Audit. As a consequence, the Audit and Ethics Committee should be aware that the Audit Opinion for each assignment might have differed if the scope of individual assignments was extended or other relevant matters were brought to Internal Audit's attention.

Internal Control

Internal control systems identified during audit assignments, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented by employees and others, management overriding controls, and unforeseeable circumstances.

Future Periods

The assessment of each audit area is relevant to the time at which the audit was completed. In other words, it is a snapshot of the control environment at that time. This evaluation of effectiveness may not be relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in operating environment, law, regulatory requirements or other factors; or
- The degree of compliance with policies and procedures may deteriorate.

Responsibilities of Management and Internal Auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance, and for the prevention or detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

Internal Audit endeavours to plan its work so that there is a reasonable expectation that significant control weaknesses will be detected. If weaknesses are detected additional work is undertaken to identify any consequent fraud or irregularities. However, Internal Audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected, and its work should not be relied upon to disclose all fraud or other irregularities that might exist.

Progressing the Annual Internal Audit Plan

KEY
Current status of assignments is shown by ✓

Assignment	Budget (days)	Not Started	Planning	Field Work In Progress	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
Financial Risks									
Procurement & Contract Management	20						✓	Substantial	
Growth Hub Grants – Post Payment Assurance	15			✓					
NNDR	20		✓						

Assignment	Budget (days)	Not Started	Planning	Field Work In Progress	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
Housing Rents	15	✓							
Counter Fraud									
Fraud Awareness	6			✓				Not applicable	
Corporate Credit Card Desktop Review	8		✓						Being delivered by external contractor
Right to Buy	11		✓						Being delivered by external contractor
ICT									
IT Financial Processes	20			✓					

Assignment	Budget (days)	Not Started	Planning	Field Work In Progress	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
System Resilience	9					✓			Being delivered by external contractor
Corporate Risks									
CIPFA Financial Management Code Action Plan	10		✓						Being delivered by external contractor
Workforce Training	15						✓	Substantial	
Impact Assessments	9				✓				Being delivered by external contractor
Governance & Ethical Risks									
Counter Fraud Framework	7		✓						Being delivered by external contractor

Assignment	Budget (days)	Not Started	Planning	Field Work In Progress	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
Risk Management	9		✓						Being delivered by external contractor
Ethical Governance	13		✓						Being delivered by external contractor
Internal Audit External Quality Assessment	10		✓						External contractor to be commissioned for this work
Operational Risks									
Follow up work	16			✓					
Data Protection and Records Management	15					✓			
Licensing	18					✓			Being delivered by external contractor

Assignment	Budget (days)	Not Started	Planning	Field Work In Progress	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
S106 Agreements	15	✓							Being delivered by external contractor
Food Safety	18					✓			
Assets – Statutory Compliance	12	✓							
Housing – Voids Process	12			✓					
Additional Support									
Annual Governance Statement	12						✓	Substantial	

Assignment	Budget (days)	Not Started	Planning	Field Work In Progress	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
National Fraud Initiative	8							Not applicable	Ongoing co-ordination of the Council's NFI work.
Control Environment - Advice	15			✓				Not applicable	
Corporate Investigation Work	50			✓				Not applicable	There are 3 ongoing investigations.

Summary: Implementation of Audit Recommendations

Audit	Not yet due	Overdue	Within time	Extended time	Out of time	Cancelled	Total Recs
Absence Management	1	0	4	3	0	0	**8**
Creditors	1	0	3	0	3	0	**7**
Freedom of Information	0	0	6	1	1	0	**8**
Local Government Transparency Code	0	0	6	9	3	0	**18**
Complaints, Compliments & Suggestions	0	0	4	1	3	0	**8**
IT Security	0	0	0	3	0	0	**3**
Cash & Bank	1	0	7	4	2	0	**14**
Customer Service Centre Demand Management	1	0	0	2	5	0	**8**
Housing Rent Arrears	0	1	1	0	6	2	**10**
Digitalisation	0	0	1	7	0	1	**9**
IT Business Continuity	0	0	0	5	0	0	**5**
Completeness of Income	0	0	7	0	2	0	**9**
HR Capability & Disciplinary	0	0	3	1	7	0	**11**
Local Government Transparency Code Follow Up	1	1	1	0	0	0	**3**
Expenses	0	0	1	0	2	0	**3**
Payroll	0	0	2	2	2	0	**6**
Covid Business Grants	0	0	0	1	1	2	**4**
Test and Trace Support Payments	0	0	1	1	1	1	**4**
Equal Pay & Single Status	3	0	2	2	1	0	**8**

Audit	Not Yet Due	Overdue	Within Time	Extended Time	Out of Time	Cancelled	Total Recs
Payment Card Industry Data Security Standards (PCI DSS)	1	0	3	5	0	0	**9**
Policies, Procedures and Strategies	0	0	1	0	0	0	**1**
Treasury Management	0	2	3	0	7	0	**12**
Fraud Risk Review	0	0	4	0	0	0	**4**
Trade Waste	12	0	1	0	0	0	**13**
Housing Rent Arrears	8	0	2	0	1	0	**11**
Council Tax	3	0	2	0	0	0	**5**
ICT Service Desk	3	0	0	0	0	0	**3**
Budget Setting & Control	1	0	3	0	1	0	**5**
Workforce Development	10	0	1	0	0	0	**11**
TOTALS	**46**	**4**	**69**	**47**	**48**	**6**	**220**

<u>Notes:</u>

Extended time: This is where the Corporate Assurance Manager & Transformation Lead had agreed an extension to the original timescale.

Out of time: This is where the action was implemented later than the agreed timescale.

Details of Overdue Medium and High Risk Audit Recommendations

There are no overdue medium or high risk audit recommendations to report at this meeting.

Agenda No 9

AGENDA MANAGEMENT SHEET

Report Title:	Development of Internal Audit Plan for 2023/24
Name of Committee:	Audit and Ethics Committee
Date of Meeting:	2 February 2023
Report Director:	Chief Officer - Finance and Performance
Portfolio:	Finance, Performance, Legal and Governance
Ward Relevance:	None
Prior Consultation:	Chief Officer - Finance and Performance
Contact Officer:	Chris Green Corporate Assurance Manager and Transformation Lead 01788 533451; chris.green@rugby.gov.uk
Public or Private:	Public
Report Subject to Call-In:	No
Report En-Bloc:	No
Forward Plan:	No
Corporate Priorities: **(C) Climate** **(E) Economy** **(HC) Health and Communities** **(O) Organisation**	This report relates to the following priority(ies): ☐ Rugby is an environmentally sustainable place, where we work together to reduce and mitigate the effects of climate change. (C) ☐ Rugby has a diverse and resilient economy that benefits and enables opportunities for all residents. (E) ☐ Residents live healthy, independent lives, with the most vulnerable protected. (HC) ☒ Rugby Borough Council is a responsible, effective and efficient organisation. (O) Corporate Strategy 2021-2024 ☐ This report does not specifically relate to any Council priorities but
Summary:	The report sets out the proposed arrangements for developing the internal audit plan for 2023/24.
Financial Implications:	None

Risk Management/Health and Safety Implications:	If the internal audit plan does not cover the key risks to the Council the quality of the assurances it provides about the control framework would be compromised.
Environmental Implications:	None
Legal Implications:	None
Equality and Diversity:	No implications
Options:	None
Recommendations:	1) The process for developing the internal audit plan for 2023/24 be approved. 2) Members consider areas in which they require assurances from Internal Audit during 2023/24.
Reasons for Recommendation:	To comply with the requirements of the terms of reference of the Audit and Ethics Committee, and to discharge the Committee's responsibilities under the Constitution.

Audit and Ethics Committee - 2 February 2023

Development of Internal Audit Plan for 2023/24

Public Report of the Chief Officer - Finance and Performance

Recommendations

1) The process for developing the internal audit plan for 2023/24 be approved.
2) Members consider areas in which they require assurances from Internal Audit during 2023/24.

1. Background

1.1 The Internal Audit Plan is designed to support the provision of an annual Internal Audit Opinion. The basis for forming this opinion is as follows:

- An assessment of the design and operation of the underpinning Governance, Assurance and Risk Frameworks and supporting processes; and
- An assessment of the range of individual opinions arising from the risk-based assignments, which will be reported throughout the year.

1.2 The Internal Audit Plan covers the two key component roles of Internal Audit:

- The provision of an independent and objective opinion to the Chief Officer for Finance and Performance, and the Audit and Ethics Committee, on the degree to which risk management, control and governance support the achievement of Council objectives; and
- The provision of an independent and objective consultancy service specifically to help line management improve the organisation's risk management, control and governance arrangements.

2. Report Details

Public Sector Internal Audit Standards

2.1 In setting the Internal Audit Plan, the Public Sector Internal Audit Standards (the Standards) require that:

- The Internal Audit Plan should be developed taking into account the organisation's risk management framework and based upon a risk assessment process undertaken with the Leadership Team and the Audit and Ethics Committee;
- The Internal Audit Plan should be reviewed and approved by an effective and engaged Audit Committee to confirm that the plan addresses their assurance requirements for the year ahead;

- The “Chief Audit Executive” should consider accepting proposed consulting engagements based on the engagement’s potential to improve management of risks, add value and improve the organisation’s operations. Accepted engagements must be included in the plan.

Proposed Approach to Developing the Internal Audit Plan

2.2 In order to ensure the Internal Audit Plan for 2023/24 addresses the Council’s key strategic and operational risks and adds value to the organisation, it is proposed that the Corporate Assurance and Manager and Transformation Lead will identify and prioritise areas for coverage by reviewing sources such as:

- Strategic and Operational Risk Registers
- Corporate Strategy
- Financial Statements
- Service Plans
- Corporate Strategy Delivery Plans

2.3 Any other sources of assurance for each of the Council’s key risks will be considered, which may reduce the added value of an Internal Audit review. Options for aligning work with other assurance providers will also be evaluated.

2.4 Coverage of Internal Audit reviews over the last four years will be reviewed together with the assurance opinions provided following each review, to identify any assurance gaps or areas where follow up work would be of value.

2.5 The Audit Universe (the long list of potential areas for audit review across the Council) will be reviewed and updated. Areas which have not been subject to Internal Audit review during the last four years, and for which the level of risk is considered to be medium or higher, will be considered for inclusion in the audit plan.

2.6 Members are encouraged to provide input to development of the internal audit plan by highlighting areas which they consider to be medium or high risk. This input may be provided at the Committee meeting; alternatively, members are welcome to contact the Corporate Assurance Manager and Transformation Lead individually outside of the meeting.

2.7 There are no changes to the audit planning methodology. Subject to the Committee’s agreement, stakeholder meetings with each member of the Leadership Team will take place during February 2023. The Audit Universe will form a basis for the stakeholder discussions; in addition there will be a discussion of key/emerging risks for the months ahead, and any areas where Internal Audit support would be beneficial either in an assurance or consultancy role. The Corporate Strategy Delivery and Service Plans will also be used to inform these discussions.

2.8 Following the stakeholder meetings, the planned audit coverage will be refined and prioritised.

2.9 The proposed Internal Audit Plan will then be presented to the Leadership Team for approval in March 2023, and members will be asked to approve the Plan at the next Audit and Ethics Committee meeting on 30 March 2023.

2.10 Delivery of the internal audit service is currently supported by an appointed third-party contractor, Lighthouse Consultancy Ltd (Lighthouse). Lighthouse delivers the Council's internal IT audits. There is also an option for them to deliver non-IT internal audit work, which helps to provide resilience to the Council's in-house service.

Name of Meeting: Audit and Ethics Committee

Date of Meeting: 2 February 2023

Subject Matter: Development of Internal Audit Plan for 2023/24

Originating Department: Finance and Performance

DO ANY BACKGROUND PAPERS APPLY ☐ **YES** ☒ **NO**

LIST OF BACKGROUND PAPERS

Doc No	Title of Document and Hyperlink

The background papers relating to reports on planning applications and which are open to public inspection under Section 100D of the Local Government Act 1972, consist of the planning applications, referred to in the reports, and all written responses to consultations made by the Local Planning Authority, in connection with those applications.

☐ Exempt information is contained in the following documents:

Doc No	Relevant Paragraph of Schedule 12A