Public Document Pack

COTSWOLD DISTRICT COUNCIL

Wednesday, 17 January 2024

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AUDIT AND GOVERNANCE COMMITTEE

A meeting of the Audit and Governance Committee will be held in the Council Chamber - Council Offices, Trinity Road, Cirencester, GL7 1PX on **Thursday, 25 January 2024 at 4.00 pm.**

Rob Weaver
Chief Executive

To: Members of the Audit and Governance Committee
(Councillors Nigel Robbins, Helene Mansilla, Patrick Coleman, Jeremy Theyer, Chris Twells and Len Wilkins)

Recording of Proceedings – The law allows the public proceedings of Council, Cabinet, and Committee Meetings to be recorded, which includes filming as well as audio-recording. Photography is also permitted.

As a matter of courtesy, if you intend to record any part of the proceedings please let the Committee Administrator know prior to the date of the meeting.

AGENDA

1. **Apologies**
To receive any apologies from members

2. **Substitute Members**
To note details of any substitution arrangements in place for the meeting.

3. **Declarations of Interest**
To receive any declarations of interest from Members and Officers, relating to items to be considered at the meeting.

4. **Minutes** (Pages 5 - 10)
To confirm the minutes of the meeting of the Committee held on 30 November 2023

5. **Election of Vice Chair**
Purpose
The Committee is invited to elect a Vice-Chair for the remainder of the 2023-24 Council year, following the resignation of the previous Vice-Chair.

6. **Public Questions**
To deal with questions from the public within the open forum question and answer session of fifteen minutes in total. Questions or supplementary questions from each member of the public should be no longer than two minutes each and relate issues under the Committee's remit.

7. **Member Questions**
To deal with written questions by Members, relating to issues under the Committee's remit, with the maximum length of oral supplementary questions at Committee being no longer than one minute. Responses to any supplementary questions will be dealt with in writing following the meeting

8. **External Audit Plan 2022/23** (Pages 11 - 38)- 20 minutes
Purpose
To receive the 2022/23 Audit Plan from Grant Thornton, the Council's external auditors.

Recommendation
That Audit and Governance Committee resolves to:
1. Consider and note the Grant Thornton Audit Plan for 2022/23.

9. **Informing the Audit Risk Assessment** (Pages 39 - 86) - 20 minutes
Purpose
To consider proposed management responses to the external auditor's questions to inform their assessment of risk to underpin the audit of the statement of accounts for the year ended 31 March 2023.

Recommendations:
That the Audit and Governance Committee resolves to:

1. Confirm their understanding of and agreement with the responses provided by management to the auditors in Annex A.
2. Make any further comments or observations in respect of any of the areas set out in Annex A known to the auditors.

10. **Internal Audit Progress Report** (Pages 87 - 112) - 20 minutes

Purpose

To present a summary of the audit work concluded since the last meeting of this Committee.

Recommendation:

That the Audit and Governance Committee resolves to:

1. Consider the reports at Annexes A and B and comments as necessary

11. **Annual Treasury Management Strategy and Annual Non-Treasury Investment Strategy 2024/25** (Pages 113 - 150) - 20 minutes

Summary/Purpose

The Council is required to approve a Treasury Management Strategy and Non-Treasury Investment Strategy (Investment Strategy) for 2024/25 before 01 April 2024.

The attached Treasury Management Strategy Statement (TMSS) for 2024/25 (Appendix 1) and Non-Treasury Investment Strategy (Appendix 2) is prepared in accordance with the "Prudential Code" and the "Treasury Management Code of Practice" (2021 Editions), and the former Ministry of Housing, Communities and Local Government (MHCLG) revised guidance on Local Government Investments

Recommendation

That the Audit and Governance Committee resolves to:

1. Consider the draft Treasury Management and Non-Treasury Investment Strategy for 2024/25 and provides feedback to the Cabinet and Council for consideration as part of the Council's budget setting process

12. **Annual Capital Strategy 2024/25** (Pages 151 - 172) - 20 minutes

Purpose

The Council is required to approve a Capital Strategy for 2024/25 before 1 April 2024.

The Capital Strategy 2024/25 (Appendix 1) is in accordance with CIPFA's "Prudential Code" and the "Treasury Management Code of Practice" 2021 and the former Ministry, Housing, Communities and Local Government (MHCLG) guidance on Local Government Investments

Recommendation

That the Audit and Governance Committee resolves to:

1. Consider the draft Capital Strategy for 2024/25 and provides feedback to the Cabinet and Council for consideration as part of the Council's budget setting process.

13. **Annual Governance Statement – Action Plan Update** (Pages 173 - 184) - 20 minutes

Purpose

This report provides the Audit and Governance Committee with an update on progress against the Annual Governance Statement action plan for 2023/24 as of January 2024.

Recommendation
That the Audit and Governance Committee resolves to:

1. Note the Annual Governance Action Plan and associated progress updates

14. **Work Plan** (Pages 185 - 188) - 20 minutes
To note the work plan for the 2023/24 year

15. **Matters Exempt from Publication**
If the Committee wishes to exclude the press and the public from the meeting during consideration of any of the items on the exempt from publication part of the agenda, it will be necessary for the Committee to pass a resolution in accordance with the provisions of section 100A of the Local Government Act 1972 on the grounds that their presence could involve the likely disclosure of exempt information as described in paragraph 7 of Schedule 12A of the Local Government Act 1972.

The Committee may maintain the exemption if and so long as, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

16. **Cyber Security Update** (Pages 189 - 196) - 20 minutes
Purpose
To provide the Audit and Governance Committee an update on Cyber Security.

Recommendation
That Audit and Governance Committee resolves to:

1. Note the content of the report.

(END)

Audit and Governance Committee
30/November2023

COTSWOLD
DISTRICT COUNCIL

Minutes of a meeting of Audit and Governance Committee held on Thursday, 30 November 2023

Councillors present:
Nigel Robbins –Chair
Patrick Coleman
Jeremy Theyer
Len Wilkins
Christopher Bass

Independent Members:
Christopher Bass

Officers present:
David Stanley, Deputy Chief Executive and Chief Finance Officer
Michelle Burge, Chief Accountant
Angela Claridge, Director of Governance and Development (Monitoring Officer)
Emma Cathcart, Head of Service, Counter Fraud and Enforcement Unit
Cheryl Sloan, Business Manager - Business Continuity, Governance and Risk
Ana Prelici, Democratic Services Officer

Observers:

Councillor Mike Evemy

232 Apologies

Apologies were received from Councillors Helene Mansilla and Chris Twells, and John Chessire, an independent member of the Committee.

233 Substitute Members

There were no substitute members.

234 Declarations of Interest

There were no declarations of interest.

235 Election of Vice Chair

The purpose of the item was to elect a Vice Chair following the resignation of the incumbent.

Due to a high level of apologies received at the meeting, and a vacancy on the Committee, the Chair proposed deferring the item until after the by-election, which was agreed by the Committee.

236 Appointment to the Standards Hearings Sub-Committee

The Chair stated that Clare Muir, who had recently resigned as a Councillor, was one of the members appointed onto the sub-committee. Due to political balance requirements, the former Councillor Muir had been a Liberal Democrat appointee so the Chair sought opinion from the Liberal Democrat group as to their replacement. The Deputy Leader of the Council stated that the Liberal Democrats proposed Councillor Helene Mansilla.

Councillor Coleman proposed the appointment and Councillor Robbins seconded. This was agreed by the Committee by general assent without a vote.

RESOLVED: To appoint Councillor Helene Mansilla to the Standard Hearings Sub-Committee.

237 Minutes

The minutes were discussed, and the following amendments were made:

- Add Christopher Bass, Independent Member
- Pete Barber from Grant Thornton was not a councillor, and Members asked that he be mentioned by name
- Pg.7 syntax was corrected on 'members noted that freedom of information rating', this should be noted not stated
- Pg. 8 , should read 'Freedom of information assurance level'
- Councillor Mike Evemy to be added as an observer to meeting

The Cabinet member for Climate Change would be invited to the next meeting as per prior discussion at the previous meeting.

RESOLVED: To approve the minutes of the meeting held on 18 October 2023 as an accurate record.

238 Public Questions

There were no public questions.

239 Member Questions

There were no member questions.

240 Corporate Risk Register

The Chair introduced the item, stating that looking at the risk register was a constitutional function of the Committee.

The purpose of the report was to bring to members the current version of the Strategic Risk Register for information and assurance that risks to the Council were being managed and appropriate actions were being taken to mitigate risk.

Members noted an error in the paper's heading, which referred to Cotswold District Council's corporate governance code. The officer acknowledged this and explained it was a copy-paste of a previous report.

The Chair invited the Business Manager for Business Continuity, Governance and Risk to introduce the report. The Business Manager highlighted the changes since the previous report;

- The Business Manager presented the revised Strategic Risk Register for Cotswold District Council, emphasising its alignment with high-level risks from various registers, including those of Publica.
- Two risks were highlighted as having increased, relating to the shareholder review of Publica and partnership deliverables. These were attributed to recent decisions to transition services back to the Council.
- The Business Manager stated that the risk register had been reformatted for clarity in regard risk definition, mitigation and scoring and invited the Committee to provide feedback.
- The Business Manager also addressed some errors in the report, specifically, Health and Safety, Legal Compliance, and Procurement, which should have been marked as green.

Members discussed the report, raising the following points;

- The transitioning of services from Publica to in-house provision was discussed, and members asked about the risks associated with this, such as potential disagreements with partner councils and impact on staff resources. Officers stated that this would be reported through the work undertaken on the transition project.
- Members welcomed the format of the report.
- The Deputy Leader and Cabinet member for Finance, as an observer, welcomed the risk register as reflecting best practice. The Deputy Leader suggested that this be brought to a future Cabinet meeting.
- Members of the Committee asked if the Council had a way of measuring staff engagement. The Director of Governance mentioned ongoing staff surveys to measure employee engagement.
- Members discussed cybersecurity, due to the risk of incidents, and recent cybersecurity attack on Gloucester City Council, and asked if there was a cybersecurity standard that the Council could pursue. The Deputy Chief Executive stated that there was a Public Services Network standard that was being rolled out, and also stated that Gloucester City Council had shared its findings in an executive report, which members were encouraged to read. The Chair of the Committee stated that there was a role for the Committee in receiving future updates on Cyber Security.

RESOLVED: to NOTE the Strategic Risk Register.

241 Treasury Management Mid-Year Report

The purpose of the item was to receive and discuss details of the Council's Treasury Management performance for the period 01 April to 30 September 2023 and Quarter 2 Treasury Management Prudential Indicators.

The Chair invited the Deputy Chief Executive to provide an overview of the report.

The Deputy Chief Executive stated that the report highlighted treasury management performance, compliance with prudential indicators, and the impact of interest rate changes, which had been positive due to a low amount of interest rates.

Members discussed the report, and asked questions on the following, which the Deputy Chief Executive provided information on:

- There had been a decrease in the Council's reserves due to the use of capital receipts, but spending of these had now decreased.
- It was noted that there was a typographical error in paragraph 4.8, and that it should be £500,000 not £50,000
- The concept of a liability benchmark was explained, which was a projection of the amount of loan debt outstanding that the authority needs each year into the future to fund its existing debt liabilities, planned prudential borrowing and other cash flows.
- Internal borrowing was explained, which balanced the opportunity cost, against the cost of external borrowing.

RESOLVED: To RECOMMEND to Council to approve the Council's Treasury Management performance for the period 1 April 2023 to 30 September 2023 and Quarter 2 Prudential Indicators.

Voting record – for 4, against 0, abstention

242 Counter Fraud and Enforcement Unit Update Report

The Head of Service for the Counter Fraud and Enforcement Unit (CFEU) introduced the item highlighting the work of the multi-agency approach to fraud or MAAF Group to combat online scams. They also highlighted ongoing work relating to business grant debt collection and the transfer of debt liability to the Department of Business and Trade where appropriate. They also updated the Committee in relation to work relating to National Fraud Initiative matches. They also touched on regulatory enforcement activities and outcomes.

Members discussed the report, and stated it was a testament to the fact that the Council takes tackling fraud seriously. Members discussed the following points;

- Members sought more details on a confidential piece of work undertaken on instruction by the Monitoring Officer. The Monitoring Officer explained the sensitivity of the matter and suggested going into a private session if a more detailed debate was required.
- Members raised questions about matches related to council tax anomalies, seeking information on the percentage that are deemed fraudulent. The Head of Service for the CFEU stated that in 21/22, out of over 1000 matches, 77 resulted in amended accounts.
- The Deputy Chief Executive acknowledged the unit's recognition on the Public Finance Award shortlist, and highlighted the exemplar work of the team.
- It was stated that the impact of the Publica transition on the unit would be minimal.

RESOLVED: To NOTE the report and work plan.

243 Council Tax, Housing Benefit and Council Tax Support Penalty and Prosecution Policy (review)

The Head of Service for the Counter Fraud and Enforcement Unit (CFEU) introduced the item.

The Purpose was to present the Committee with an updated Council Tax, Housing Benefit and Council Tax Support Penalty and Prosecution Policy for comment.

The Head of Services for the CFEU stated that it had been updated to ensure uniformity across the CFEU Partner Councils as this area of work is undertaken across all six Councils by the CFEU.

The only significant policy change was that relating to the value of the Housing Benefit required before a Civil Penalty can be applied. It has been increased to £500 from £250.

Members asked questions on the report. The Head of the CFEU mentioned that there if there were attempts to commit fraud, a Caution was not offered, instead a Criminal Penalty could be applied however where is it was clearly a deliberate or repeated attempt, the perpetrator could be prosecuted.

Councillor Coleman proposed the recommendation as set out in the report, and Councillor Wilkins seconded.

RESOLVED: To recommend the policy to Cabinet for approval.

Voting record For- 4, Against 0, Abstentions 0

244 Update on Member Training and Induction

The Director of Governance and Development introduced the report, which was reported in relation to Committee's role to improve and enforce member standards of conduct.

Following the adoption of the Gloucestershire Code of Conduct, the Committee had requested a report highlighting member training.

Members discussed the report and raised the following points

- Members welcomed Annex A, which highlighted attendance at training.
- Members were pleased to see that the feedback was positive from those who attended the training, but asked if those who did not attend were asked for feedback as to why. The Director of Governance and Development explained that not all training was necessarily relevant to all members, but non-attendance could be picked up by the Member Development Steering Group.
- The Deputy Leader stated that they would work with members in their group as to why they didn't attend, to understand barriers.
- Members suggested that the Political Leaders and Deputies should have a role in encouraging attendance within their groups and understanding why some did not attend, and likewise that the Monitoring Officer should follow up with non-aligned Members.

RESOLVED: To NOTE the report.

245 Audit and Governance Committee Work Plan

The Deputy Chief Executive stated that a work plan for the new municipal year after May 2024 would be brought forward sometime in the new year.

It was noted that meeting start times had been moved to 4pm.

The Meeting commenced at_5.05 pm and closed at 6.25 pm

Chair

(END)

COTSWOLD
DISTRICT COUNCIL

Council name	**COTSWOLD DISTRICT COUNCIL**
Name and date of Committee	**AUDIT AND GOVERNANCE COMMITTEE – 25 JANUARY 2024**
Subject	**EXTERNAL AUDIT PLAN 2022/23**
Wards affected	All
Accountable member	Cllr Mike Evemy Deputy Leader and Cabinet Member for Finance Email: mike.evemy@cotswold.gov.uk
Accountable officer	David Stanley, Deputy Chief Executive and S151 Officer Email: david.stanley@Cotswold.gov.uk
Report author	Michelle Burge, Chief Accountant Email: democratic@cotswold.gov.uk
Summary/Purpose	To receive the 2022/23 Audit Plan from Grant Thornton, the Council's external auditors.
Annexes	**Annex A** – 2022/23 Audit Plan
Recommendation(s)	That Audit and Governance Committee resolves to: *1.* Consider and note the Grant Thornton Audit Plan for 2022/23.
Corporate priorities	• Deliver the highest standard of service
Key Decision	NO
Exempt	NO
Consultees/ Consultation	Deputy Chief Executive and S151 Officer

COTSWOLD
DISTRICT COUNCIL

1. BACKGROUND

1.1 Each year, ahead of the audit, the external auditor provides an overview of the planned scope and timing of the statutory audit of the Council for those charged with governance.

1.2 The National Audit Officer ('the NAO') has issued a document entitled Code of Audit Practice 'the Code'). This summarises the responsibilities of auditors. The scope of the external audit is set out in accordance with the Code and International Standards of Auditing (ISAs) (UK). External Audit are responsible for forming and expressing an opinion on the Council's financial statements; they also consider whether there are sufficient arrangements in place at the Council for securing economy, efficiency, and effectiveness in its use of resources. Value for money relates to ensuring that resources are used efficiently to maximise the outcomes that can be achieved.

2. EXECUTIVE SUMMARY

2.1 Attached as Annex A is the Council's external auditor's (Grant Thornton LLP) audit plan for the year ended 31 March 20023.

2.2 The plan considers key factors relevant to the sector and any specific matters relating to the Council.

2.3 The external audit plan outlines the key financial risks that could potentially result in a material misstatement within the draft Statement of Accounts.

2.4 The plan includes the external auditor's assessment of 'materiality' for misstatements which for 2022/23 has been set at £0.850m. Misstatements either individually or in aggregate above the materiality level could reasonably be expected to influence the users understanding of the financial statement and/or decisions taken based on them. The materiality level applies not only to monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

2.5 Grant Thornton's indicative risk assessment regarding value for money has not identified any risks of significant weakness. Their risk assessment will continue to be updated until they issue their Auditor's Annual Report.

2.6 The plan includes information in respect of the audit team, proposed deliverables from Grant Thornton, timescales for the audit and relation fees. The plan has been agreed with relevant officers of the Council and Publica.

2.7 The audit is currently underway and is expected to be completed by March 2024, with audit findings report presented to the next Audit and Governance Committee meeting.

2.8 Representatives from Grant Thornton will attend this meeting to answer any questions in relation to the plan and audit from the Committee.

COTSWOLD
DISTRICT COUNCIL

3. ALTERNATIVE OPTIONS

3.1 None

4. FINANCIAL IMPLICATIONS

4.1 The proposed audit fee for 2022/23 is £61,908. Page 18 of the Audit Plan highlights that the major change impacting on the audit for 2022/23 is the introduction of ISA (UK) 315 (Revised) – Identifying and assessing the risks of material misstatement ('ISA 315'). This will require the audit team to increase the scope, nature and extent of their audit documentation, particularly in respect of business processes, and IT controls. The fee of £61,908 outlined above and included on page 19 and 20 of the Audit Plan includes an initial increase of £3,000 to allow for the impact of the introduction of ISA 315. Grant Thornton will inform the finance team if their work in respect of business processes and IT controls identifies any issues requiring further audit testing and a subsequent further increase in fee.

4.2 An accrual of £67,058 in relation to the 2022/23 audit fee was included in the 2022/23 outturn. Following receipt of the final 2022/23 fee invoice during 2023/24, there will currently be a small balance of £5,150 which could be used to fund any subsequent increase in fees in relation to 2022/23 or 2023/24.

5. LEGAL IMPLICATIONS

5.1 None directly arising from this report.

6. RISK ASSESSMENT

6.1 The audit plan states that the audit fee is 'subject to the Council delivering a good set of financial statements and working papers and no significant new financial reporting matters arising that require additional time and/or specialist input. The Deputy Chief Executive has requested that Grant Thornton provide advanced notice of any work which is likely to incur additional audit fees.

7. EQUALITIES IMPACT

7.1 None directly arising from this report.

8. CLIMATE AND ECOLOGICAL EMERGENCIES IMPLICATIONS

8.1 None directly arising from this report.

9. BACKGROUND PAPERS

9.1 None.

(END)

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Cotswold District Council audit plan

Year ending 31 March 2023

Cotswold District Council

20 December 2023

Contents

Your key Grant Thornton team members are:

Peter Barber
Key Audit Partner
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Roz Apperley
Audit Manager
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E Roz.E.Apperley@uk.gt.com

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Key matters

For the general population, rising inflation rates, in particular for critical commodities such as energy, food and fuel, is pushing many households into poverty and financial hardship, including those in employment. At a national government level, recent political changes have seen an emphasis on controls on spending, which in turn is placing pressure on public services to manage within limited budgets.

Local Government funding continues to be stretched with increasing cost pressures due to the cost of living crisis, including higher energy costs, increasing pay demands, higher agency costs and increases in supplies and services. Local authority front-line services play a vital role in protecting residents from rising costs; preventing the most vulnerable from falling into destitution and helping to build households long-term financial resilience. At a local level, councils are also essential in driving strong and inclusive local economies, through their economic development functions and measures like increasing the supply of affordable housing, integrating skills and employment provision, and prioritising vulnerable households to benefit from energy saving initiatives. Access to these services remains a key priority across the country, but there are also pressures on the quality of services. These could include further unplanned reductions to services and the cancellation or delays to major construction projects such as new roads, amenities and infrastructure upgrades to schools, as well as pothole filling.

Our recent value for money work has highlighted a number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time.

In planning our audit, we will take account of this context in designing a local audit programme which is tailored to your risks and circumstances.

Audit Reporting Delays

In a report published in January 2023 the NAO have highlighted that since 2017-18 there has been a significant decline in the number of local government body accounts including an audit opinion published by the deadlines set by government. The NAO outline a number of reasons for this and proposed actions. In March 2023, we issued About time?, which explored the reasons for delayed publication of audited local authority accounts. In our view, it is critical to early sign off that draft local authority accounts are prepared to a high standard and supported by strong working papers.

Key matters

Our Responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out further in our Audit Plan, has been agreed with the Deputy Chief Executive/S151 Officer.
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work.
- Our value for money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness.
- We will continue to provide you and your Audit and Governance Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our Audit & Governance Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretation, discuss issues with our experts and create networking links with other audited bodies to support consistent and accurate financial reporting across the sector.
- We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We have identified a significant risk in regards to management override of control

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Cotswold District Council ('the Council') for those charged with governance. Our planning is well progressed but not complete, so this is an indicative plan. We will keep our opinion risk assessment under continuous review as planning concludes. Where appropriate, we will update our risk assessment to reflect emerging risks or findings and report this to the Council.

Respective responsibilities

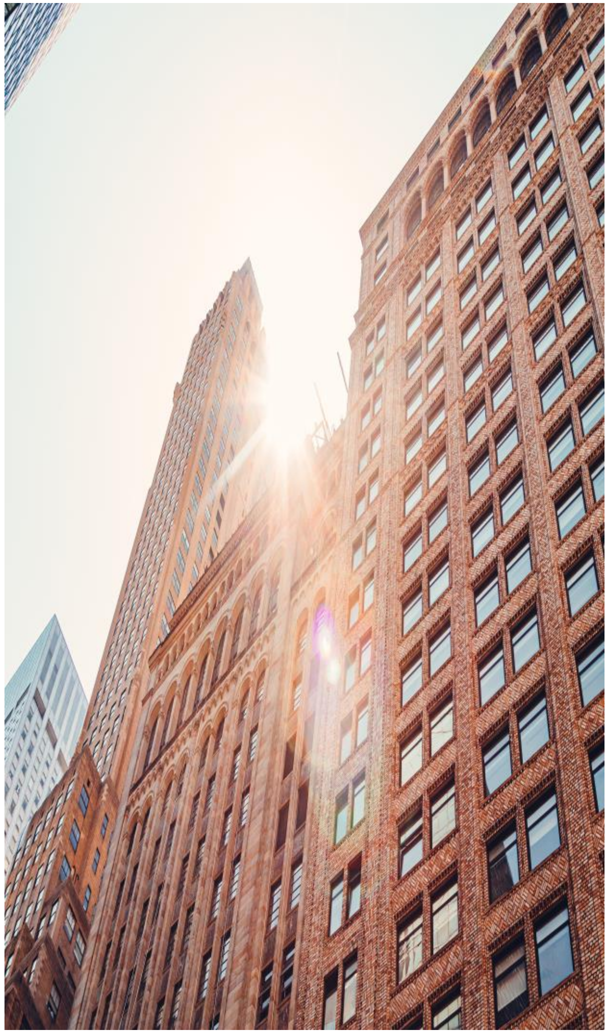
The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Cotswold District Council. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Governance committee); and we consider whether there are sufficient arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Audit and Governance Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.



Introduction and headlines

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of control
- Revenue and expenditure recognition (rebutted)
- Valuation of land and buildings
- Valuation of investment properties
- Valuation of the net pension fund liability

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £850k (PY £819k) for the Council, which equates to 1.9% of your gross operating costs for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance.

Clearly trivial has been set at £40k (PY £45k).

Value for Money arrangements

Our indicative risk assessment regarding your arrangements to secure value for money has not identified any risks of significant weakness. We will continue to update our risk assessment until we issue our Auditor's Annual Report.

New Auditing Standards

There are two auditing standards which have been significantly updated this year. These are ISA 315 (Identifying and assessing the risks of material misstatement) and ISA 240 (the auditor's responsibilities relating to fraud in an audit of financial statements). We provide more detail on the work required later in this plan.

Audit logistics

Our planning work took place in November and December 2023 and our final accounts audit will commence in January 2024. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our proposed fee for the audit will be £61,908 (PY: £68,658) for the Council, subject to the Council delivering a good set of financial statements and working papers and no significant new financial reporting matters arising that require additional time and/or specialist input.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Cotswold District Council mean that all forms of fraud are seen as unacceptable.	No specific work is planned as the presumed risk has been rebutted.

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.' (ISA (UK) 315)

Management should expect engagement teams to challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The expenditure cycle includes fraudulent transactions (rebutted)	Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states: "As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition". Public sector auditors therefore need to consider whether they have any significant concerns about fraudulent financial reporting of expenditure which would need to be treated as a significant risk for the audit.	We have rebutted this presumed risk for Cotswold District Council because: • expenditure is well controlled and the Council has a strong control environment; and • the Council has clear and transparent reporting of its financial plans and financial position to the Council. We therefore do not consider this to be a significant risk for Cotswold District Council.
Management over-ride of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	Revaluation of property, plant and equipment should be performed with sufficient regularity to ensure that carrying amounts are not materially different from those that would be determined at the end of the reporting period. The Council revalues its land and buildings on a rolling basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets) at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, requiring special audit consideration.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluate the competence, capabilities and objectivity of the valuation expert; • write to the valuer to confirm the basis on which the valuation was carried out; • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Council's valuer's report and the assumptions that underpin the valuation; • test revaluations made during the year to see if they had been input correctly into the Council's asset register; and • evaluate the assumptions made by the valuer for those assets revalued at 31 March 2023. For the assets not formally revalued in year we will assess how management has satisfied themselves that these assets are not materially different to the current value at the year end.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of investment properties	The Council revalues its investment properties annually. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. We therefore identified valuation of investment properties, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluate the competence, capabilities and objectivity of the valuation expert; • write to the valuer to confirm the basis on which the valuation was carried out; • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Council's valuer's report and the assumptions that underpin the valuation; • test revaluations made during the year to see if they had been input correctly into the Council's asset register; and • evaluate the assumptions made by the valuer for those assets revalued at 31 March 2023.
Valuation of the pension fund net liability	The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtain assurances from the auditor of the Gloucestershire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2022/23 financial statements, consider and decide upon any objections received in relation to the 2022/23 financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
  - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, 'irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure'. All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Matter	Description	Planned audit procedures
1	**Determination** We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. Materiality at the planning stage of our audit is £850k, which equates to 1.9% of your draft gross expenditure for the period.	We determine planning materiality in order to: – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements – assist in establishing the scope of our audit engagement and audit tests – determine sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements
2	**Other factors** An item does not necessarily have to be large to be considered to have a material effect on the financial statements.	An item may be considered to be material by nature where it may affect instances when greater precision is required. We have not identified any other areas for lower specific materiality for 2022/23.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Matter	Description	Planned audit procedures
3	**Reassessment of materiality** Our assessment of materiality is kept under review throughout the audit process.	We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.
4	**Other communications relating to materiality we will report to the Audit & Governance Committee** Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit & Governance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.	We report to the Audit & Governance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £40k (PY £45k). If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Governance Committee to assist it in fulfilling its governance responsibilities.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

	Amount (£)	Qualitative factors considered
Materiality for the Council financial statements	£850,000	This was set at 1.9% of your gross expenditure for the year of audit.

IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs. We say more about ISA 315 Revised on page 18.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
Agresso	Financial reporting	Streamlined ITGC design assessment
Civica	Revenues (Council tax and business rates) and Housing benefits	Streamlined ITGC design assessment

Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2023

The National Audit Office issued its latest Value for Money guidance to auditors in January 2023. The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.

Financial Sustainability

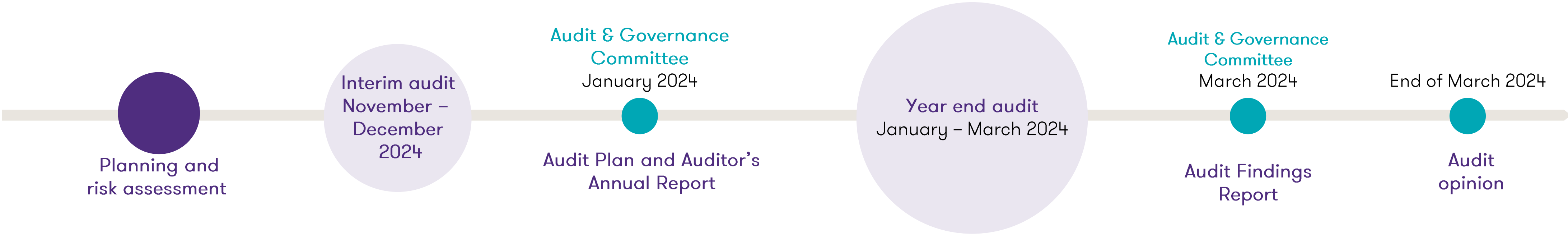
How the body plans and manages its resources to ensure it can continue to deliver its services.

Governance

How the body ensures that it makes informed decisions and properly manages its risks.

We have not identified any risks of significant weaknesses from our initial planning work. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's annual report.

Audit logistics and team



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Peter Barber, Key Audit Partner

Provides oversight of the delivery of the audit including regular engagement with Governance Committees and senior officers

Roz Apperley, Audit Manager

Provides oversight of the delivery of the audit including regular engagement with Governance Committees and senior officers.

Audited Entity responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audited bodies. Where the elapsed time to complete an audit exceeds that agreed due to an entity not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to an entity not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to :

- ensure that you produce draft financial statements of good quality by the deadline you have agreed with us, including all notes and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees and updated Auditing Standards including ISA 315 Revised

In 2017, PSAA awarded a contract of audit for Cotswold District Council to begin with effect from 2018/19. The fee agreed in the contract was £35,527. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2022/23 audit. For details of the changes which impacted on years up to 2021/22 please see our prior year Audit Plans.

The major change impacting on our audit for 2022/23 is the introduction of ISA (UK) 315 (Revised) - Identifying and assessing the risks of material misstatement ('ISA 315'). There are a number of significant changes that will impact the nature and extent of our risk assessment procedures and the work we perform to respond to these identified risks. Key changes include:

- Enhanced requirements around understanding the Council's IT Infrastructure, IT environment. From this we will then identify any risks arising from the use of IT. We are then required to identify the IT General Controls ('ITGCs') that address those risks and test the design and implementation of ITGCs that address the risks arising from the use of IT.
- Additional documentation of our understanding of the Council's business model, which may result in us needing to perform additional inquiries to understand the Council's end-to-end processes over more classes of transactions, balances and disclosures.
- We are required to identify controls within a business process and identify which of those controls are controls relevant to the audit. These include, but are not limited to, controls over significant risks and journal entries. We will need to identify the risks arising from the use of IT and the general IT controls (ITGCs) as part of obtaining an understanding of relevant controls.
- Where we do not test the operating effectiveness of controls, the assessment of risk will be the inherent risk, this means that our sample sizes may be larger than in previous years.

These are significant changes which will require us to increase the scope, nature and extent of our audit documentation, particularly in respect of your business processes, and your IT controls. We will be unable to determine the full fee impact until we have undertaken further work in respect of the above areas. However, for an authority of your size, we estimate an initial increase of £3,000. We will let you know if our work in respect of business processes and IT controls identifies any issues requiring further audit testing. There is likely to be an ongoing requirement for a fee increase in future years, although we are unable yet to quantify that.

The other major change to Auditing Standards in 2022/23 is in respect of ISA 240 which deals with the auditor's responsibilities relating to fraud in an audit of financial statements. This Standard gives more prominence to the risk of fraud in the audit planning process. We will let you know during the course of the audit should we be required to undertake any additional work in this area which will impact on your fee.

Taking into account the above, our proposed work and fee for 2022/23, as set out below, is detailed overleaf and has been agreed with the Deputy Chief Executive/S151 Officer.

Audit fees

	Actual Fee 2021/22	Proposed fee 2022/23
Cotswold District Council Audit	£68,658	£61,908

Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

Scale fee published by PSAA 2022/23	**£42,058**
Additional work on Value for Money (VfM) under new NAO Code	£9,000
Increased audit requirements of revised ISAs 540 / 240 / 700	£2,100
Enhanced audit procedures on journals testing (not included in the Scale Fee)	£3,000
Additional procedures to address other local risk factors	£1,500
Enhanced audit procedures for Payroll – Change of circumstances	£500
Enhanced audit procedures for Collection Fund- reliefs testing	£750
Increased audit requirements of revised ISAs 315	£3,000
Total proposed audit fees 2022/23 (excluding VAT)	**£61,908**

All variations to the scale fee will need to be approved by PSAA

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard.

Independence and non-audit services

Other services

No other services provided by Grant Thornton were identified.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•	
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud(deliberate manipulation) involving management and/or which results in material misstatement of the financial statements (not typically council tax fraud)		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Grant Thornton

COTSWOLD
DISTRICT COUNCIL

Council name	**COTSWOLD DISTRICT COUNCIL**
Name and date of Committee	**AUDIT AND GOVERNANCE COMMITTEE – 25 JANUARY 2024**
Subject	**INFORMING THE AUDIT RISK ASSESSMENT – EXTERNAL AUDIT ASSURANCE**
Wards affected	ALL
Accountable member	Councillor Mike Evemy, Deputy Leader of the Council and Cabinet Member for Finance. Email: mike.evemy@Cotswold.gov.uk
Accountable officer	David Stanley, Deputy Chief Executive and S151 Officer Email: david.stanley@cotswold.gov.uk
Report author	Michelle Burge, Chief Accountant Email: democratic@cotswold.gov.uk
Summary/Purpose	To consider proposed management responses to the external auditor's questions to inform their assessment of risk to underpin the audit of the statement of accounts for the year ended 31 March 2023.
Annexes	Annex A – Informing the Audit Risk assessment for Cotswold District Council 2022/23
Recommendation(s)	That the Audit and Governance Committee resolves to: 1. Confirm their understanding of and agreement with the responses provided by management to the auditors in Annex A. 2. Make any further comments or observations in respect of any of the areas set out in Annex A known to the auditors.
Corporate priorities	Deliver the highest standard of service
Key Decision	NO
Exempt	NO
Consultees/ Consultation	Deputy Chief Executive, Monitoring Officer, Chief Executive, Head of Counter Fraud, SWAP Internal Audit.

COTSWOLD
DISTRICT COUNCIL

1. BACKGROUND

1.1 Each year, as part of the audit planning process, the Council's external auditor is required to obtain an understanding of management processes and the Council's oversight of the following areas:

- General enquiries of management
- Fraud
- Laws and Regulations
- Related Parties
- Going Concern; and
- Accounting Estimates.

1.2 **Annex A** includes a number of detailed questions in respect of the areas outline above and the Council's proposed response to the questions posed by the Council's external auditor, Grant Thornton LLP.

2. EXECUTIVE SUMMARY

2.1 Each year, ahead of the commencement of the external audit fieldwork, the external auditor will raise a series of questions with management to inform their assessment of risk and to contribute towards a form of two-way communication with those charged with governance.

2.2 The external auditor is seeking to understand how the Audit and Governance Committee gains assurance that adequate arrangements are in place on matters such as fraud, breaches of internal control, compliance with laws and regulations, assessment of going concern and accounting estimates.

2.3 In order to achieve this, Grant Thornton have sought responses to a series of questions raised in their "Informing the Audit Risk Assessment" template. Draft management responses to the questions raised in respect of the year ended 31 March 2023 are now attached at **Annex A.**

2.4 Grant Thornton are also seeking to update their understanding of key accounting estimates made in the 2022/23 statutory accounts and again, will seek management responses to a series of questions in this regard. Draft management responses can also be seen in **Annex A**.

2.5 The committee are asked to consider whether the responses in **Annex A** are consistent with their understanding. Should any members have any further comments or observations in respect of any areas referenced in either document, they are asked to make this known to the auditors.

COTSWOLD
DISTRICT COUNCIL

3. ALTERNATIVE OPTIONS

3.1 None

4. FINANCIAL IMPLICATIONS

4.1 None directly arising from this report.

5. LEGAL IMPLICATIONS

5.1 None arising from this report.

6. RISK ASSESSMENT

6.1 None

7. EQUALITIES IMPACT

7.1 None directly arising from this report.

8. CLIMATE AND ECOLOGICAL EMERGENCIES IMPLICATIONS

8.1 None directly arising from this report.

9. BACKGROUND PAPERS

9.1 None.

(END)

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Informing the audit risk assessment for Cotswold District Council 2022/23

Peter Barber
Director
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E Peter.A.Barber@uk.gt.com

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between Cotswold District Council's external auditors and Cotswold District Council's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Council's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties,
- Going Concern, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from Cotswold District Council's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2022/23?	The value of the Council's IAS 19 pension liability has reduced by £30.732m, details are provided in the narrative report and note E1 to the Statement of Accounts. The future value of pension liabilities is based on the discount rate, which is based on the yield on investment grade corporate bonds. There has been a significant rise in yield over the period which has led to an increase in the discount rate, which in turn has had a positive effect on pension scheme liabilities. Whilst the scheme is in deficit it represents the net value of what the Council owes across all future years. The Council are making contributions to cover liabilities accruing for employees that are current members. The Council purchased a homeless property during 2022/23 for £1.148m as outlined within the narrative report and note D1. Short term debtors have decreased by £5.529m and short term creditors have decreased by £12.948m.In a normal year fluctuations in these balances would be expected, in 2021/22 these were hugely exacerbated due to the size of transactions with central government departments and the Council's partners. Specifically the Business Rates deficit, S31 compensation grant and Business Support grants. This impact has been reversed in 2022/23 bringing Short Term Debtors and Creditors in line with pre Covid levels.
2. Have you considered the appropriateness of the accounting policies adopted by Cotswold District Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?	Accounting policies are reviewed and updated on an annual basis as part of closedown process to ensure that any new policies are incorporated and that existing policies are correct. The 2022/23 accounting policies were reviewed and approved by the Audit and Governance Committee in April 2023. The implementation of IFRS 16 Leases has been subject to an optional delay for a further year. The council has opted to take the opportunity to delay this until 2024/25. The policy has therefore not been updated.

General Enquiries of Management

Question	Management response
3. Is there any use of financial instruments, including derivatives? If so, please explain	The Council's financial instruments include: investments, cash equivalents, debtors, equity investments, finance lease assets and liabilities, community municipal investment (Cotswold Climate Investment) and creditors. Financial instruments are accounted for as per the requirements of IFRS 9. Financial instruments are as per the approved investment strategy developed with Arlingclose. Strategic investment reviews take place during the year with senior officers including consequent report and consultation with the Audit and Governance Committee. The Council's financial instruments do not include any derivative arrangements.
4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?	No.

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General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	None in 2022/23
6. Are you aware of any guarantee contracts? If so, please provide further details	The contract with Publica guarantees the company against future LGPS pension liabilities. Costs are passed through from Publica to the Council. The Council is a shareholder of Ubico Ltd, owning one eighth of the company, and is a joint partner in Publica Group (Support) Limited, owning one quarter of the company. In both cases, should the company overspend, the Council would be liable for its share of the additional costs. In both companies, sound financial management and budgetary control mitigate the risk that additional sums will be required without adequate notice.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	No

Grant Thornton

General Enquiries of Management

Question	Management response
8. Other than in house solicitors, can you provide details of those solicitors utilised by Cotswold District Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	A number of external solicitors are engaged on an ad hoc basis when there is no capacity in house. We have instructed Counsel to advise on various matters and to conduct Planning Inquiries and Court cases for us **Firms engaged include**: Trowers Hamlin LLP (Culture and Leisure Contract)
9. Have any of the Cotswold District Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details	None reported.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Arlingclose – Treasury advice Hymans Robertson – Pension Actuary Pixel Financial Management and LG Futures – Financial Advisory Service regarding government funding including Business Rates
11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details	Provisions have been included for Debtors.

Fraud

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Cotswold District Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Cotswold District Council's management.

Fraud risk assessment

Question	Management response
1. Has Cotswold District Council assessed the risk of material misstatement in the financial statements due to fraud? How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process? How do the Council's risk management processes link to financial reporting?	The Council has a robust financial control framework, supported by Financial Rules, Standing Orders, Scheme of Delegation and an independent and objective Internal Audit function and Counter Fraud and Enforcement Unit (CFEU). Responsibility for ensuring that fraud and corruption risks are addressed sits with the Deputy Chief Executive in their role as Chief Finance Officer. Internal processes require managers to identify and mitigate all risks within projects and services with escalation to the Corporate Risk Register where appropriate, which is monitored regularly by the Council's Leadership Team and Audit Committee. The year end risk registers contain information to identify possible contingent assets/liabilities and/or requirements to include provisions. The Audit and Governance Committee approved the risk based annual audit plan which includes a risk based audit of the core financial systems that are used in the compilation of the financial statements. These core systems are audited annually, any risks that are identified that may result in the financial statements being materially mis-stated due to fraud will be reported to the Council's Management Team and the Audit and Governance Committee as part of the quarterly reporting cycle. The Audit and Governance Committee also approves the work plan of the CFEU which are developed with Internal Audit (IA) and Senior Management based on current fraud trends and risk areas. The finance team compromises skilled, qualified accounting officers responsible for regular monitoring of management accounts to report actual income and expenditure against budgeted and forecast performance. This process includes discussions with service leads and review of variances to identify any instances of fraud and error. The annual budget is risk assessed and reported, and then monitored as part of the revenue and capital budget monitoring process. All reports to Cabinet include a section on financial implication and risk assessment to ensure that Members are aware of the financial risks of making a decision.

Fraud risk assessment

Question	Management response
1. Has Cotswold District Council assessed the risk of material misstatement in the financial statements due to fraud? How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process? How do the Council's risk management processes link to financial reporting?	The CFEU is a permanent shared support service reporting directly to the Deputy Chief Executive. The Counter Fraud and Anti-Corruption Policy, the Corporate Enforcement Policy, the Whistleblowing Policy, and the Internal Audit Charter are formally agreed by the Council (at a meeting of the appropriate Committee). These documents set out the role of the CFEU and IA in the prevention and investigation of fraud. The work of the CFEU is reported to the Audit and Governance Committee on a biannual basis. The overall remit is to prevent, detect and deter the abuse of public funds within the Council by working closely with other public sector organisations. The team can undertake reactive investigation work where a referral is received and where necessary, proactive fraud drives in high risk areas. Internal investigations have taken place by the CFEU and appropriate action has been taken and reported where appropriate. Where an investigation takes place due to the suspicion of fraud, any areas of risk or poor control that are identified will also be reported to the appropriate manager with remedial recommendations. IA will include a follow up audit in the Audit Plan to ensure the recommendations have been implemented. The Council also employs a number of Enforcement Officers within the various service areas who undertake work to tackle abuse of public funds. The risk registers are used to identify cost or resource pressures or income streams and any significant risks.

Fraud risk assessment

Question	Management response
2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	Assets – rental properties. Revenue – streams such as Council Tax, Business Rates and any rental income. Grants / Benefits – Business Grants, Council Tax Reduction Scheme (and Housing Benefit), Track and Trace Support Payments. Expenditure – procurement and contract management.
3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Cotswold District Council as a whole, or within specific departments since 1 April 2022? If so, please provide details	Any instances of actual, suspected or alleged fraud, error or other irregularities that are identified are reported to the Deputy Chief Executive, Corporate Management and the Audit and Governance Committee (see CFEU reports for full details). Benefit fraud investigation is the responsibility of the DWP. Abuse of the Council Tax Reduction Scheme is supported by the Revenues and Benefit staff. The CFEU investigate all allegations of wrongdoing in relation to the abuse of public funds. These matters are managed in line with Council's policies, including disciplinary policy, and will be reported to the police where appropriate.

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Fraud risk assessment

Question	Management response
4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	In some instances recommendations have been made in respect of control procedures and reports are issued to the appropriate Service Leads and Governance Group. The Audit and Governance Committee approves the risk based Annual Audit Plan which includes a risk based system audit of core financial systems and resources for auditing non financial systems on a risk basis. The CFEU has a similar annual plan for its work which includes an allocation of resources to investigate any alleged fraud. Performance against the Internal Audit Plan and Counter Fraud Plan and any specific issues identified are reported quarterly/half yearly to the Audit Committee.
5. Have you identified any specific fraud risks? If so, please provide details Do you have any concerns there are areas that are at risk of fraud? Are there particular locations within Cotswold District Council where fraud is more likely to occur?	The main areas of abuse relate to fraud associated with benefits to include the Councils Council Tax Reduction Scheme although reviews and verification processes within the department keep this to a minimum. In addition abuse relating to Council Tax and Business Rates avoidance / evasion affects a main revenue stream. The CFEU team has an annual plan for its work which includes an allocation of resources to investigate any alleged fraud. Performance against the Internal Audit Plan and Counter Fraud Plan and any specific issues identified are reported quarterly/half yearly to the Audit and Governance Committee. Some high risk areas are no longer within the domain of the Council - depot services are managed by Ubico, Leisure matters are outsourced. There are low risk internal areas such as mileage expense abuse but this is not significant due to changes that working from home has introduced - although that increases the risk of abuse by employees in relation to the fulfillment of contracted hours. Recruitment and payroll are also areas which are open to abuse. Procurement fraud, specifically within departments such as Property Services, remains an area susceptible to abuse because of the significantly high levels of expenditure. Regarding external fraud, both Internal Audit and the CFEU continue to ensure any application based scheme is robust to minimise risk. Cyber related crime remains a significant risk for the Council and this is managed and reported on by the ICT Team. It cannot be stated that fraud will not occur, but I would not consider one area being significantly at risk. I would add that there is a current increased risk of fraud across the Council due to the cost of living crisis.

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Fraud risk assessment

Question	Management response
6. What processes do Cotswold District Council have in place to identify and respond to risks of fraud?	The existence of the CFEU as a permanent dedicated service significantly mitigates fraud risk generally. The overall remit is to prevent, detect and deter the abuse of public funds within the Council by working closely with other public sector organisations and referring to recommendations by the Home Office and other professional bodies. The team undertakes reactive investigation work where a referral is received and where necessary, proactive fraud drives in high risk areas. The CFEU have promoted and introduced processes for internal and external reporting for both staff and by members of the public. Whistleblowing is becoming more effective as a result. There are many financial controls around the validity and payment of invoices and work with HR re recruitment controls in place to ensure all new employees are vetted properly and that staff recognise fraudulent qualifications. Work has been completed in relation to gifts and hospitality procedures and in relation to conflicts / declarations of interest by staff. The CFEU assist with NFI data matching regarding the high risk areas – Revenues, Benefits and Housing. In addition the CFEU review the staff and Councillor matches. The CFEU undertake our own data matching exercises where risk has been identified. The Council also employs a number of Enforcement Officers within the various service areas who undertake work to tackle abuse of public funds. The CFEU Head of Service attends the Multi Agency Approach to Fraud (MAAF) group on behalf of the CFEU Partnership, which includes Cotswold District Council. The core group consists of attendees from Gloucestershire Constabulary Economic Crime Team, Trading Standards, Victim Support, NHS and colleagues from Gloucester City and County Councils. The MAAF has been set up to discuss fraud trends, victim care and communication of fraud scams across Gloucestershire. Through collaborative working the main purpose is to raise awareness to minimise and disrupt fraud across the County. Whilst this is resident focussed, where risks or trends affecting the public purse and therefore the Council are identified, the CFEU will liaise with Management Team and ensure the correct mitigation is put in place, amending the work plan to accommodate any additional work streams. The general rollout of the work of the MAAF will ensure staff are more alert to fraud risk therefore strengthening the Council's response.

Fraud risk assessment

Question	Management response
7. How do you assess the overall control environment for Cotswold District Council, including: • the existence of internal controls, including segregation of duties; and • the process for reviewing the effectiveness the system of internal control? If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken? What other controls are in place to help prevent, deter or detect fraud? Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details	There remains a separation of duties, the Council's internal audit service is provided by SWAP Internal Audit Services (SWAP). SWAP provide the Council with an annual audit opinion using findings from review work carried out across the Council services. At the point of preparing this response, the Council has a "Low Reasonable" internal audit opinion, confirming that internal control processes are not as robust or effective as they could be. Follow up audits regarding agreed actions will be conducted to assess improvement. As part of the core audit of systems, appropriate internal controls (or their absence/non-compliance) is considered by internal audit. Appropriate testing by internal audit, enables advice to be produced on the effectiveness of internal controls. The outcome of internal audit reviews are reported to management through audit reports and to the Audit Committee as part of quarterly performance updates. There is a good working relationship between the CFEU and Internal Audit, which ensures that internal control weaknesses identified through counter fraud activities are followed up, following management action to address the weaknesses by internal audit reviews. External Audit also report their findings and recommendations to Audit and Governance Committee, which is subject to the same process of monitoring and challenge. Outcomes of audit work feed in to the Annual Governance Statement which is considered by the Councils Leadership Team and Audit and Governance Committee. Awareness training on a regular basis reduces the risks associated with internal abuse and fraud. The promotion of integrity and whistleblowing channels also mitigates this. Conflict of interest / declaration of interest processes also help identify those staff who are a potential risk so that appropriate training and management controls can be put in place. The CFEU submits data for the National Fraud Initiative (NFI) and assesses all matches for review and, where appropriate, mitigation. On occasions such issues have been raised by both internal and external audit as part of the audit work. Appropriate recommendations for changes to internal controls are made on these occasions for management to implement.

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Fraud risk assessment

Question	Management response
8. Are there any areas where there is potential for misreporting? If so, please provide details	The financial reporting process is subject to review and challenge by both the Deputy S151 Officer and Chief Finance Officer. There is always the potential but we believe appropriate checks and balances are in place within the shared Finance Team to ensure mis-reporting does not occur. The Council monitors budgets to cost centre level which would highlight any unexpected variances for further investigation. Financial rules govern what is required to be reported and controls the rules surrounding ‘virement’. Reports produced by the CFEU are subject to auditable case files held on the case management system. These reports are then scrutinised by Governance staff, Members and Executive Leadership which therefore mitigates the risk of misreporting.
9. How does Cotswold District Council communicate and encourage ethical behaviours and business processes of it’s staff and contractors? How do you encourage staff to report their concerns about fraud? What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details	The Council communicates and encourages ethical behaviour and business processes of its staff and contractors through its policies and strategies including the Counter Fraud and Anti- Corruption Policy, Employee Code of Conduct Policy and Whistleblowing Policy all of which are available on the intranet site. Updates are communicated through induction and refresher training and other channels such as ‘Keeping You Connected’, emails. Staff and Member awareness sessions have been provided by the CFEU. Provision of refresher information and literature for new starters has been completed and will be disseminated to all staff. Specific fraud slides are presented at the induction sessions and mandatory online training modules are issued on a regular basis. Significant contracts are let following a robust process which seeks assurance from the potential contractor that the organisation has appropriate policies and processes in place. The Council monitors performance and quality and adherence to standards of service delivery. The Procurement Team have included statements on all tender / quote documentation detailing the Councils approach to modern slavery, ethical procurement and supporting local businesses.

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Fraud risk assessment

Question	Management response
9. How does Cotswold District Council communicate and encourage ethical behaviours and business processes of it's staff and contractors? How do you encourage staff to report their concerns about fraud? What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details	Continued: Publicity with regard to identified fraud and error will also be encouraged to act as a deterrent generally. Through the continued work the CFEU have delivered across the Council relating to awareness and through reputation, staff continue to approach the team. HR colleagues also ensure fraud reports come to the CFEU for assessment. No significant issues have been reported in 2022/23. Staff are expected to report any concerns they have about fraud or the misuse of public funds. Any allegations received are referred to the CFEU for investigation. These matters are managed in line with the Council policies, including disciplinary policy, and will be reported to the Council's leadership team where appropriate. In some instances, recommendations will be made in respect of control processes.
10. From a fraud and corruption perspective, what are considered to be high-risk posts? How are the risks relating to these posts identified, assessed and managed?	Contract procurement posts, high level budget controllers/approvers, ICT staff with high level system access, Marketing Teams. Officers with significant operational financial responsibilities, such as roles in the Treasury Management team, Chief Finance Officer/Deputy Finance Officer, and roles in Revenues and Benefits are subject to regular security checks, at recruitment and then regularly every three years. Each role is assessed for the requirement to undertake post holder security checks. Many Local Government staff are susceptible to duress and corruption due to the nature of their duties - housing teams, council tax officers, planning staff; however there must be a level of trust within the organisation to promote a healthy working environment. Conflict of interest / declaration of interest processes have been reviewed with due consideration to high risk staff and ensuring the correct controls are in place. Better recruitment checks to vet staff and prevent them entering the workplace are promoted - prevention is always the best control.

Fraud risk assessment

Question	Management response
11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details How do you mitigate the risks associated with fraud related to related party relationships and transactions?	Organisations such as Ubico and Publica all give rise to fraud risk which may affect the Council. The risks associated with fraud regarding related party relationships and transactions are mitigated through the requirement within the Constitution for members to make declarations of all relevant relationships and transactions and update their declarations on a quarterly basis. They are also required to disclose any relevant interests at Committee meetings and where appropriate withdraw and disclose any gifts and/or hospitality received via the Council register. Officers are also required to declare any related party transactions. Prevention methods for bribery and corruption form part of the CFEU work stream and are detailed within the Counter Fraud and Anti Corruption Policy. In addition the CFEU review the NFI staff and Councillor matches which highlight anomalies in this area. With the establishment of Publica, the Council reviewed the appointment of Statutory Officers to ensure that they are employed by the Council rather than Publica to minimise any risk of conflict of interest. Transparency, audit and scrutiny practices across these partnerships and more generally Local Government.

Fraud risk assessment

Question	Management response
12. What arrangements are in place to report fraud issues and risks to the Audit Committee? How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year?	On a quarterly basis, the Audit and Governance Committee receives monitoring reports from the South West Audit Partnership regarding work carried out by the internal audit team. The report details the work carried out compared to the plan, the level of assurance resulting from the audit, the key issues regarding internal controls or fraud including any breaches. Reporting includes the outcome of internal audit follow-up reviews of the implementation of audit recommendations. In addition, the CFEU report biannually to Committee. The Audit and Governance Committee approves the risk based Annual Audit Plan which includes a risk based system audit of core financial systems and resources for auditing non financial systems on a risk basis. The CFEU has a similar annual plan for its work which includes an allocation of resources to investigate any alleged fraud. Performance against the Internal Audit Plan and Counter Fraud Plan and any specific issues identified are reported quarterly/half yearly to the Audit Committee. The Committee is consulted on any proposed changes to relevant Council Policy – e.g. Whistle Blowing Policy, Counter Fraud and Anti-Corruption Policy, Money Laundering Policy, RIPA Policies etc. Changes to the Council's Corporate Risk Register are also reported to the Audit Committee on a quarterly basis. The Council's Overview and Scrutiny Committee also receives the Council's quarterly performance reports, which includes changes to the Council's risk registers and details of financial performance. The Audit and Governance Committee exercise oversight over management processes for identifying and responding to risks of fraud and breaches of internal control through challenge of internal audit and counter fraud, monitoring the implementation of recommendations and seeking additional assurances from operational management. See reports presented to Audit and Governance / Overview and Scrutiny Committee.

Fraud risk assessment

Question	Management response
13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	The CFEU has received referrals via whistleblowing. Reports are dealt with correctly and in line with the Whistleblowing Policy and with due consideration to sensitive referral sources. Once the investigation is complete, appropriate recommendations are made for action which may include prosecution, civil penalties, improvements to internal controls, and (where an employee is the subject), consideration of disciplinary action. If warranted a report would be made to the Audit and Governance Committee and recommendations for improvements to internal controls issued to Corporate Management to be followed up by internal audit.
14. Have any reports been made under the Bribery Act? If so, please provide details	There have been none.

Law and regulations

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that Cotswold District Council's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the body is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
1. How does management gain assurance that all relevant laws and regulations have been complied with? What arrangements does Cotswold District Council have in place to prevent and detect non-compliance with laws and regulations? Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?	Internal Audit reviews are designed to ensure that services are complying with internal and external policies and procedures and all legislation. Where non compliance is identified, this is reported to Management and Members via the Council's Audit and Governance Committee. There is a dedicated legal services team that provides advice to members and officers in relation to laws and regulations. The Council's Legal Services, Counter Fraud team, Revenues and Benefit team and Enforcement teams for various services receive regulatory updates and changes via their own services sources e.g. CIPFA, DLUHC and DWP statutory regulations, RIPA updates, newsletters and best practice guidance. The implications of such changes are fed into the Council's leadership team for advice and to gain approval and, when necessary, recommend approval from Committee/Cabinet. In addition, the Whistle-blowing Strategy provides staff with the ability to report to management where laws and regulations have not been complied with. Any allegations that relate to criminal offences can be investigated by the Counter Fraud team with appropriate legal action being taken by the Council where appropriate. The Chief Finance Officer is responsible for preparing the Statement of Accounts in accordance with the relevant legal and regulatory requirements. Not aware of any significant changes to regulatory environment.

Impact of laws and regulations

Question	Management response
2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	Internal Audit review are designed to ensure services are complying with internal and external policies and procedures and all legislation. Where non compliance is identified, this is reported to Management and Members via the Council's Audit and Governance Committee. Management actions are agreed where non compliance is identified. Senior managers within Publica and the Council complete an Annual Assurance Statement at the end of the financial year. These governance declarations provide appropriate management assurance that key area of the system of internal control are in place and working effectively. In addition, training sessions are used to explain new legislation. Where the changes would have a significant impact on the Council they will appear on the Corporate Risk Register which is reported to the Audit and Governance Committee on a quarterly basis. Any accounting requirements are explained to members as part of the approval of the accounts. For any specific cases a special report is prepared for the Audit and Governance Committee. Any allegations that relate to criminal offences can be investigated by the Counter Fraud Team with legal action being taken by the Council where appropriate.
3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2022 with an on-going impact on the 2022/23 financial statements? If so, please provide details	The accounts were published after the deadline of the 31 May 2023 on the 26th September 2023. This had no impact on the external audit which is not due to start until December 2023.
4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details	The only material claim relates to NNDR appeals as disclosed in note D7 of the financial statements

Impact of laws and regulations

Question	Management response
5. What arrangements does Cotswold District Council have in place to identify, evaluate and account for litigation or claims?	The Legal Services team works with management when potential claims or ligation identified. The Head of Legal Services provides details of litigation and claims for inclusion in the financial statements. The Council has a customer complaints process which aims to resolve issues before they escalate. The Council has robust risk management arrangements which include recording risks of litigation or claims either within service areas or corporately. The Council has processes in place to manage significant contracts so they operate on a partnership basis so issues can be raised and managed and any issues can be raised and managed with the aim of minimising litigation or claims. Contract performance is monitored by the use of management information including key performance indicators.
6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details	No.

Related Parties

Matters in relation to Related Parties

Cotswold District Council are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by Cotswold District Council;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any body that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Council's perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

Question	Management response
1. Have there been any changes in the related parties including those disclosed in Cotswold District Council's 2021/22 financial statements? If so please summarise: • the nature of the relationship between these related parties and Cotswold District Council • whether Cotswold District Council has entered into or plans to enter into any transactions with these related parties • the type and purpose of these transactions	No, see details disclosed in note E9, disclosure is consistent with prior year.

Related Parties

Question	Management response
2. What controls does Cotswold District Council have in place to identify, account for and disclose related party transactions and relationships?	All elected Members are required to complete a questionnaire detailing any areas where potential conflicts of interest may occur between their private interests and their position as the elected representatives of the Council. Details are recorded in the register of member's interest. Declarations are made at meetings by Members and Officer where appropriate and are recorded in the minutes of the meeting. The Members code of conduct requires Members to make declaration of interest when necessary which are also recorded. By virtue of the Officer Code of Conduct, employees of the Council are required to declare any relationship with individuals, organisations or companies that might prejudice, or could be viewed as influencing, their professional judgement. On an annual basis, senior officers and officers within positions of influence within the Council are required to complete a related party declaration to highlight any potential conflicts of interest. This is reviewed as part of the accounts closedown process and are disclosed in the statement of accounts where the interest would be material to either party. A register of gifts and hospitality is also maintained.
3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?	On an annual basis, senior officers and officers within positions of influence within the Council are required to complete a related party declaration to highlight any potential conflicts of interest. This is reviewed as part of the accounts closedown process and are disclosed in the statement of accounts where the interest would be material to either party. A register of gifts and hospitality is also maintained.
4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?	Transactions outside of the normal course of business would be subject to approval from the S.151 Officer and be reported to full Council.

Going Concern

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

Going Concern

Question	Management response
1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Cotswold District Council will no longer continue?	The Council's performance and financial position is reported to members and senior officers on a quarterly basis. Overview and Scrutiny Committee and Cabinet receive quarterly performance and financial reports which set out the Council's financial position against budget and report performance against a number of indicators. The Council's Senior Leadership Management Team meet on a weekly basis and the Publica Executive Directors also have regular departmental leadership meetings to discuss performance and finances. Cabinet Members have regular briefings that ensure they are aware of the latest developments in a service and are made aware of any issues. As part of the process of preparing the MTFS, external factors such as the funding landscape, changing political priorities and the wider economic context are considered and the authority's ability to manage potential or emerging financial challenges is assessed. Officers continually monitor and report on any known changes to legislation or political decisions. Note E7 to the 2022/23 draft financial statements confirms that the statement of accounts have been prepared on a going concern basis.
2. Are management aware of any factors which may mean for Cotswold District Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?	Management are not aware of any factors which may mean for Cotswold DC that either statutory services will no longer be provided or that funding for statutory services will be discontinued.

Going Concern

Question	Management response
3. With regard to the statutory services currently provided by Cotswold District Council, does Cotswold District Council expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for Cotswold District Council to cease to exist?	Statutory services will continue to be delivered by Cotswold DC for the foreseeable future, there are no plans for Cotswold DC to cease to exist. The draft 2024/25 MTFS highlights the requirement to reduce costs and balance the budget is substantial. The MTFS includes significant contract savings from Publica and Ubico over the next three years. There is clearly a risk associated with delivery of these savings. Should savings not materialise at the level or within the timeframe assumed this will increase the pressure on the Council balances and reserves. The S151 Officer is confident that The level of reserves remains adequate to support the 2023/24 financial position and demonstrates financial resilience. However, this is only the case provided that action is taken to ensure that the balances are set at the level of £1.760m for 2023/24 and that all savings proposals, are monitored closely and delivered as planned.
4. Are management satisfied that the financial reporting framework permits Cotswold District Council to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?	Management are satisfied that the financial reporting framework permits Cotswold DC to prepare its financial statements on a going concern basis and doing so provides a faithful representation of the items in the financial statements. The provisions in the CIPFA code in respect of going concern accounting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that local authorities have no ability to cease being a going concern as described by IAS 1 Presentation of Financial Statements (i.e. management deciding to liquidate the entity or cease trading). As Councils cannot be created or dissolved without statutory prescription, it would not be appropriate for local Authority financial statements to be prepared on anything other than a going concern basis.

Accounting estimates

Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

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Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	Significant estimates expected to be included in the 2022/23 statement of accounts include: • Valuation of PPE • Useful economic life of PPE • Valuation of Investment Properties • Depreciation • NNDR appeals provision • Accruals • Pension Liability
2. How does the Council's risk management process identify and address risks relating to accounting estimates?	The year end risk registers contain information to identify possible contingent assets/liabilities and/or requirements to include provisions. The data in the register is used to identify costs or resource pressures or income streams. The information can be used to inform financial planning process. The Council's Risk Register contains significant risk from Publica and project and service operational risk registers.

Accounting Estimates - General Enquiries of Management

Question	Management response
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	See Appendix A.
4. How do management review the outcomes of previous accounting estimates?	The outcome of previous accounting estimates is reviewed as part of the estimation process in the following year. Where there is a material difference to the accounts, estimates will be updated to the date that the accounts are authorised for issue following review by external audit.
5. Were any changes made to the estimation processes in 2022/23 and, if so, what was the reason for these?	No changes to the estimation process.

Accounting Estimates - General Enquiries of Management

Question	Management response
6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?	See further detail in Appendix A, experts with specialist skills are used for the following areas of estimation in the financial statements: • Valuation of PPE (External Valuer Carter Jonas (RICS)) • Depreciation – Useful Economic Lives (External Valuer Carter Jonas (RICS)) • Valuation of Investment Properties (External Valuer Carter Jonas (RICS)) • Pension Liability (Hymans Robertson – Actuary)
7. How does the Council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	Assurances are sought from the Council's internal and external valuers in relation to their independence, objectivity and professional qualifications. Regular communication between the finance team and the Property Team ensures that the valuers have access to the information they require to undertake detailed valuations in accordance with RICS guidance. Hymans Robertson (Actuary) provide the Council with details of their experience, qualifications and independence through correspondence with Gloucestershire Pension Fund. External audit also obtain assurance that the experts are sufficiently qualified and independent
8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	Management ensure that experts appointed are independent, professional, suitably experienced and qualified. For areas of estimation where experts are not used, including accruals and the NNDR appeals provision, these are subject to review by the S.151 Officer. Control arrangements are reviewed by internal audit and external audit and any findings reported to the Audit and Governance Committee. See further detail in Appendix A.

Accounting Estimates - General Enquiries of Management

Question	Management response
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements.	The assumptions which underpin the figures reported in the Statement of Accounts are reviewed in advance of preparation and such estimates and assumptions are reviewed by the Section 151 Officer and disclosed in the notes to the Accounts for transparency. Methods and assumptions are reported within this paper and to the Audit and Governance Committee as those charged with governance. See further detail in Appendix A
10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?	All significant accounting estimates that require significant judgement are disclosed in Appendix A.
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	Management are satisfied because they are reviewed on a regular basis by the S151 Officer, the assumptions are reviewed by the Audit and Governance Committee, relevant experts provide specific information such as for valuations, fair value of financial instruments and in respect of the pension liability. These estimates are reviewed and challenged by management before being approved. The finance team is an experienced team with knowledge of how to apply the regulations in terms of accruals, provisions etc.

Accounting Estimates - General Enquiries of Management

Question	Management response
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	The assumptions which underpin the figures reported in the Statement of Accounts are reviewed in advance of preparation and such estimates and assumptions are disclosed in the notes to the Accounts for transparency. The Audit and Governance Committee is provided with further assurance through the review of this paper and Appendix 1.

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Plant, Property and Equipment Valuations	Valuations are made by an appointed RICS/CIB qualified valuer each year. Valuations are based on relevant market data from properties with similar characteristics. Valuations are undertaken on a five-year rolling programme. If assets are not valued in the year a review is undertaken to gain assurance that there has not been a material change in the value of assets.	The qualified internal and external valuer is issued a valuation instruction in line with recommended practice. Supporting documentation is provided to evidence the judgements made. The finance team will review the valuations to confirm that data and assumptions have been applied reasonably and appropriately and will challenge any assumptions that do not seem correct.	Yes –use of local RICS/CIB Member for valuations	Valuations by their very nature are subject to uncertainty due to market fluctuations. The high degree of uncertainty in relation to this estimate is considered and addressed through the review of comparable market and other relevant data sources to determine a reasonable estimate for the value of our land and buildings. Where significant variations occur, discussions are held with the valuer to understand the underlying reasons for change.	No

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Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Investment property valuations	Valuations are made by an appointed RICS/CIB qualified valuer each year. Valuations are based on relevant market data from properties with similar characteristics. Investment properties are valued on an annual basis as required by IFRS 9. In line with IFRS 9, all investment properties are subject to annual valuation on a fair value basis..	The qualified external valuer is issued a valuation instruction in line with recommended practise.	Yes –use of local RICS/CIB Member for valuations	Valuations by their very nature are subject to uncertainty due to market fluctuations. Where significant variations occur, discussions are held with the valuer to understand the underlying reasons for change.	No
Depreciation and Amortisation	Depreciation is provided for on all relevant non-current assets with a finite useful life on a straight-line basis.	Consistent application of depreciation method across all assets	Yes –use of the Local RICS/CIB Member for valuation	The length of the life is determined at the point of acquisition or revaluation. Assets that are not fully constructed are not depreciated until they are brought into use.	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Impairments	Valuations are made by an appointed RICS/CIB qualified valuer each year.	The Valuer is issued a valuation instruction in line with recommended practice	Yes	Where significant variations occur, discussions are held with the valuer to understand the underlying reasons for change	No
Fair value of investments	The Council Values financial instruments at fair value based on classification and measurement approach that reflects the business model for holding financial assets and their cashflow characteristics.	Review service provided by treasury consultants	Yes –treasury consultants	Take advice from finance Professionals.	No

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Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
NNDR appeals provision	The non-domestic (NDR) appeals provision is estimated based on outstanding appeals losses and past experience of successful appeals and other RV reductions.	The provision is calculated by the Business Partner Accountant and the calculation and assumptions applied are reviewed by the S151 Officer. The Valuation Office provides data on outstanding appeals. Source data is updated in-year to include appeals settled during the financial year.	No.	There is a significant level of estimation uncertainty in relation to business rates appeals due to the volume of outstanding appeals, which are processed by the Valuation Office. The value of provision is assessed using information on outstanding appeals rates. Where appeals are successful, refunds of business rates are generally repayable back to the latest valuation date which reduces the business rate yield in the year in which the refund is made. An increase in the appeals provision reduces the Council's share of income. A decrease in the provision would increase the income distributed to the Council.	

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Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Bad debt provision	The Finance team analyse outstanding debtors at year end and apply either a specific provision i.e. Housing Benefit Overpayments or a general provision based on the likelihood of repayment in consultation with Service Areas.	Officers uses professional judgement and consults frequently with Service Areas to assess debt, debtors and collections.	No	Housing Benefit Overpayments are provided for at 90% of the outstanding balance at year end. Accounts Receivable debt is analysed on a line by line basis and a % chance of recovery is allocated to every debt.	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Accruals	Finance team collate accruals of expenditure and income from various sources including previous outturn and estimated usage.	Activity is accounted for in the financial year that it takes place, not when money is paid or received. Budget monitoring also provides analysis for accruals identification.	No. Accruals identified by finance team following discussion and accruals returns from officers.	Accruals for income and expenditure are principally based on known values. Where accruals are estimated the latest information is used and level of uncertainty is not deemed to be material.	No
Pension Fund (LGPS) actuarial gains/losses	The Council is an admitted body to Gloucestershire Pension Fund. The administering authority (Gloucestershire County Council) engages the actuary – Hymans Robertson – who provide the estimate of the pension liability and the calculated actuarial gains and losses figures. These figures are based on making % adjustments to the closing values of assets/liabilities.	Take advice from professionals. The Council are provided with an actuarial report from the consulting actuary - Hymans Robertson (LGPS).	Yes external actuary advice	As disclosed in the actuary's report. Complex judgements including the discount rate used, rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field.	No

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COTSWOLD
DISTRICT COUNCIL

Council name	**COTSWOLD DISTRICT COUNCIL**
Name and date of Committee	**AUDIT AND GOVERNANCE COMMITTEE – 25 JANUARY 2024**
Subject	**INTERNAL AUDIT PROGRESS REPORT**
Wards affected	N/A
Accountable member	Councillor Mike Evemy, Deputy Leader and Cabinet Member for Finance Email: mike.evemy@cotswold.gov.uk
Accountable officer	David Stanley, Deputy Chief Executive and Section 151 Officer Email: david.stanley@cotswold.gov.uk
Report author	Lucy Cater, Head of Internal Audit Email: lucy.cater@swapaudit.co.uk
Summary/Purpose	To present a summary of the audit work concluded since the last meeting of this Committee.
Annexes	Annex A – Report of Internal Audit Activity 2023/24 Annex B – Agreed Actions
Recommendation(s)	1. That the Committee considers the reports at Annexes A and B and comments as necessary
Corporate priorities	Delivering our services to the highest standards
Key Decision	NO
Exempt	NO
Consultees/ Consultation	N/A

COTSWOLD
DISTRICT COUNCIL

1. BACKGROUND

1.1 The Internal Audit Service is provided to this Council by SWAP Internal Audit Services (SWAP). SWAP is a local authority-controlled company.

1.2 The report attached at Annex A sets out the work undertaken by SWAP for the Council since the last meeting of this Committee. It follows the risk-based auditing principles and, therefore, this is an opportunity for the Committee to be aware of emerging issues which have resulted in SWAP involvement.

1.3 Officers from SWAP will be in attendance at the Committee meeting and will be available to address Members' questions.

2. MAIN POINTS

2.1 The progress report enables the Audit Committee to monitor the work of the Internal Audit Service and ensure that it remains effective. It also provides the Committee with assurance opinions over areas reviewed within the reporting period, details of audit recommendations and the outcome of follow-up reviews conducted on previous audit recommendations.

2.2 We have finalised 6 audits since the last meeting of this committee

- Taxi Licensing Safeguarding – Position Statement
- Transparency Data – Medium Reasonable
- Bank Reconciliation – Low Substantial
- Revenues and Benefits – Council Tax and NNDR – High Reasonable
- Revenues and Benefits – Housing Benefit and Ctax Support – High Substantial
- ICT – Business Continuity – Low Substantial

We continue to follow up all agreed actions. A report (Annex B) showing all open agreed actions and those that have been actioned during 2023/24 has been included for Members information.

3. FINANCIAL IMPLICATIONS

3.1 The Internal Audit Service is operating within the contract sum.

COTSWOLD
DISTRICT COUNCIL

4. LEGAL IMPLICATIONS

4.1 None directly from this report. Internal Audit reviews consider compliance with legislation relevant to the service area under review.

5. RISK ASSESSMENT

5.1 Any weaknesses in the control framework, identified by Internal Audit activity, continues to threaten organisational objectives until recommendations are implemented.

6. EQUALITIES IMPACT

6.1 Under equality legislation, the Council has a legal duty to pay 'due regard' to the need to eliminate discrimination and promote equality in relation to:

- Race
- Disability
- Gender, including gender reassignment
- Age
- Sexual Orientation
- Pregnancy and maternity
- Religion or belief

The Council also has a duty to foster good relations, and to consider the impact of its decisions on human rights. The law requires that this duty to pay 'due regard' is demonstrated in the decision making process. Therefore your report should contain a statement as to whether the recommendation has a particular impact on any of the above groups

Any reports which relate to new policies, procedures or services or changes to policies, procedures or services must be accompanied by an appropriate equalities impact assessment (EIA). You can access further guidance and the EIA template via the portal and the Council's Equality Policy on the website.

7. CLIMATE AND ECOLOGICAL EMERGENCIES IMPLICATIONS

7.1 Include details of any climate change implications

8. ALTERNATIVE OPTIONS

8.1 This section must be completed and include details of why identified alternative options are not preferred.

COTSWOLD
DISTRICT COUNCIL

11. BACKGROUND PAPERS

11.1 The following documents have been identified by the author of the report in accordance with section 100D.5(a) of the Local Government Act 1972 and are listed in accordance with section 100 D.1(a) for inspection by members of the public:

- Internal Audit Progress Reports

These documents will be available for inspection online at www.cotswold.gov.uk or by contacting democratic services democratic@cotswold.gov.uk for a period of up to 4 years from the date of the meeting.

(END)

Cotswold District Council

Report of Internal Audit Activity

January 2024

Internal Audit ▪ Risk ▪ Special Investigations ▪ Consultancy

Contents

The contacts at SWAP in connection with this report are:

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- Contents:

Internal Audit Definitions

At the conclusion of audit assignment work each review is awarded a "Control Assurance Definition";

- **No**
- **Limited**
- **Reasonable**
- **Substantial**

Audit Framework Definitions

Control Assurance Definitions

No	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.
Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
Reasonable	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Substantial	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Non-Opinion – In addition to our opinion based work we will provide consultancy services. The "advice" offered by Internal Audit in its consultancy role may include risk analysis and evaluation, developing potential solutions to problems and providing controls assurance. Consultancy services from Internal Audit offer management the added benefit of being delivered by people with a good understanding of the overall risk, control and governance concerns and priorities of the organisation.

Internal Audit Definitions

Recommendations are prioritised from 1 to 3 on how important they are to the service/area audited. These are not necessarily how important they are to the organisation at a corporate level.

Each audit covers key risks. For each audit a risk assessment is undertaken whereby with management risks for the review are assessed at the Corporate inherent level (the risk of exposure with no controls in place) and then once the audit is complete the Auditors assessment of the risk exposure at Corporate level after the control environment has been tested. All assessments are made against the risk appetite agreed by the SWAP Management Board.

- Audit Framework Definitions

Categorisation of Recommendations

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors; however, the definitions imply the importance.

	Categorisation of Recommendations
Priority 1	Findings that are fundamental to the integrity of the service's business processes and require the immediate attention of management.
Priority 2	Important findings that need to be resolved by management
Priority 3	Finding that requires attention.

Definitions of Risk

Risk	Reporting Implications
High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.
Medium	Issues which should be addressed by management in their areas of responsibility.
Low	Issues of a minor nature or best practice where some improvement can be made.

Summary of Audit Findings

Audit Type	Audit Area	Status	Opinion	No of Rec	Priority 1	Priority 2	Priority 3	Comments
Key Financial Control	Payroll	Final Report	High Substantial	0	-	-	-	Reported in October
Operational	Climate Change (Operational)	Final Position Statement	N/A	0	-	-	-	Reported in October
Governance	Freedom of Information	Final Report	Medium Reasonable	4	-	2	2	Reported in October
Operational	Taxi Licensing Safeguarding	Final Position Statement	N/A					Report Included
Governance	Transparency Data	Final Report	Medium Reasonable	4	-	4	-	Report Included
Key Financial Control	Bank Reconciliation	Final Report	Low Substantial	1	-	-	1	Report Included
Key Financial Control	Council Tax and NNDR	Final Report	High Reasonable	2	-	-	2	Report Included
Key Financial Control	Housing Benefit and Council Tax Support	Final Report	High Substantial	0	-	-	-	Report Included
ICT	ICT Business Continuity Management	Final Report	Low Substantial	2	-	1	1	Report Included
Operational	Estates Services	Draft Report						
Key Financial Control	Use of Waivers	Draft Report						
Operational	Property Services	Draft Report						
Advisory	Revenues and Benefits Service Review	Draft Report						

Summary of Audit Findings — APPENDIX C

Audit Type	Audit Area	Status	Opinion	No of Rec	Priority 1	Priority 2	Priority 3	Comments
Key Financial Control	Accounts Payable	Audit in Progress						
Governance	Data Breaches	Audit in Progress						
Governance	Risk Management	Audit in Progress						
Governance	Audit Committee Effectiveness	Audit in Progress						
Key Financial Control	Appointment of Consultants and Contractors							
Key Control	Payroll							
Key Control	Human Resources							
Grant Certification	Carbon Data 2021/22	Complete						
Grant Certification	Carbon Data 2022/23	In Progress						
Operational	Accounts Payable – Qtly Review	In Progress						
Support	Business Grant Funding – Aged Debt	On-Going						Quarterly review of Business Grant Overpayment Aged Debts with Head of Service, Counter Fraud and Enforcement Unit for reporting to BEIS
Advisory	Environmental Services Improvement Programme	On Going						

Summary of Audit Findings

APPENDIX C

Audit Type	Audit Area	Status	Opinion	No of Rec	Priority 1	Priority 2	Priority 3	Comments
Advisory	Procurement and Commissioning Group	On Going						
Advisory	Health and Safety Working Group	On Going						
Advisory	Risk Management Group	On Going						
Advisory	Project Management – Active Cotswold	On Going						
Advisory	Emergency Planning	On Going						Support to CDC's Rest Centre and Co-Ordination Teams
Follow-Up	Follow-Up of Agreed Actions (not included in an audit above)	On Going						
Other Audit Involvement	Working with the Counter Fraud and Enforcement Unit	On Going						
Other Audit Involvement	Management of the IA Function and Client Support	On Going						
Other Audit Involvement	Contingency – Provision for New Work based on emerging risks							

The following are the Internal Audit reports, of each audit review finalised, since the last Committee update

Taxi Licensing – Final Position Statement – November 2023

Introduction / Background

An assurance audit for Taxi Licensing Safeguarding was originally included in the agreed Audit Plan. Amendments to statutory guidance regarding safeguarding practices were made in 2020; the objective of this audit was to assess the effectiveness of current processes and to ensure compliance with these safeguarding obligations.

As the audit commenced it became evident that processes and procedures are being reviewed in this service area. The aim of this is to strengthen existing controls and to align processes across the three partner Councils. These changes have not progressed as quickly as the service would have liked due to long term staff illness and resource constraints.

We are issuing this Position Statement having reviewed current processes, undertaken limited testing, reviewed information available on the Council's website and held discussions with the Team Leader. The suggestions / areas for consideration below are designed to aid the service as it progresses with its internal review.

Findings

1. *Policy*
   In September 2021, the Hackney Carriage & Private Hire Licensing Policy, which includes the changes to statutory guidance, was approved by the Planning & Licensing Committee. As part of this review, consultation of a Gloucestershire wide Common Standards Policy was considered and adopted by the Council. However, this is not specifically mentioned in the Policy or noted on the Council' website.
   Observation: Although, not high risk, if the Council were to acknowledge working within a countywide approach, it may deter those drivers who have been refused a licence from a neighbouring authority from applying again at another authority. This could provide potential efficiencies in terms of application processing times.

   Management Response: The Policy and the Council's website will be updated. We have been advised that the Policy does not need to go back through Committee as only adding a 'communication' type narrative and nothing that changes the Policy.

2. *Application Processing and Records Management*
   Officers are required to complete a series of checks and mark as 'satisfactory' before the Uniform system will produce a new or renewal licence. However, there were many instances where evidence was not maintained within IDOX (document management system). For example, missing documentation included medical reports, evidence of safeguarding training, Tax code and NR3S Register checks (National Register of Taxi Licence Refusals, Revocations and Suspensions), proof of ID, etc. Insufficient audit trails could potentially result in the Council not being able to defend themselves if challenged.
   Suggestion: Officers should be reminded to upload all evidence to IDOX to support licences issued. Introducing management checks will help to mitigate the risk of insufficient records maintenance.

   Management Response: Officers have been advised of the importance of ensuring all documents are uploaded. Management/monitoring check of 10% of cases will be introduced to provide additional assurance.

3. *Safeguarding Training*
   Training is provided by Cheltenham Borough Council (CBC), Gloucester City Council or Tewkesbury Borough Council for the Gloucestershire authorities. WODC drivers are required to pass a 45 minute compulsory multi choice test and must read and understand the Safeguard & Disability Training manual which assesses their understanding of the course content. But this was not the case in Gloucestershire. We can confirm CBC has reviewed its training provision and now requires applicants to pass a safeguarding awareness test.

We noted that some drivers are not up to date with safeguarding training; refresher training must be completed every 3 years. The Licensing Team Leader (LTL) advised that prior to 2021 when the requirements were implemented into the new policy, refresher training was not a requirement at CDC. And that a phased approach period to ensure that all drivers have undertaken this training was agreed. The officer explained that a process had not been put in place during the pandemic. However, a project is currently underway to ensure that all drivers have undertaken refresher training by 30/06/24 or risk having their licence suspended. This is also stated on the Council's websites. We can confirm that CDC has reviewed its provision and requires applicants to undertake a safeguarding awareness course every 3 years.
Observation: Consider if the Uniform system can be configured to produce reports which will identify safeguarding training renewal data.

Management Response: Safeguarding training has now been put in place. License holders now have the option to attend courses in Cirencester instead of travelling further afield.

4. *<u>Complaints Monitoring</u>*

The LTL advised that Customer Service officers log customer contact/communications in the Uniform system as a 'Service Request' and will often use a 'Complaint' prefix when the call is not really a complaint. The officer was in the process of developing new guidance for Customer Service staff to ensure complaints are accurately determined. The LTL allocates service requests to the team daily, and any communications that are complaints are processed in accordance with the Hackney Carriage & Private Hire Licensing Policy. Initial investigations are undertaken by the service area and reviewed by the LTL/Business Manager. Reports/appeals are presented to the Licensing Committee depending on circumstances as detailed in the Policy.
No separate records are maintained, and service requests must be manually linked to the Licensing module, which means that potentially repeat offenders/incidents or trends will not be identified. The LTL explained that she undertakes ad hoc monitoring, but evidence is not maintained. The officer stated the service is firefighting and with previous long term sickness within the team, it is difficult to be as efficient as hoped.
Service Request data from April 2022 – August 2023 identified 21 cases. 6 cases reviewed found no instances which resulted in a warning being issued to the driver. All requests were actioned and closed within 30 days.
Suggestion: The difference between a complaint and a service request should be clearly defined (to include examples) and cascaded to all relevant officers. Periodic monitoring of service request data should be implemented to identify trends and/or repeat offenders, which will help the service be more proactive than a reactive service.

Management Response: The LTL will work with Customer Services to ensure identified complaints and service requests are separated more clearly.

5. *<u>Income Reconciliation</u>*

The Council's Financial Rules I5.1, states that *'Budget holders are responsible for reconciling income systems with the council's main accounting system monthly to ensure that all income received has reached the correct budget head and investigating where there is a discrepancy'*. The LTL confirmed she does not complete this reconciliation, but she does forward reports to Finance at year end. The LTL advised this is something she was looking to implement.
Suggestion: The LTL should liaise with Finance and develop a process to undertake monthly reconciliations as per the Financial Rules.

Management Response: The LTL will develop a process to undertake monthly reconciliation which will be of use to both the service area and Finance.

6. *<u>Data Analysis</u>*

We discussed undertaking data analysis to determine if there were any anomalies or trends that would benefit from further review. But the LTL explained that the Uniform system needs 'housekeeping' and therefore there was no value at this current time. The officer explained Uniform is reviewed as and when time allows, and that currently focus was on ensuring business as usual is delivered.
Observation: Data analysis can be a useful tool but is only effective if the integrity of the data can be assured. It would benefit the service if as part of the internal review, some time was set aside to ensure 'housekeeping' is undertaken and to consider how best to use the data held within the Uniform system.

Management Response: Work will be undertaken with the team and support sought from the Performance team / Data & Performance Analyst.

Conclusion
The 2020 amendments to statutory guidance specifically relating to driver safeguarding issues, have been implemented at CDC. More robust procedures are being implemented at CDC as part of the internal review which seeks to align processes across the three partner Councils. For this reason, we have issued this Position Statement to provide a 'critical friend' point of view. We hope to revisit the area and provide assurances once the service has completed its review.

Transparency Data – Final Report – November 2023

Audit Objective

To assess the effectiveness of the Council's Transparency procedure and provide assurance that the data published is in line with the Local Government Transparency Code 2015.

Assurance Opinion

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

Number of Actions

Priority	Number
Priority 1	0
Priority 2	4
Priority 3	0
Total	**4**

Risks Reviewed	Assessment
The Council is non-compliant with Information Management legislation under the Local Government Transparency Code	Low

Key Findings

The following data was not available, or up to date, on the public facing website:

- Grants to Voluntary, Community and Social Enterprise (VCSE) organisations.
- Organisational Chart.
- Trade Union Facility Time.
- Senior Salaries.

Therefore, 29% of information that needs publication is non-compliant with the Transparency Code 2015.

All other data (as listed under Audit Scope) was published in accordance with the Transparency Code 2015, and easily accessible. Publication of the data reduces the risk of complaint to the Information Commissioners Office is sufficiently mitigated.

Audit Scope

The audit was a compliance review of the Local Government Transparency Code 2015. We reviewed the following information to ensure that it was published in accordance with the Transparency Code 2015:

- Expenditure over £500.
- Government procurement card transactions.
- Procurement information.
- Grants to Voluntary, Community and Social Enterprise Organisations.
- Organisation Chart.
- Senior Salaries.
- The Pay Multiple.
- Trade Union facility time.
- Local land assets.
- Social housing asset value.
- Parking accounts.
- Parking spaces.
- Fraud.
- The Constitution.

Summary

The Local Government Transparency Code sets out the minimum requirements for local authorities to publish open data on the public facing website and for this to be completed promptly. Cotswold District Council (CDC) have demonstrated a good level of compliance with the Transparency Code but there are areas where compliance has not been demonstrated. If these areas are not addressed, the Council could receive complaints to the Information Commissioners Office (ICO) which could lead to further scrutiny and potential reputational damage. Our action plan intends to mitigate this risk by ensuring compliance with all elements of the Transparency Code, all elements have been agreed with Publica Officers and work is underway to comply with the Code.

Observations:

- Consideration should be given to creating an itemised schedule to enable robust monitoring and ensure the required information remains up to date.
- The Pay Multiple is a constantly changing figure, so although we have been unable to confirm the Pay Multiple as accurate this does not mean it is non-compliant. Work is underway to ensure this remains up to date on an annual basis, and it is published on the Public Facing Website in the Pay Policy Statement.

Bank Reconciliation – Final Report – September 2023

Audit Objective

To provide assurance that core financial processes are operated in accordance with agreed policy/procedure and with the Council/Clients Financial Rules.

Assurance Opinion

A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited

Number of Actions

Priority	Number
Priority 1	0
Priority 2	0
Priority 3	1
Total	1

Risks Reviewed	Assessment
A lack of effective management of finance systems and processes may result in potential fraud, loss of income and reputational damage. The Financial Statements may not be accurate which may result in potential fines and additional pressures on already stretched resources.	Low

Key Findings

We identified historic, outstanding entries (mostly income) in the suspense account stretching back several years, many of which are likely to remain unresolved. A standard process to deal with suspense account entries in a timely, efficient manner will be agreed and the outstanding entries actioned.

We can confirm the monthly bank reconciliation is being completed in a timely manner, is appropriately authorised and is in accordance with the Financial Rules.

Audit Scope

The following areas were reviewed:

- Processing of income and payment data into ledger, feeder systems etc.
- Suspense accounts, monitoring, processes.
- Reconciliation of feeder systems (NDR, CT etc) to the general ledger.
- Frequency and accuracy of bank account reconciliations.
- Authorisation process for bank account reconciliations.

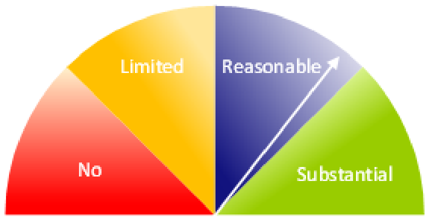
Other Relevant Information

The audit was also undertaken at the other Publica partner authorities, it highlighted differences in working practices across each of the organisations. To increase operational resilience, management may wish to consider standardising working practices in all areas of the bank reconciliation process.

Revenues and Benefits – Final Report – December 2023

Audit Objective	To ensure key financial system controls are operating effectively for Council Tax and Business Rates, Housing Benefits, and Council Tax Support, and that opportunities for error, fraud or corruption are minimised.

Assurance Opinion – Council Tax and NDR



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

Number of Actions

Priority	Number
Priority 1	0
Priority 2	0
Priority 3	2
Total	**2**

Risks Reviewed	Assessment
Incorrect Council Tax and Business Rates are collected due to errors, omissions, or fraud, resulting in financial loss and reputational damage.	Low

Assurance Opinion – Housing Benefits

A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Number of Actions

Priority	Number
Priority 1	0
Priority 2	0
Priority 3	0
Total	**0**

Risks Reviewed	Assessment
Housing benefit and/or council tax reductions awards are not paid or recovered correctly or in a timely manner, due to errors, omissions, or fraud, resulting in financial loss and reputational damage.	Low

Key Findings

Council Tax and NDR: As part of the review underway to align services, training/procedure notes are due to be reviewed. Consideration should be given to the level of detail required in the notes, as well as defining the process for capturing/obtaining information, in order to ensure consistency.

Council Tax and NDR: The format of the new discount review forms requires review to ensure there is not a risk of digital exclusion.

Council Tax and NDR: Overall, our testing showed that discounts, reliefs, and exemptions are being appropriately applied across the board in Council Tax and NDR. Collection rates KPIs are in place and reported on regularly with a view to using this data with staff 121s. Process mapping is underway to review and align services.

Housing Benefits: Applications within Housing Benefits are managed properly and are well-controlled. Evidence is suitably reviewed and saved within the Open Revenue's system; this provides sufficient audit trails and mitigates the risk of a fraudulent claim. Communication with residents is issued in consistent and appropriate formats.

Audit Scope

We reviewed the following processes:

- CTax/NNDR – Collection, discounts, reliefs, and exemptions.
- HB & CTS – Application process, Evidence Verification.
- Postponed work from 2022-23.

Analysis was performed on the reports requested, in conjunction with walkthrough and sample testing to form an opinion on the effectiveness of the controls in operation.

Discussions were held, with evidence sought to support statements made.

Summary

Conclusion
It is clear that a significant amount of progress has been made to ensure that the Revenues and Benefits Service operates as efficiently as possible, and a substantial amount of work has been completed, or is underway, to help achieve this.

The assurance we have given on this audit is specific to the areas we have reviewed. Overall, the Revenues and Benefits service is performing well in the areas recorded within the scope, and proactive steps are being taken to ensure positive change occurs. We have reviewed the deferred work from last year's audit and there are no issues to report. We have agreed two actions to address the findings above.

The following observations and suggestions are made to enhance current processes.

Observations and Suggestions

- It is unclear whether some non-time sensitive Council Tax and NDR discounts and exemptions are reviewed in a timely and consistent manner. We have not looked further into the review process this year due to scope restrictions and timings. We propose that we will address in more detail in next year's audit.

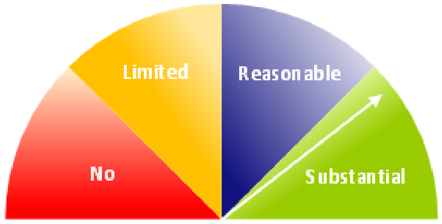
- There was some confusion surrounding the role of the Counter Fraud Enforcement Unit within the wider Revenues and Benefits service, but this was clarified during this audit. However, we suggest that Management review the process of handling family and friend's accounts, and consider whether they wish to implement any additional controls.

- The Housing Benefits team retain a good audit trail of all evidence and communication with residents within the Open Revenues system. But there is limited identifiable features on the attachments, which could lead to inefficiencies when reviewing the account. If the system allows, it is suggested that the audit trail could be altered to include identifiable features which would make navigating the account more efficient.

ICT Business Continuity – Final Report – December 2023

Audit Objective: To provide assurance that ICT Business Continuity/Disaster Recovery arrangements are managed effectively.

Assurance Opinion



A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Number of Actions

Priority	Number
Priority 1	0
Priority 2	1
Priority 3	1
Total	**2**

Risks Reviewed	Assessment
Inadequate recovery plans / procedures result in the indefinite loss of key systems and data. This means Council operations would be adversely impacted potentially causing financial losses and reputational damage.	Low

Key Findings

Disaster Recovery Test: The established criteria for a successful test was being able to fully recover and operate the Business World application (including all clients) in a secure cloud environment using back-ups. Preparation was crucial for ensuring the cloud recovered application did not interfere with the live application hosted on the Council servers. Any technical issues encountered were resolved by the ICT recovery team and the application was operational within the same working day. Test financial reports and HR transactions were processed in the recovered system and checked against the live system. The recovery process is documented and available to members of the ICT recovery team. Processes are in place to ensure recovery communications are managed for both the ICT team and non-ICT stakeholders.

ICT and Emergency Planning Formal Engagement and Alignment: Regular formal engagement with the Emergency Planning teams of each key client hosted on the Council networks is required to support identification of issues, set expectations and align documentation.

Documentation Updates: A review of business continuity and disaster recovery documentation was completed. Several required updates have been identified.

Audit Scope

The audit includes:

- Review of ICT BCP / DR Plans – including processes, communication, assessment of system recovery
- Walkthrough of the Recovery Process
- Communication of test scenarios – reporting of lessons learned and areas for improvement/inclusion in plans

Scope exclusions: Service area plans are not included in this ICT review as they are audited separately.

Additional Information

We collaborated with the ICT team on the planning and execution of the recovery test. This enabled discussion on the audit requirements and technical step-by-step processes which helped to develop our understanding.

Timescales for recovery depend on several factors including the amount of cloud processing power purchased for recovery. For this test, the amount of processing power purchased was limited to save costs but still enabled recovery. In a real disaster recovery scenario, the ICT recovery team will decide upon the optimum processing power required to purchase.

Impact assessments have been completed to support the prioritisation of system recovery. In a real event, the priority of system recovery will depend on several factors some of which are outside of ICT's control (e.g. depending on the time of the month, payroll functions may be more of a priority than revenues and benefits and vice versa).

Open Agreed Actions - December 2023

AP ID	ID	Audit Title	Issue Title	Issue Status	Period	Priority Score	AP Status	Timescale	Revised Timescale	Revised Timescale 2	Follow-Up Assessment
2485	2338	CDC - S106 Agreements and Funds 2022/23	S106 Agreement Reporting	Pending Remediation	2022/23	2	In Progress	30/06/2023	31/12/2023	--	Further Follow-Up in Progress
829	764	CDC - Climate Change Strategy - September 2022	Impact Assessments	Pending Remediation	2022/23	3	In Progress	30/09/2023	31/01/2024	--	Further Follow-Up in Progress
3130	2928	CDC - Transparency Data - 2023/24	Grants to Voluntary, Community and Social Enterprise (VCSE) organisations is not up to date on the public facing website.	Pending Remediation	2023/24	2	In Progress	31/01/2024	--	--	
3134	2932	CDC - Transparency Data - 2023/24	Trade Union Facility time is not published on the Public Facing website.	Pending Remediation	2023/24	2	In Progress	31/01/2024	--	--	
3512	3291	CDC - Bank Reconciliation - 2023/24	Review of Suspense Accounts	Pending Remediation	2023/24	3	In Progress	31/03/2024	--	--	
3544	3321	CDC - Revenues and Benefits - Council Tax and NDR - July 2023	Council Tax and NDR: Risk of Digital Exclusion	Pending Remediation	2023/24	3	In Progress	31/03/2024	--	--	
2821	2630	CDC - Freedom of Information - 2023/24	Basic training/awareness on Freedom of Information requests for Service Areas is not in place.	Pending Remediation	2023/24	2	In Progress	31/03/2024	--	--	
821	758	CDC - Climate Change Strategy - September 2022	Climate Change KPIs Not Defined	Pending Remediation	2022/23	2	In Progress	30/06/2023	31/10/2023	--	Further Follow-Up in Progress
3545	3322	CDC - Revenues and Benefits - Council Tax and NDR - July 2023	Council Tax and NDR: Procedure Notes Require Review to Ensure Consistency	Pending Remediation	2023/24	3	In Progress	31/03/2024	--	--	
3226	3018	CDC - Transparency Data - 2023/24	Organisational Chart is non-compliant with the Transparency Code 2015.	Pending Remediation	2023/24	2	In Progress	31/01/2024	--	--	
3227	3019	CDC - Transparency Data - 2023/24	Senior Salaries are not published in accordance with the Transparency Code 2015.	Pending Remediation	2023/24	2	In Progress	31/01/2024	--	--	
3175	2968	PUB TR - ICT Business Continuity/Disaster Recovery 23/24	ICT and Emergency Planning Formal Engagement and Alignment	Pending Remediation	2023/24	2	In Progress	31/03/2024	--	--	
3164	2958	PUB TR - ICT Business Continuity/Disaster Recovery 23/24	Documentation Updates	Pending Remediation	2023/24	3	In Progress	31/03/2024	--	--	

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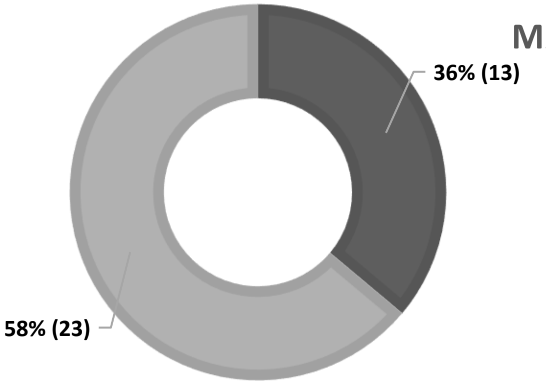
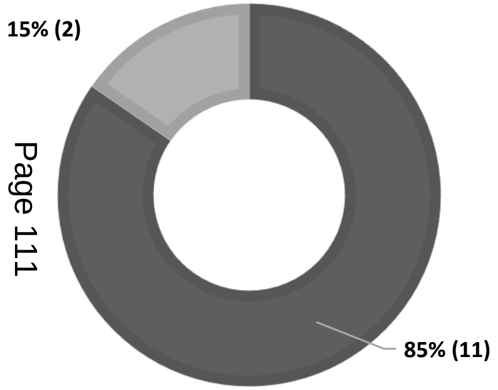
Summary of All Internal Audit Agreed Actions 2022/23 – 2023/24

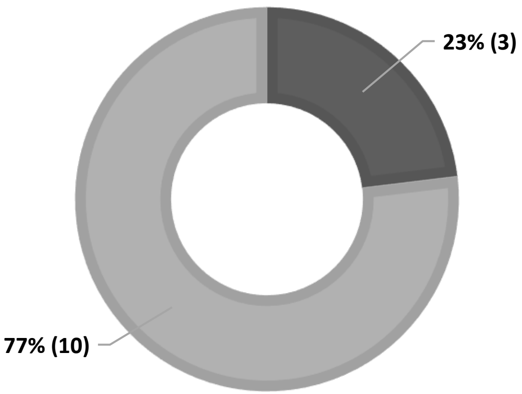
MANAGEMENT ACTIONS BY STATUS



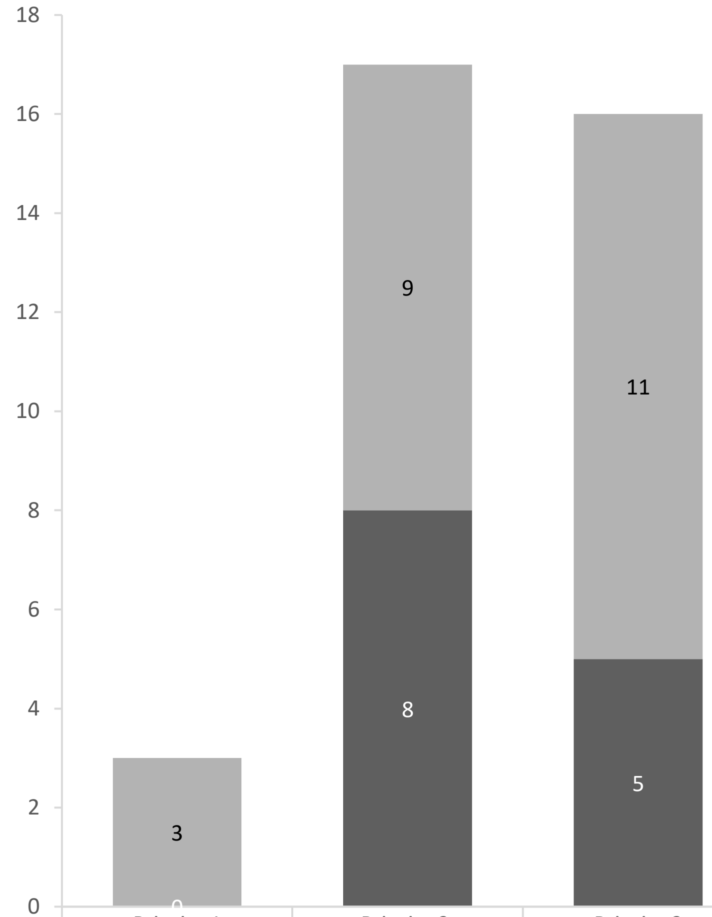
OPEN OVERDUE MANAGEMENT ACTIONS



OPEN MANAGEMENT ACTIONS WITH REVISED DUE DATES



MANAGEMENT ACTIONS BY PRIORITY



	Priority 1	Priority 2	Priority 3
Closed	3	9	11
Pending Remediation	0	8	5

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Council name	**COTSWOLD DISTRICT COUNCIL**
Name and date of Committee	**AUDIT AND GOVERNANCE COMMITTEE – 25 JANUARY 2024**
Subject	**ANNUAL TREASURY MANAGEMENT STRATEGY AND NON-TREASURY MANAGEMENT INVESTMENT STRATEGY (DRAFT)**
Wards affected	N/A
Accountable member	Cllr Mike Evemy, Deputy Leader and Cabinet Member for Finance Email: mike.evemy@cotswold.gov.uk
Accountable officer	David Stanley, Deputy Chief Executive and Section 151 Officer Email: david.stanley@cotswold.gov.uk
Report author	Michelle Burge, Chief Accountant Email: democratic@cotswold.gov.uk
Summary/Purpose	The Council is required to approve a Treasury Management Strategy and Non-Treasury Investment Strategy (Investment Strategy) for 2024/25 before 01 April 2024. The attached Treasury Management Strategy Statement (TMSS) for 2024/25 (Appendix 1) and Non-Treasury Investment Strategy (Appendix 2) is prepared in accordance with the "Prudential Code" and the "Treasury Management Code of Practice" (2021 Editions), and the former Ministry of Housing, Communities and Local Government (MHCLG) revised guidance on Local Government Investments
Annexes	N/A
Recommendation(s)	That the Committee considers the draft Treasury Management and Non-Treasury Investment Strategy for 2024/25 and provides feedback to the Cabinet and Council for consideration as part of the Council's budget setting process
Corporate priorities	The Council's Capital Strategy underpins all of the Council Priorities and is relevant to the Council principle of "Value for money – we will use the council's resources wisely, but will invest in the fabric and future of the district".

Key Decision	NO
Exempt	NO
Consultees/ Consultation	N/A

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1. BACKGROUND

1.1 This draft report sets out the proposed Treasury Management Strategy and Non-Treasury Investment Strategy for the year 2024/25, including the borrowing and investment strategies and treasury management indicators for capital finance for 2024/25 and the Minimum Revenue Provision Statement.

1.2 Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) which requires the Authority to approve a Treasury Management Strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

1.3 The CIPFA "Prudential Code" 2021 edition, "Treasury Management Code of Practice" 2021 edition and MHCLG revised guidance February 2018 focus on "non- treasury" investments. Resulting in a requirement for a separate Non-Treasury Investment Strategy (Appendix 2) must be approved before April 2024.

2. TREASURY MANAGEMENT

2.1 The purpose of the Treasury Management operation is to ensure that cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in counterparties or instruments commensurate with the Council's low risk approach, pursuing optimum performance while ensuring that security of the investment is considered ahead of investment return. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure.

2.2 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 the Council can meet its capital spending obligations. The management of longer-term cash may involve the arrangement of long and/or short-term loans (external borrowing) or may use longer term cash flow surpluses in lieu of external borrowing (internal borrowing).

2.3 Accordingly, the Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as: "The management of the Council's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks"

2.4 The primary purpose of non-treasury investment management operations is to ensure that all investment decisions that are made primarily to generate a profit have a suitable level of security and liquidity. Ensuring risks and rewards are monitored regularly.

2.5 The secondary function of investment management is to generate potential returns and monitor performance of returns on a regular basis.

2.6 The purpose of the Indicators is to set a framework for affordable, prudent and sustainable capital investment.

2.7 Appendices (1 to 3) set out the Treasury Management Strategy, Non-Treasury Management Investment Strategy and Minimum Revenue Provision Statement for 2024/25 and fulfil key legislative requirements as follows:

Appendix 1

- The Treasury Management Strategy which sets out how the Council's treasury operation will support capital decisions taken during the period, the day-to-day treasury management and the limitations on activity through treasury prudential indicators, in accordance with CIPFA's Code of Practice on Treasury Management and Prudential Code;

- The Annual Borrowing Strategy which sets out the Council's objectives for borrowing together with the approved sources of long and short-term borrowing and; • Annual Treasury Management Investment Strategy which sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss, in accordance with CIPFA's Code of Practice on Treasury Management.

Appendix 2

- The Non-Treasury Investment Strategy sets out the Council's investment decisions taken during the period and monitors performance and security, in accordance with DLUHC Investment Guidance.

Appendix 3

- The Council's Minimum Revenue Provision (MRP) Statement, which sets out how the Council will pay for capital assets through revenue each year, as required by the Local Government Act 2003 (Regulations 27 and 28 in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003).

3. ALTERNATIVE OPTIONS

3.1 None

4. FINANCIAL IMPLICATIONS

4.1 Financial implications are set out within the body of the report.

5. LEGAL IMPLICATIONS

5.1 There are no legal implications arising from this report.

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6. RISK ASSESSMENT

6.1 The process for identification and management of risks associated with the Capital Strategy are set out within the document.

7. EQUALITIES IMPACT

7.1 None directly arising from this report.

8. CLIMATE AND ECOLOGICAL EMERGENCIES IMPLICATIONS

8.1 None directly arising from this report.

9. BACKGROUND PAPERS

9.1 None.

(END)

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Appendix 1

DRAFT ANNUAL TREASURY INVESTMENT STRATEGY 2024/25

1. INTRODUCTION

1.1 This report sets out the Treasury Management Strategy and policy for 2024/25. It includes: the interest rate outlook, the Council's treasury management arrangements for the year and the overall framework and risk management controls which are used in carrying out the Council's borrowing, lending and other treasury activities.

1.2 The Council's treasury management objectives and activities are defined by the Chartered Institute of Public Finance and Accountancy (CIPFA) as:

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

1.3 Effective treasury management will provide support towards the achievement of the Council's business and service objectives. The Council is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

1.4 This Treasury Strategy forms part of the overall Corporate Planning Framework which complies with the statutory requirement to have regard to the following Codes and Guidance:

- CIPFA's Code of Practice for **Treasury Management in the Public Services** (revised December 2017 and 2021 code)
- CIPFA's **Prudential Code for Local Council Capital Finance** (revised December 2017 and 2021 code)
- The Government Guidance on **Local Council Investments**

1.5 It provides a mechanism by which treasury management decisions can be aligned with the overarching corporate priorities and objectives over the medium term.

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

1.7 A detailed assessment of the current economic background and the forecast impact on credit and interest rates has been provided by the Council's Treasury Management advisors, Arlingclose. This is included as Appendices 1-A to this Strategy.

2. PURPOSE OF TREASURY MANAGEMENT

2.1 The 2024/25 Treasury Management Strategy has been developed with the following key aims:

- To outline how the Council will manage and invest its money to ensure it will have the financial resources to support the key priorities outlined in its Corporate Strategy.
- To set out key principles on which borrowing and investment decisions are made, including how security and risk are assessed.
- To present the arrangements for managing and monitoring treasury management decisions, including assessment of outcomes and the alignment to the Corporate Strategy.

3. TREASURY MANAGEMENT STRATEGY

3.1 The Council's objectives in relation to debt and investment can be stated as follows:

"To assist the achievement of the Council's service objectives by obtaining funding and managing the Council's debt and treasury investments at a net cost which is as low as possible, consistent with a high degree of interest cost stability and a very low risk to sums invested."

3.2 The successful identification, monitoring and control of risk are the prime criteria by which the effectiveness of the Council's treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

3.3 The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management and to employing suitable, comprehensive performance measurement techniques within the context of effective risk management.

3.4 Therefore, for the Council, the achievement of high returns from treasury activities is of secondary importance compared with the need to limit the exposure of public funds to the risk of loss.

3.5 It is not possible to avoid all treasury risks, and a balance has to be struck. The main treasury risks which the Council is exposed to include:

- Interest rate risk - the risk that future borrowing costs rise
- Credit risk - the risk of default in a Council investment
- Liquidity and refinancing risks - the risk that the Council cannot obtain funds when needed.

3.6 The Council's first Community Municipal Investment (CMI), named 'Cotswold Climate Investment' (CCI) which targeted a £0.500m fundraise closed on the 16 August 2022, fully funded by over 450 investors. As at 1 January 2024 the Council therefore holds a £0.404m loan administered through Abundance Investments Limited for the purpose of Community Municipal Investments at a rate of 2.2% (including management fees). The Cotswold Climate Investment will support a range of projects, including installing publicly available off-street electric vehicle charging points (EVCPs) around the district to encourage electric vehicle take-up, and improving the energy and carbon performance of the Council's Cirencester offices.

3.7 If the Council undertakes further borrowing it will be important for the Council to manage its interest rate exposure due to the risk that changes in the level of interest rates leads to an unexpected burden on the Council's finances. The stability of the Council's interest costs will be affected by the level of borrowing exposed to short term or variable interest rates. Short term interest rates are typically lower, so there can be a trade-off between achieving the lowest rates in the short term and in the long term, and between short term savings and long term budget stability.

3.8 As a result, the approach to risk must be implemented flexibly in the light of changing market circumstances.

4. WHY AND HOW WE INVEST OUR MONEY

4.1 The revised CIPFA Prudential and Treasury Codes recommend that councils' capital strategies should include a policy and risk management framework for all investments. The Codes identify three types of local Council investment:

- **Treasury management investments**, which are taken to manage cash flows and as part of the Council's debt and financing activity.
- **Commercial investments** (including investment properties), which are taken mainly to earn a positive net financial return.
- **Service investments**, which are taken mainly to support service outcomes.

4.2 The Council's Investment Strategy outlines the principles and arrangements in place for the second two categories of investment. The Treasury Management Strategy focuses on the first category. The following paragraphs set out the Council's policy for these 'treasury management' investments.

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4.3 The Council holds significant 'treasury management' funds representing income received in advance of expenditure and reserves held. In the past 12 months, the Council's investment balance has averaged from £26.9m to £54.9m. The large range was due to the Council holding grants that were due to be returned to the Government. The average forecast investment balance for 2024/25 is estimated to be around £27.5m

4.4 On 31 December 2023, the Council held £38.178m of treasury investments which are outlined in Table 1.

Table 1 – Treasury investments as at 30 December 2023

Treasury Investments	31 December Actual Portfolio £m	31 December Average Rate %
Money Market Funds/Call Accounts and other pooled funds	6.9	5.313
Short Term Investments – Bank of England DMADF	17.7	5.261
CCLA Property Investment Management	2.5	4.48
CCLA Diversified Income	1.0	3.69
Schroders Unit Trusts Ltd	1.0	7.22
M&G Securities Ltd	2.0	6.63
Ninety One (formerly Investec)	2.0	4.03
Columbia Threadneedle Fund	2.0	3.9
Federated Cash Plus Fund	1.0	N/A
Fundamentum Housing REIT	1.0	2.85
Total treasury investments	37.1	4.92

4.5 Forecast investments over the next three financial years are shown in Table 2.

Table 2 – Investments balances

	31.3.23 Actual £m	**31.3.24 Estimate £m**	**31.3.25 Forecast £m**	**31.3.26 Forecast £m**	**31.3.27 Forecast £m**
Short term holdings					
Call Accounts	3.104	0.000	0.000	0.000	0.000
MMFs	8.979	10.299	5.995	6.382	1.765
Short Term Deposits	4.283	0.000	0.000	0.000	0.000
Current Account	0.126	0.100	0.100	0.100	0.100
Total Short term	**16.492**	**10.399**	**6.095**	**6.482**	**1.865**

Longer term holdings					
Pooled Funds	10.500	10.500	10.500	10.500	8.500
REIT	1.000	1.000	1.000	1.000	1.000
Cash + Fund	1.000	1.000	1.000	1.000	1.000
Total Longer term	**12.500**	**12.500**	**12.500**	**12.500**	**10.500**
TOTAL INVESTMENTS	**28.992**	**22.899**	**18.595**	**18.982**	**12.365**

4.6 The Council's policy on treasury investments, in line with the CIPFA code, is to prioritise security and liquidity over yield. This focuses on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely to minimise risk of loss. Money held for the longer term is invested more widely, including bonds, shares and property to balance the risk of loss against the risk of receiving returns below inflation. Both short term and longer term investments may be held in pooled funds, where an external fund manager makes decisions on which investments to buy. The Council is also able to request the return of its funding at short notice with these pooled funds. 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 inflation rate, in order to maintain the spending power of the sum invested.

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

4.8 The Bank of England (BoE) increased Bank Rate to 5.25% in August 2023, before maintaining this level in September and then again in November. The BoE expects CPI inflation to continue to fall but may take up to 2025 to reach their 2% target. The Council has been able to take advantage of the higher interest rates in 2023/24 to generate income to support key priorities, however it is widely considered that interest rates have peaked and will start to reduce in the second quarter of 2024/25.

4.9 Under Financial Reporting Standards (IFRS 9), the accounting for certain investments depends on the Council's business model for managing them. The Council aims to achieve value from its treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

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4.10 The Council will continue to make deposits only with institutions having high credit quality as set out in the Approved Investment Counterparties and Limits, Table 3 below. These limits have been set by the Council in consultation with Arlingclose, the Council's Treasury advisors. Further explanation of each of the categories in Table 3 are included as Appendix I-B.

Table 3 – Approved Investment Counterparties and Limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	25 years	£3m	Unlimited
Secured investments *	25 years	£3m	Unlimited
Banks (unsecured) *	13 months	£3m	Unlimited
Building societies (unsecured) *	13 months	£2m	£10m
Registered providers (unsecured) *	5 years	£3m	£10m
Money market funds *	n/a	£3m	Unlimited
Strategic pooled funds	n/a	£4m	£20m
Real estate investment trusts	n/a	£3m	£20m
Other investments *	5 years	£1m-£3m	£10m

** Investments in these sectors will only be made with entities whose lowest published long-term credit rating is no lower than A-*

4.11 Treasury investments will only be made with entities whose lowest published long term credit rating is no lower than an A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely on credit ratings, and all other relevant factors including external advice will be taken into account.

4.12 Money may be lent to the Council's own banker (Lloyds Banking Group), in accordance with the above lending limits. However, if Lloyds Bank does not meet the above criteria, money may only be lent overnight (or over the weekend), and these balances will be minimised.

4.13 Credit rating methodologies and credit limit requirements may change as the circumstances demand: in this event the Deputy Chief Executive Officer may determine revised and practicable criteria seeking similarly high credit quality, pending the next annual review of this treasury management policy.

4.14 Temporarily surplus cash will be invested having regard to the period of time for which the cash is expected to be surplus. The CIPFA Prudential Code envisages that authorities will not borrow more than three years in advance, so it is unlikely that the Council will plan to have surplus cash for longer than three years. However, where surplus cash for over 12 months is envisaged, it may be appropriate to include some longer term (non-specified) investments within a balanced risk portfolio.

4.15 In making investments in accordance with the criteria set out in this section, the Deputy Chief Executive Officer will seek to spread risk (for example, across different types of investment and to avoid concentration on lower credit quality). This may result in lower interest earnings, as safer investments will usually earn less than riskier ones.

4.16 The Council does not currently use investment managers (other than through the use of pooled investment vehicles such as Money Market Funds). However, if investment managers are appointed, their lending of Council funds would not be subject to the above restrictions, provided that their arrangements for assessing credit quality and exposure limits have been agreed by the Deputy Chief Executive Officer.

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

5. HOW WE BORROW MONEY

5.1 As outlined in paragraph 3.6 at 1st January 2023, the Council holds a £0.404m loan administered through Abundance Investments Limited for the purpose of Community Municipal Investments. There are plans to borrow in the future to fund the Capital

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Programme. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The net borrowing can be reduced from this total through the use of reserves and working capital.

5.2 CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than its highest forecast CFR over the following three years. Table 4 shows that the Council expects to comply with this recommendation during 2024/25.

5.3 To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing, see Table 4a. This assumes that cash and investment balances are kept to a minimum level of £13m at year end to maintain sufficient liquidity but minimise credit risk.

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

5.5 The total forecast net borrowing against the CFR and liability benchmark is set out in the Table 4 and Table 4a below for the period of the Medium Term Financial Strategy.

Table 4 - Forecast Borrowing Requirement £m

	31.3.23 Actual	**31.3.24 Estimate**	**31.3.25 Forecast**	**31.3.26 Forecast**	**31.3.27 Forecast**
CFR	0.020	0.387	0.435	0.400	4.536
Less Outstanding External Borrowing	-0.451	-0.357	-0.260	-0.158	-0.051
Internal Borrowing	**-0.431**	**0.0300**	**0.175**	**0.242**	**4.485**
Usable reserves	-22.869	-20.429	-16.270	-16.725	-14.350
Working capital	*-4.672*	-2.500	-2.500	-2.500	-2.500
Investments	**-27.972**	**-22.899**	**-18.594**	**-18.982**	**-12.365**

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Table 4a – Prudential Indicator: Liability Benchmark £m

	31.3.23 Actual	31.3.24 Estimate	31.3.25 Forecast	31.3.26 Forecast	31.3.27 Forecast
CFR	0.02	0.39	0.44	0.40	4.54
Less Balance Sheet Resources	-27.78	-22.93	-18.77	-19.22	-16.85
Net Loans Requirement	**-27.76**	**-22.54**	**-18.33**	**-18.82**	**-12.31**
Plus Liquidity Allowance	15.00	13.00	13.00	13.00	13.00
Liability Benchmark	***-12.76***	***-9.54***	***-5.33***	***-5.82***	***0.69***

5.6 This benchmark is currently £-9.54 million, reflecting the fact that there is no requirement to undertake external borrowing and its cash balances are invested through application of the Treasury Management Strategy. Over the next two years, the liability benchmark moves to £0.69 million reflecting a use of capital receipts and earmarked reserves to partially fund the Capital Programme and need to externally borrow as represented in table 4.

<u>Borrowing Strategy</u>

5.7 This strategy sets out how the Council plans to obtain the required new borrowing shown above, by a combination of short term and long term borrowing.

5.8 The borrowing will be required to fund significant investments into the Council's key priorities as outlined in the Corporate Strategy, the key priorities are outlined below:

- Delivering Good Services
- Responding to the Climate Emergency.
- Delivering Housing
- Supporting Communities
- Supporting the Economy

5.9 The Council's main objective when borrowing money is to strike a balance between securing low interest rates and certainty of costs over the period for which funds are required.

5.10 Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer term stability of the debt portfolio. Short-term interest rates continue to be similar to long-term rates, it is likely to be more cost effective in the short term to use internal resources or to borrow short term loans until interest rates decrease and then look at longer term loans.

5.11 By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of doing this will be monitored regularly against the potential for incurring additional costs by deferring borrowing into the future when long term borrowing rates are forecast to rise modestly, even if this causes additional cost in the short term.

5.12 The Council may also borrow short term loans to cover unplanned cash flow shortages.

Sources of Borrowing

5.13 The main source of long term borrowing for local authorities historically has been the **Public Works Loans Board (PWLB)**. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield. The Council has not undertaken any PWLB borrowing to fund commercial investments for yield and does not plan to do this in the future in order to retain access to PWLB loans. All capital investments are linked to service developments. The PWLB rate offers a cheaper and quicker route to borrowing than alternative sources of borrowing. The Council would thus aim to use the PWLB for its long term borrowing needs. In addition, it is uncertain how private sector lenders would view the risk profile for councils that were no longer eligible for PWLB loans.

5.14 **The UK Municipal Bonds Agency Plc** was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital market and lends proceeds to local authorities. This is a more complicated source of finance that the PWLB for two reasons; borrowing authorities are required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to Cabinet and Full Council.

5.15 **LOBOs**: The Council currently does not hold any LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost.

5.16 **Short-term and variable rate loans:** These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators.

5.17 **Debt rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

5.18 **Local Climate Bonds /Community Municipal Investments** are a form of debt/loan-based crowdfunding. Community Bonds are issued by a council corporate body, with residents and general public investors providing capital on the basis of receiving a financial return. The majority of community bonds are typically linked in some form to environmental or social criteria and provide tangible benefit to the local community beyond just financial. Details of the Council's Community Municipal Investment are outlined in paragraph 3.6.

5.19 The Council will continue to monitor market developments and will seek to use and develop other funding solutions if better value may be delivered. This may include other sources of long term borrowing if the terms are suitable, including listed and private placements, bilateral loans from banks, local authorities or others and sale and leaseback arrangements.

5.20 The Treasury Management Prudential Limits and Indicators consistent with the above strategy are set out in Section 7.

5.21 The Treasury Management Strategy must be flexible to adapt to changing risks and circumstances. The strategy will be kept under review by the Deputy Chief Executive Officer in accordance with treasury management delegations.

6. MONITORING TREASURY MANAGEMENT INVESTMENTS

6.1 The CIPFA guidance for Treasury Management in the Public Services (2021 edition), requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA code.

6.2 The guidance also requires the Council to produce reports on its treasury and investment management policies, practices, and activities, as a minimum with quarterly and mid-term review and an annual report after year end closure.

6.3 The Council delegates responsibility for the implementation and regular monitoring of its treasury management practices to Cabinet and for the execution and administration of treasury management decisions to the Deputy Chief Executive Officer, who will act in accordance with this strategy. The Audit Committee will be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

6.4 Credit ratings are monitored on a real-time basis as provided via Arlingclose, and the Council's lending list is updated accordingly, when a rating changes. Other information is taken into account when deciding whether to lend. This may include the ratings of other rating agencies; commentary in the financial press; analysis of country, sector and group exposures; and the portfolio make up of Money Market Funds. The use of particular permitted counterparties may be restricted if this is considered appropriate.

6.5 Where deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. 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 or other local authorities, as decided by the Deputy Chief Executive Officer.

6.6 In order to monitor this, the Council has set cash limits on the credit quality of the investments and their limits as can be seen in Table 3, section 4.10 above.

6.7 The Council's revenue reserves available to cover investment losses are forecast to be £3.4m on 31 March 2024. In order to ensure that no more than a maximum of available reserves of 25% are therefore put at risk in the case of single default (other than the UK Government), the total lending limit will be £3m. A group of banks under the same ownership will be treated as a single organisation. Limits are also placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as in Table 5 below. Investments in pooled funds and multilateral development banks do not count against the limit for a single foreign currency, as the risk is spread over many countries.

Table 5 – Cash Limit by Organisation

Table 5 – Cash Limits	Cash limit
Any single organisation, except the UK Central Government	£3m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£3m per group
Any group of pooled funds under the same management	£4m per fund manager
Foreign countries	£3m per country
Registered providers	£3m in total
Real estate investment trusts	£3m per REIT
Unsecured investments with building societies	£2m in total per BS
Money Market Funds	£20m in total

6.8 The Council uses cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long term investments are set by reference to the Council's MTFS and cash flow forecast.

6.9 The Treasury Management team has suitably qualified and trained staff to actively manage treasury risks within this Policy framework. Officers regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. However, staff resources are limited, and this may constrain the Council's ability to respond to market opportunities or take advantage of more highly structured financing arrangements. External advice and support may also be required. The following activities may for example require external advice and support based on an assessment at the time, to the extent that skills and resources are available:

- the refinancing of existing debt
- forward-starting loans
- leasing and hire purchase
- use of innovative or more complex sources of funding such as green bond issues, private placements and sale and leaseback structures
- investing surplus cash in institutions or funds with a high level of creditworthiness, rather than placing all deposits with the Government

6.10 The Council appointed Arlingclose Limited to provide treasury management advice to the Council, including the provision of credit rating and other investment information. Advisors are a useful support in view of the size of the Council's transactions and the pressures on staff time. The contract with Arlingclose was renewed at 1st March 2023 and is due to end February 2026.

6.11 Government investment guidance expects local authorities to have a policy for borrowing in advance of need, in part because of the credit risk of investing the surplus cash. The Council's policy is to borrow to meet its forecast Net Loan Debt, including an allowance (currently of £13m) for liquidity risks. The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the forecast capital programme or to meet other expected cash flows.

7. TREASURY MANAGEMENT PRUDENTIAL INDICATORS

7.1 The Council is required under the Local Government Act 2003 and the CIPFA Treasury Management Code to set Prudential Indicators for treasury management to measure and manage its exposure to treasury management risk using the following indicators:

7.2 **Security** – The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value weighted average of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA=2 etc) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	Target
Portfolio average credit	A-

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

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	-£0.153m
Upper limit on one-year revenue impact of a 1% fall in interest rates	£0.153m

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

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7.4 **Maturity structure of borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and within 30 years	100%	0%
30 years and above	100%	0%

7.5 Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

7.6 **Long term treasury management investments** – The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long term principal sum invested to final maturities for longer than a year will be:

Price risk indicator	2024/25	2025/26	2026/27
Limit on principal invested for longer than a year.	£13m	£13m	£13m
Amounts invested in longer term instruments with no fixed maturity date	£13m	£13m	£13m

8. TREASURY MANAGEMENT REVENUE BUDGET

8.1 The budget for investment income in 2024/25 is £1.223m, based on an average investment portfolio of £27.5m at an interest rate of 4.75%.

8.2 The Council aims to maintain its portfolio of long term investments in strategic funds at £12.5m. This is forecast to return £0.464m.

8.3 Investments in liquid assets such as bank deposits and money market funds are expected to return 4.45% and generate a yield of £0.759m.

8.4 This estimate reflects a prudent view of investment income. Actual interest income will be affected not only by future interest rates, but also by the Council's cash flows and the level of its revenue reserves and provisions.

9. OTHER

9.1 Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g., interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g., LOBO loans and callable deposits). The general power of competence in section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

9.2 The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

9.3 In line with the CIPFA Code, the Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

9.4 MiFFID 2 is a legislative framework instituted by the European Union to regulate the financial markets and improve protections for investors. This Council has elected for Professional Client Status which means that to be able to invest in certain investments, it must hold a minimum of £10m in investments. If this falls below the minimum level, then access to certain financial market instruments could be made unavailable to this Council.

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APPENDIX I-A

Arlingclose Economic and Interest Rate Forecast (December 2023)

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

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

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

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

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

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

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

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

Forecast:

The MPC held Bank Rate at 5.25% in December, Arlinglcose believes this is the peak.

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

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

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

	Current	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	1.00	1.00
Central Case	5.25	5.25	5.25	5.25	5.00	4.75	4.25	4.00	3.75	3.50	3.25	3.00	3.00
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	1.00	1.00
Central Case	5.40	5.40	5.40	5.30	5.15	4.80	4.30	4.10	3.80	3.50	3.25	3.05	3.05
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
5yr gilt yield													
Upside risk	0.00	0.50	0.70	0.70	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.28	4.35	4.30	4.25	4.10	4.00	3.75	3.50	3.40	3.30	3.30	3.30	3.35
Downside risk	0.00	-0.55	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
10yr gilt yield													
Upside risk	0.00	0.50	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20
Central Case	4.32	4.40	4.35	4.30	4.25	4.15	4.00	3.80	3.75	3.65	3.60	3.65	3.70
Downside risk	0.00	-0.55	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
20yr gilt yield													
Upside risk	0.00	0.50	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20
Central Case	4.78	4.70	4.65	4.55	4.45	4.35	4.25	4.25	4.25	4.25	4.25	4.25	4.25
Downside risk	0.00	-0.55	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
50yr gilt yield													
Upside risk	0.00	0.50	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20
Central Case	4.38	4.30	4.25	4.20	4.15	4.15	4.10	4.10	4.10	4.10	4.10	4.10	4.10
Downside risk	0.00	-0.55	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%
PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
UKIB Rate (Maturity Loans) = Gilt yield + 0.60%
UK Infrastructure Bank Rate = Gilt yield + 0.40%

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APPENDIX I-B

Criteria Definitions

Government: Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

Secured investments: Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

Banks and building societies (unsecured): Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Registered providers (unsecured): Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Money market funds: Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

Strategic pooled funds: Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

Other investments: This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Council's investment at risk.

Operational bank accounts: The Council banks with Lloyds (Lloyds Banking Group). On adoption of this strategy, it will meet the minimum credit criteria of A- (or equivalent) long term. It is the Council's intention that even is the credit rating of Lloyds Bank falls below the minimum criteria A- the bank will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements.

Policy Investments: The Council will provide cash flow for third party organisations linked to the Council. The following limit is set for 2024/25

- Publica Group - £0.5m up to one year duration
- Ubico - £0.5m up to one year duration

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Appendix 2

ANNUAL NON-TREASURY INVESTEMENT STRATEGY 2023/24

1. INTRODUCTION

1.1 The Authority invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as treasury management investments),
- to support local public services by lending to or buying shares in other organisations (service investments), and
- to earn investment income (known as commercial investments where this is the main purpose).

1.2 This investment strategy meets the requirements of statutory guidance issued by the government in January 2018 and focuses on the second and third of these categories.

1.3 The statutory guidance defines investments as "of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios". The Authority interprets this to exclude (a) trade receivables which meet the accounting definition of financial assets but are not investments in the everyday sense of the word and (b)property held partially to generate a profit but primarily for the provision of local public services.

2. TREASURY MANAGEMENT INVESTMENTS

2.1 The Authority typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure as a Council Tax 'billing authority' it collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to fluctuate between £27.5m and £19.5m during the 2024/25 financial year.

2.2 **Contribution:** The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.

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2.3 **Further details:** Full details of the Authority's policies and its plan for 2023/24 for Treasury Management investments are covered in a separate document, the Treasury Management Strategy, available here: [link].

3. SERVICE INVESTMENTS: LOANS

3.1 **Contribution:** The Council lends money to local charities, housing associations, local residents and its employees to support local public services, stimulate local economic growth and support Council priorities of providing socially rented housing and promoting carbon neutral development and infrastructure. Loans to residents will be in line with Council approved policies such as its Starter Homes Initiative. During 2023/24 the Council has provided a loan facility of up to £1.8557m short term and has committed to provide a facility of £1.897m (over 50 years) to a local Housing Association which supports the Council priorities of providing socially rented housing and promoting carbon neutral development and infrastructure.

3.2 **Security:** The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Authority, upper limits on the outstanding loans to each category of borrower have been set as follows:

Table 1: Loans for service purposes in £

Category of borrower	31.3.2023 actual			2024/25
	Balance owing	Loss allowance	Net figure in accounts	Approved Limit
Local charities	358,473	0	358,473	450,000
Housing associations	31,500	0	31,500	3,000,000

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Loans to Ubico (£500,000) or Publica £500,000)	0	0	0	1,000,000
Local residents (equity loans)	96,967	0	96,967	130,000
Employees (car loans)	2,283	0	2,283	10,000
TOTAL	489,222	0	489,222	4,590,000

3.3 Accounting standards require the Authority to set aside loss allowance for loans, reflecting the likelihood of non-payment. The loans the Council has made are limited to specific service areas and the likelihood of non-payment is considered minimal. There is no history of non-payment and no evidence to suggest that there will be any default against loans granted. As a result, no allowance for loss has been included against the loan balances. Should any indication be given that there is a risk of default, then the risk will be assessed and a provision established at that time. Should a loan default, the Authority will make every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

3.4 In addition to the loans granted, the Council has included provision in its Treasury Management Strategy to loan up to £0.500m to both Ubico and Publica Group (Support) Limited, should either company require support. The Council is a shareholder in Ubico and a shared owner in Publica. In both cases, the loan facility is to enable the Council to provide a loan for short-term cash flow purposes. No loans are currently in place.

3.5 **Risk assessment:** The Authority assesses the risk of loss before entering into and whilst holding service loans by undertaking credit checks and ensuring the appropriate legal documentation is in place to secure the Council's money.

4. SERVICE INVESTMENTS: SHARES

4.1 **Contribution:** The Council has a £1 shareholding in Ubico Ltd. Ubico Ltd is an environmental services company which provides household and commercial refuse collection, recycling, street cleansing, grounds maintenance and fleet maintenance services to the Council. Ubico is wholly owned by eight local authorities and operates as a not for profit enterprise.

4.2 **Security:** One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. The Council's investment is fixed at £1.

Table 2: Shares held for service purposes in £

	31.3.2023 actual			2024/25
Category of Company	**Amounts invested**	**Gains or losses**	**Value in accounts**	**Approved Limit**
Local Authority owned company	1	-	1	1
TOTAL	**1**	**0**	**1**	**1**

4.3 **Risk assessment:** the Council has not invested in Ubico to generate a financial return. The Council has invested to support service delivery. Ubico is a cost sharing company, any surplus generated within Ubico is returned to the partner Councils as shareholders. Similarly, any deficit as to be met by the Councils. Through regular budget monitoring and transparency around contract sums and performance and regulator communication, the risk of any financial loss is mitigated.

4.4 **Liquidity:** The Council has invested purely to facilitate service provision rather than a financial return. The Council has no intention to dispose of its investment in the foreseeable future.

4.5 **Non-specified Investments:** Shares are the only investment type that the Authority has identified that meets the definition of a non-specified investment in the government guidance. The limits above on share investments are therefore also the Authority's upper limits on non-specified investments. The Authority has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

5. COMMERCIAL INVESTMENTS: PROPERTY

5.1 **Contribution:** The Council invests in a number of commercial properties within the Cotswold District and three significant assets outside of the district. The properties acquired outside of the District were acquired with the intention of generating income to support the revenue budget and were funded from the Council's capital receipts and therefore did not require the Council to undertaken any borrowing.

Table 3: Property held for investment purposes in £

Property Type	01-Apr 2022	31.3.2023 actual		31.3.2024 expected	
	Value in accounts	Gains or (losses)	Value in accounts	Gains or (losses)	Value in accounts
Investment Property within Cotswold District	1,222,000	60,000	1,282,000	0	1,282,000
Investment Property inside of Cotswold District 27A Dyer Street	1,420,000	-65,000	1,355,000	0	1,355,000
Investment Property outside of Cotswold District: Superdrug, Worcester	720,000	-95,000	625,000	0	625,000
Investment Property outside of Cotswold District: Tesco, Seaford	1,130,000	-45,000	1,085,000	0	1,085,000
Investment Property outside of Cotswold District: Wilkinsons, West Bromwich	1,455,000	-425,000	1,030,000	0	1,030,000
TOTAL	**5,947,000**	**-570,000**	**5,377,000**	**0**	**5,377,000**

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5.2 **Security:** A fair value assessment of the Council's investment property portfolio is undertaken each year as part of the final accounts process. Investment property is valued at market value. Property values fell during 2022/23 reflecting the valuer's assumption of the reductions in rental income expected in 2023/24 and potential void periods. The fair value of the Council's investment property portfolio is included in the Statement of Accounts; based upon 'market value'.

5.3 Table 3 shows fair value gains and losses in 2022/23 which are a direct result of the valuation undertaken as at 31st March 2023. The losses in respect of Wilkinsons, West Bromich will not be recognised unless the Council decides to dispose of the asset. The Council maintains sufficient liquidity so that there is no requirement to sell any of the investment properties. Over time, it is expected that the market value of investment properties will vary. Assets are considered sound with strong covenants and dependable income streams.

5.4 The proportion of the Council's Investment Property portfolio which is outside of the District, is held primarily to generate a stable income stream to support the revenue budget.

5.5 **Risk assessment:** The Authority assesses the risk of loss before entering into and whilst holding property investments by purchasing property with secure tenants on long leases and through:

- assessment of relevant market sector(s) including the level of competition, barriers to entry/exit, future market prospects
- assessment of exposure to particular market segments to ensure adequate diversification
- use of external advisors if considered appropriate by the S151 Officer
- full and comprehensive report on any new investments to Cabinet/Council
- continual monitoring of risk across the whole portfolio and specific assets

5.6 **Liquidity:** Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice and can take a considerable period to sell in certain market conditions. To ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed, the Authority sets out in its Treasury Management Strategy provision of liquid investments should the Council be in need of cash. It is not anticipated that the Council would need to sell any Investment Property at short notice.

6. LOAN COMMITMENTS AND FINANCIAL GUARANTEES

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6.1 Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Authority and are included here for completeness.

6.2 The Council is a shareholder of Ubico Ltd, owning one eighth of the company and is a joint partner in Publica Group (Support) Ltd, owning one quarter of the company. In both cases, should the company overspend, the Council be liable for its share of the additional costs. In both companies, sound financial management and budgetary control mitigate the risk that additional sums will be required without adequate notice.

6.3 The Council is contractually committed to provide a loan facility of £3.753m) to Cottsway 2 Ltd (a subsidiary of Cottsway Housing Association) to enable the provision of new dwellings incorporating low carbon technology at Davies Road, Moreton-in-Marsh. £1.855m of the facility is a short-term arrangement which will be repaid in full on receipt of grant funding from Homes England. The remainder of the £1.898m is a long term- term secured loan facility to be repaid within 50 years of the first drawdown date. To the extent that the loan facility is used, interest is payable to Cotswold District Council based on a rate of 3.25% per annum. During 2023/24, £2.155m has been drawdown to date and £1.247m repaid. Leaving a balance at 31/12/23 of £0.908m. The long term secured loan facility is expected to be drawn down during 2024/25.

7. PROPORTIONALITY

7.1 The Authority is dependent on profit generating investment activity to achieve a balanced revenue budget. Table 4 below shows the extent to which the expenditure planned to meet the service delivery objectives and/or place making role of the Authority is dependent on achieving the expected net profit from investments over the lifecycle of the Medium-Term Financial Plan. Should it fail to achieve the expected net profit, the Council has earmarked reserves available to cover any immediate shortfall in income or will be required to generate savings elsewhere within the budget to continue to provide its services. The Business Manager responsible for the Council's property and estates function would review the cause of any shortfall and identify any actions needed to ensure the income shortfall is mitigated or remedied.

7.2 With the introduction of the revised PWLB lending terms, the Council has no intention of purchasing investment assets primarily for yield in the current and following two financial years. With no further expenditure planned on investment assets primarily for yield the proportion of investment to gross service expenditure will fluctuate as a result of changes in investment income from existing holdings and changes in gross service expenditure.

Table 4: Proportionality of Investments (£)

	2022/23 Actual	2023/24 Forecast	2024/25 Budget	2025/26 Budget	2026/27 Budget
Treasury Investment income	1,082,363	1,542,365	1,222,700	783,500	500,000
Loans income	11,376	11,115	61,558	61,106	60,640
Share dividend	**0**	**0**	**0**	**0**	**0**
Investment Property income	475,939	431,277	370,027	377,428	384,976
Investment income	**1,569,678**	**1,984,757**	**1,654,285**	**1,222,034**	**945,617**
Gross service expenditure	26,725,057	27,562,988	26,399,830	26,449,990	27,679,914
Proportion	5.87%	7.20%	6.27%	4.62%	3.42%

8. BORROWING IN ADVANCE OF NEED

8.1 Government guidance is that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. The Council will need to borrow in future years to fund new capital expenditure. Any funds borrowed will be in relation to specific schemes and based upon the cash required for the chosen schemes.

8.2 The Council may, in supporting the delivery of the Council's Capital Programme, borrow in advance of need where it is expected to demonstrate the best longer-term value for money position. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that the value for money can be demonstrated (i.e., the cost of holding does not outweigh the benefits of early borrowing) and that the Council can ensure the security of such funds.

8.3 The Council is aware that it will be exposed to the risk of loss of the borrowed sums, and potential interest rate changes. These risks will be managed as part of the Council's overall management of its treasury risks and will be reported through the standard reporting method.

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9. CAPACITY, SKILLS AND CULTURE

Elected members and statutory officers:

9.1 The Council recognises that those elected Members and statutory officers involved in the investment decision process must have appropriate capacity, skills and information to enable them to:

- take informed decisions as to whether to enter into a specific investment;
- to assess individual assessments in the context of the strategic objectives and risk profile of the Council; and
- to enable them to understand how new decisions have changed the overall risk exposure of the Council.

9.2 The Council employs professionally qualified and experienced staff in senior positions with responsibility for advising Council on capital expenditure, borrowing and investment decisions. For example, the Chief Finance Officer is a qualified accountant with over 25 years' experience of working in local government finance. The Council pays for junior staff to study toward relevant professional qualifications, including Chartered Institute of Public Finance and Accountancy (CIPFA) and Association of Accounting Technicians (AAT).

9.3 Where Council staff do not have the knowledge and skills required, external advisers and consultants are engaged that are specialists in their field. The Council employs Arlingclose Limited as treasury management advisers. The Council employs other specialist advisers to advise upon specific, extraordinary transactions as required. Examples of such transactions include property acquisitions, and loans to third parties. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite or while Council staff develop those skills.

9.4 The Council will also consider whether relevant Members of Cabinet have appropriate skills, providing training where there is a skills gap.

9.5 The Council has experience of investing in commercial property in recent years. The Council's property service is provided through its strategic service provider Publica Group (Support) Ltd. The team of property officers have the following qualifications:

- BSc Hons Real Estate Management
- Associate Member Royal Institute Chartered Surveyors
- Member Royal Institute Chartered Surveyors

- Royal Institute Chartered Surveyors Registered Valuer
- CIMA certificate in Business Accounting
- Member Institute Welfare & Facilities management
- Technical member for Institute for Occupational Safety and Health

9.6 Due to current vacancies within the Property Services team, external valuers are in the process of being appointed to undertake the Investment Property valuations required as part of the preparation of the 2023/24 Statement of Accounts.

9.7 The Council's legal team have experience of carrying out due diligence checks, particularly for commercial property acquisitions, and the legal officers have the following qualifications:

- Fellows of the Chartered Institute of Legal Executives (CiLEX);
- Paralegal;
- Solicitors.

9.8 The Property and Legal Teams work together with the Finance team to support the Council's Chief Finance Officer and the Publica Finance Director in developing investment proposals for the Council. External specialist advice is obtained when required to support these teams.

9.9 The Council has previously invested in a range of commercial properties which are delivering a sustainable revenue stream to the Council.

9.10 **Commercial deals:** The Council's Chief Finance Officer, Deputy Chief Finance Officer and the Publica Finance Director are all aware of the core principles of the Prudential Framework and of the regulatory regime within which local authorities operate.

9.11 Officers would work with a team of specialist officers to prepare business cases for any commercial deals for consideration by Members. It is the responsibility of the finance team to ensure that the implications of the Prudential Framework and the regulatory regime are considered as business cases are developed.

9.12 The Cabinet and Council also includes elected Members with a wealth of experience from business, banking and financial organisations. Members will use their knowledge, skills and experience to scrutinise business cases for proposed Council investments as set out below.

Corporate governance:

9.13 The Council will need to consider the best approach for the consideration and scrutiny of business cases for future investment to consider their contribution to the delivery of Council

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Priorities and impact upon the overall risk to the Council prior to recommendation for approval of expenditure by Cabinet or Council. The Cabinet will take decisions or make recommendations to the full Council on new investments that are not part of Treasury Management activity.

9.14 Financial performance is reported quarterly to the Council's Overview and Scrutiny Committee and to Cabinet. This includes the financial performance of the Treasury Management function and any other revenue generating investments.

9.15 The Audit Committee consider the draft Capital, Investment and Treasury Management Strategies and provides its views to the Cabinet for consideration. Cabinet recommends the suite of strategies to the Council for approval. Treasury Management performance is reported quarterly to the Council's Overview and Scrutiy Committee, Audit Committee and to full Council.

9.16 The Council's internal audit provider, South West Audit Partnership Ltd (SWAP) regularly audits the Council's treasury management activity and its processes and procedures for approving investment and performance management. SWAP reports to the Council's Audit Committee.

10. INVESTMENT INDICATORS

10.1 The Authority has set the following quantitative indicators to allow elected members and the public to assess the Authority's total risk exposure as a result of its investment decisions.

10.2 **Total risk exposure:** The first indicator shows the Authority's total exposure to potential investment losses. This includes amounts the Authority is contractually committed to lend but have yet to be drawn down and guarantees the Authority has issued over third party loans.

Table 5: Total investment exposure in £

Total investment exposure	31.03.2023 Actual	31.03.2024 Forecast	31.03.2025 Forecast
Treasury management investments	27,971,544	22,899,000	18,595,000
Service investments: Loans	489,222	2,052,545	2,088,655
Service investments: Shares	1	1	1

Commercial investments: Property	5,377,000	5,377,000	5,849,189
TOTAL INVESTMENTS	**33,837,767**	**30,328,546**	**26,532,845**
Commitments to lend	1,855,000	0	0
Guarantees issued on loans	0	0	0
TOTAL EXPOSURE	**35,692,767**	**30,328,546**	**26,532,845**

10.3 **How investments are funded**: Government guidance is that these indicators should include how investments are funded. No investments are currently funded by borrowing. All of the Authority's investments are funded by usable reserves and income received in advance of expenditure.

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

Table 6: Investment rate of return (net of all costs)

Investments net rate of return	**2022/23 Actual**	**2023/24**	**2024/25 Forecast**
Treasury management investments	2.60%	5.06%	4.45%
Charities Loans*	2.23%	2.03%	0.00%
Housing Association Loans	0.00%	0.00%	3.25%
Local residents (equity loans)	0.00%	0.00%	0.00%
Employees (car loans)	2.00%	2.00%	0.00%
Service investments: Shares	0.00%	0.00%	0.00%
Commercial investments: Property**	7.18%	6.76%	5.36%

**This represents an average return based upon loans ranging from 0% to 3.5%.*

***Commercial Property returns are calculated based upon returns compared to the current market valuation of the asset not the purchase price).*

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Council name	**COTSWOLD DISTRICT COUNCIL**
Name and date of Committee	**AUDIT AND GOVERNANCE COMMITTEE – 25 JANUARY 2024**
Subject	**ANNUAL CAPITAL STRATEGY (DRAFT)**
Wards affected	N/A
Accountable member	Cllr Mike Evemy, Deputy Leader and Cabinet Member for Finance Email: mike.evemy@cotswold.gov.uk
Accountable officer	David Stanley, Deputy Chief Executive and Section 151 Officer Email: david.stanley@cotswold.gov.uk
Report author	Michelle Burge, Chief Accountant Email: democratic@cotswold.gov.uk
Summary/Purpose	The Council is required to approve a Capital Strategy for 2024/25 before 1 April 2024. The Capital Strategy 2024/25 (Appendix 1) is in accordance with CIPFA's "Prudential Code" and the "Treasury Management Code of Practice" 2021 and the former Ministry, Housing, Communities and Local Government (MHCLG) guidance on Local Government Investments
Annexes	N/A
Recommendation(s)	That the Committee considers the draft Capital Strategy for 2024/25 and provides feedback to the Cabinet and Council for consideration as part of the Council's budget setting process.
Corporate priorities	The Council's Capital Strategy underpins all of the Council Priorities and is relevant to the Council principle of "Value for money – we will use the council's resources wisely, but will invest in the fabric and future of the district".
Key Decision	NO
Exempt	NO
Consultees/ Consultation	N/A

1. BACKGROUND

1.1 The draft Capital Strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members' understanding of these sometimes-technical areas.

1.2 The Capital Strategy sets the Prudential Indicators for affordable, prudent and sustainable capital investment.

1.3 The Council's Capital Strategy forms a key element of the overall planning framework. It allows the Council to align capital investment and financing with the Corporate Plan priorities. These include:

- Priority 1 – Delivering Good Services
- Priority 2 – Responding to the Climate Emergency
- Priority 3 – Delivering Housing
- Priority 4 – Supporting Communities
- Priority 5 – Supporting the Economy

1.4 This will be achieved by integrating capital budget decisions into the Council's planning process, so that capital investment decisions are prioritised alongside plans for revenue income and expenditure, as well as plans for assets including the Council's land and buildings and liabilities including the prudent use of borrowing; and reporting regularly through to Council, Cabinet and the Audit and Governance Committee.

1.5 The Strategy has direct links with the Annual Treasury Management Strategy and Annual Non-Treasury Investment Strategy. These are included within the Council's Medium Term Financial Strategy (MTFS).

2. ALTERNATIVE OPTIONS

2.1 None

3. FINANCIAL IMPLICATIONS

3.1 Financial implications are set out within the body of the report.

4. LEGAL IMPLICATIONS

4.1 There are no legal implications arising from this report.

5. RISK ASSESSMENT

5.1 The process for identification and management of risks associated with the Capital Strategy are set out within the document.

6. EQUALITIES IMPACT

6.1 None directly arising from this report.

7. CLIMATE AND ECOLOGICAL EMERGENCIES IMPLICATIONS

7.1 None directly arising from this report.

8. BACKGROUND PAPERS

8.1 None.

(END)

ANNUAL CAPITAL STRATEGY 2024/25

1. STRATEGIC CONTEXT AND PURPOSE

1.1 The ongoing impact on the UK from higher inflation, higher interest rates and inflation, a weakening economic outlook, an uncertain political climate due to an upcoming general election, together with war in Ukraine and the Middle East, will have had a major impact on local communities and businesses within the District. The Council has a key role to play in terms of supporting these going forward while maintaining and improving Council services

1.2 Key drivers of the Council's capital investment programme bring together many aspects of the Council's services and financial planning. This is driven by the Corporate Plan which sets out the Council's drivers in the development and prioritisation of the capital proposals as described below:

- Responding to climate change, including providing electric vehicle charging points, securing investments in renewable energy and support local community led and community owned renewable energy projects;
- Economic regeneration developments including attracting investment in infrastructure to support better broadband and 5G coverage and using our investments and assets to boost the local economy;
- Providing socially rented homes by delivery of social rented and affordable accommodation across the District;
- Maximising opportunities for income generation within projects that support the key priorities of the Council.

1.3 The Council has historically been able to manage funding its capital programme through the use of capital receipts, but external borrowing will underpin the planned developments in future years. The Council expects to fund the majority of its capital programme going forward largely from prudential borrowing and use of capital receipts. This discussed in more detail within Section 3 of this report.

2. CAPITAL RESOURCES AND FINANCING

2.1 The capital programme is planned to be fully financed from a combination of existing resources, external grants and contributions, capital receipts, and an affordable level of borrowing. The Capital Strategy prioritises the use of external grants and funding where possible to support Council Plan priorities. Where included, capital receipts assumptions are based on a prudent level of expected capital receipts from asset sales, loan repayments and other sources.

2.2 Resources of £17.6m have been identified to fund the four-year capital programme from 2024/25 to 2027/28, with £4.3m of this being through prudential borrowing. The Council will ensure that any borrowing will be undertaken in accordance with the Prudential Code for local authority capital finance and within the framework and policies set out in this capital strategy.

2.3 Revised or additional capital budgets funded from corporate resources may be approved by Cabinet or Council, in accordance with the Council's Financial Rules. Additional prudential borrowing must be approved by full Council.

2.4 A breakdown of the resources utilised to fund the capital programme is shown in **Chart 1** and **Table 1** below:

Chart 1 – Resources to fund the capital programme 2024/25– 2027/28

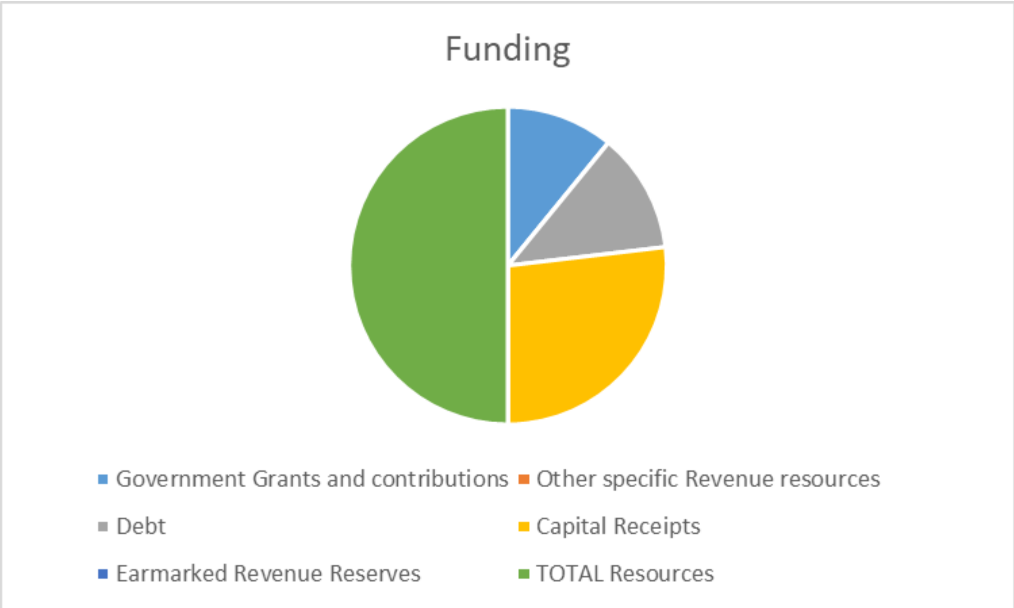

Table 1 – Capital Financing

	2022/23 Actual (£m)	2023/24 Forecast (£m)	2024/25 Budget (£m)	2025/26 Budget (£m)	2026/27 Budget (£m)	2027/28 Budget (£m)
Specific Resources						
Government Grants and contributions	2.1	1.9	1.7	0.7	0.7	0.7
Other specific Revenue resources	0.2	0.1	0.0	0.0	0.0	0.0
SUBTOTAL Specific Resources	**2.3**	**2.0**	**1.7**	**0.7**	**0.7**	**0.7**
Corporate Resources						
Debt	0.0	0.4	0.1	0.0	4.2	0.0
Capital Receipts	2.1	5.1	5.0	0.6	1.8	2.0
Earmarked Revenue Reserves	0.2	0.0	0.0	0.0	0.0	0.0
SUBTOTAL Corporate Resources	2.3	5.5	5.1	0.7	6.0	2.0
TOTAL Resources	**4.6**	**7.5**	**6.8**	**1.4**	**6.7**	**2.7**

3. CAPITAL EXPENDITURE

3.1 Capital expenditure is where the Council spends money on assets, such as land, property or vehicles, which will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £10,000 are not capitalised and are treated as operational expenditure and charged to the revenue budget. For details of the Council's policy on capitalisation, see the Council's accounting policy which are contained with the annual Statement of Accounts. [2022/23 Draft Statement of Accounts]

3.2 Based on the above strategy to support the delivery of the Council Plan outcomes, the proposed Capital Programme totals £6.8m in 2024/25 and £17.6m over the four year period to 2027/28 as summarised below in Table 2:

Table 2 – Estimates of Capital Expenditure

Spend by Council Priority Area	2022/23 Actual (£m)	2023/24 Forecast (£m)	2024/25 Budget (£m)	2025/26 Budget (£m)	2026/27 Budget (£m)	2027/28 Budget (£m)
Climate Emergency	0.1	0.5	0.1	0.0	0.0	0.0
Wellbeing	0.4	0.1	1.3	0.1	0.6	0.1
High quality services	0.8	0.8	2.4	0.6	5.4	2.0
Housing	3.1	4.9	2.3	0.7	0.7	0.7
Vibrant Economy	0.0	0.2	0.7	0.0	0.0	0.0
SUBTOTAL Priority Areas	**4.4**	**6.4**	**6.8**	**1.3**	**6.7**	**2.7**
Capital investments	0.2	1.1	0.0	0.0	0.0	0.0
TOTAL	**4.6**	**7.5**	**6.8**	**1.3**	**6.7**	**2.7**

3.3 New projects and priorities are identified through the Council's financial planning process and are added to the capital programme. Further detail on planned expenditure in each of the Council Priority areas is included within Annex D of the Medium-Term Financial Strategy.

3.4 The Council manages capital risks through its business case appraisal and approval arrangements. The Council will need to consider the best approach for the review of capital business cases before recommendation for approval of expenditure by Cabinet or Council. Capital programme expenditure and treasury management performance is regularly monitored and reported to Members at the Audit Committee, Overview and Scrutiny Committee and Cabinet in accordance with the Constitution. Capital risks have also been considered by the Chief Finance Officer as part of the annual report on the adequacy of Council reserves.

4. CAPITAL FINANCING – EXTERNAL RESOURCES

4.1 Where capital expenditure is funded from external resources such as grants and contributions the financing cost is nil.

4.2 The Council will continue to support the community through the allocation of Disabled Facilities Grant which is funded through a grant of approximately £0.7m per year.

5. CAPITAL FINANCING – INTERNAL RESOURCES

Financing from Capital Receipts

5.1 Capital receipts from the disposal of assets represent a finite funding source and it is important that a planned and structured approach to disposals it taken to support the corporate priorities of the Council. The Council's estate is managed through the Property Services Team.

5.2 **Asset management:** An updated asset management strategy, supported by detailed asset management plans, is being prepared. The strategy will help ensure that the Council's capital assets are maintained and developed and continue to contribute effectively to the delivery of the Council's services, support the local economy or provide income in line with expectations. Where there are opportunities to use assets more effectively to delivery Council Priorities, businesses cases are presented to the Cabinet or Council for approval.

5.3 **Asset disposals:** When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. The Council is currently also permitted to spend capital receipts on service transformation projects for a further 3 years until 2025/26 (subject to guidance from Government). Repayments of capital grants, loans and investments also generate capital receipts.

5.4 All land and buildings which are surplus to existing use will be reviewed before any Council decision is made, to ensure the re-use or disposal of the asset provides best value in supporting the Council's objectives.

5.5 **Table 3** shows forecast of Capital Receipts over the medium-term.

Table 3: Capital receipts receivable in £m

Capital Receipts	2022/23 Actual (£m)	2023/24 Forecast (£m)	2024/25 Forecast (£m)	2025/26 Forecast (£m)	2026/27 Forecast (£m)
Asset sales*	0.4	-0.2	-0.2	0.0	0.0
Ubico Loans repaid for Vehicle purchase	0.9	-0.9	-0.8	-0.8	-0.8
Other Loans repaid	0.0	-1.5	-0.6	0.0	0.0
TOTAL	**1.3**	**-2.6**	**-1.6**	**-0.8**	**-0.8**

** Asset sale receipts includes receipts from "Right to Buy" asset disposals from Bromford Housing Association.*

5.6 There are no significant asset disposals planned between 2023/24 and 2026/27.

5.7 The Council's Audit Committee receives information on the Council's asset portfolio as part of consideration of the financial statements.

Financing from Earmarked Reserves

5.8 There are no plans to fund the current Capital Programme from earmarked reserves.

Table 4: Capital Programme Funded by Earmarked Reserves

Reserve Funding	2023/24 Budget (£m)	2024/25 Forecast (£m)	2025/26 Forecast (£m)	2026/27 Forecast (£m)
Service Improvements	0.0	0.0	0.0	0.0
Investment	0.0	0.0	0.0	0.0
TOTAL	**0.0**	**0.0**	**0.0**	**0.0**

6. CAPITAL FINANCING – DEBT AND TREASURY MANAGEMENT

6.1 Local authorities are required by law to set an overall limit on their debt outstanding, including loans and other long term liabilities. This 'prudential limit' may not be exceeded, so the Council's proposed limit allows for risks, uncertainties, and potential changes during the year which may need to be accommodated within this overall limit. The outstanding borrowing for the Council after use of internal resources (such as capital receipts or revenue reserves) is outlined in **Table 1.**

6.2 The Council's debt liabilities and its investments arising from day-to-day cash flows need careful management in order to manage the costs and risks. This is the subject of the Council's Treasury Management Strategy and Policies.

6.3 The Council has a low to moderate appetite for taking financial risk and this is reflected in this Capital Strategy. Treasury Management risks are managed through the Treasury Management Strategy and Policy.

<u>Borrowing Strategy</u>

6.4 The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility to adapt to changes in the future. These objectives are often conflicting, and the Council will therefore seek to strike a balance between lower-cost short-term loans and long-term fixed rate loans where the future cost is known but higher.

6.5 Local Authorities must not borrow more than or in advance on their needs purely in order to profit from the investment of extra sums borrowed. The Council plans to borrow in 2026/27 to invest in new capital schemes. Any funds borrowed will be in relation to specific schemes and based upon the cash required for the chosen schemes. There are no plans to borrow in advance of need.

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

6.7 The cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR). This increases with new debt financed capital expenditure and reduces when debt is repaid through revenue or other capital receipts. Statutory guidance is that debt should remain below the CFR, except in the short term. The CFR for each financial year is set out in Table 5 below, and shows that the estimated borrowing complies with this.

Table 5 – Capital Financing Requirement by General Fund services (Council Priorities) and Capital Investments

Capital Financing Requirement	2022/23 Actual (£m)	2023/24 Budget (£m)	2024/25 Forecast (£m)	2025/26 Forecast (£m)	2026/27 Forecast (£m)
Investment in Council Priorities	0.0	0.4	0.4	0.4	4.5
Capital Investments	0.0	0.0	0.0	0.0	0.0
TOTAL CFR	**0.0**	**0.4**	**0.4**	**0.4**	**4.5**

<u>Liability Benchmark</u>

6.8 To compare the Council's estimated borrowing against an alternative strategy, a liability benchmark is calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances are kept to a minimum level of £13m at each year-end. The liability benchmark is currently -£9m and is forecast to rise to £0.69m over the next three years.

6.9 Table 6 below shows that the Authority expects to remain borrowed above its liability benchmark until 2026/27. This is because a deliberate decision was made to borrow additional sums through a Community Municipal Investment to give local people a chance to invest in a cleaner, greener, healthier future for the Cotswolds.

<u>Affordable Borrowing Limit</u>

6.10 The Council is also legally obliged to set an affordable borrowing limit (also known as 'authorised limit for external debt'. In line with statutory guidance, a lower 'operational boundary' is also set as a warning level should debt approach the limit.

Table 6 - Forecast Debt and Prudential Indicators

	Actual as at 31/03/2023 (£m)	Forecast to 31/03/2024 (£m)	Forecast to 31/03/2025 (£m)	Forecast to 31/03/2026 (£m)	Forecast to 31/03/2027 (£m)
Forecast outstanding borrowing / Debt	0.45	0.36	0.26	0.16	0.05
Capital Financing Requirement	0.00	0.39	0.44	0.40	4.54
Liability benchmark	(12.76)	(9.54)	(5.33)	(5.82)	0.69
Authorised limit	10.00	10.00	10.00	10.00	10.00
Operational boundary	5.00	5.00	5.00	5.00	5.00

6.11 The Council's full MRP statement is included as Appendix 1-A and is also mirrored in the Annual Treasury Management Strategy.

<u>Revenue Budget Implications</u>

6.12 Although capital expenditure is not charged directly to revenue, the interest payable on loans and provision for repayment of loans (MRP) will be. Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue, which is known as Minimum Revenue Provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. This charge is known as financing costs. The proportion of financing costs to net revenue stream, i.e. the amount funded from Council Tax, Business Rates and General Government Grants is shown in Table 7.

Table 7 – Financing costs as a proportion of revenue (£m)

Financing costs	Actual as at 31/03/2023	Forecast to 31/03/2024	Forecast to 31/03/2025	Forecast to 31/03/2026	Forecast to 31/03/2027
Financing costs (£m)	0.008	0.009	0.019	0.040	0.053
Proportion of net revenue stream	0.06%	0.07%	0.14%	0.29%	0.48%

6.13 The funding available from Government from 2026/27 onwards is very uncertain due to changes due to be implemented to local government funding. The proportion indicator should therefore be treated as highly indicative.

6.14 Further details on the revenue implications of capital expenditure are on pages x to x of the 2024/25 revenue budget. Link.

Sustainability

6.15 Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 40 years into the future. The Chief Finance Officer is satisfied that the proposed capital programme is prudent, affordable and sustainable because the net budget demand on the Council and the risks within the programme have been reviewed and are within the Council's risk appetite and tolerances.

7. TREASURY MANAGEMENT

7.1 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Authority's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Authority is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

7.2 Due to decisions taken in the past, the Authority currently has £0.4m borrowing at an average interest rate of 2.2% and £37.10m treasury investments at an average rate of 4.92%.

7.3 Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

7.4 The Authority'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, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy, and the Authority may request its money back at short notice.

Table 8 – Treasury management investments (£m)

Treasury Management Investments	Actual as at 31/03/2023 (£m)	Forecast to 31/03/2024 (£m)	Forecast to 31/03/2025 (£m)	Forecast to 31/03/2026 (£m)	Forecast to 31/03/2027 (£m)
Near-term investments	16.5	10.4	6.1	6.5	1.9

Longer-term investments	12.5	12.5	12.5	12.5	10.5
TOTAL	**29.0**	**22.9**	**18.6**	**19.0**	**12.4**

7.5 Further details on treasury investments are included in Section 4 of the Treasury Management Strategy [link]

7.6 **Risk management:** The effective management and control of risk are prime objectives of the Authority's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks. The treasury management prudential indicators are included within Table 4a and Section 7 of the Treasury Management Strategy [link]

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

8. INVESTMENTS FOR SERVICE PURPOSES

8.1 The Council makes investments to assist local public services, including making loans to local charities, housing associations, local residents and its employees to support local public services, stimulate local economic growth and support Council priorities of providing socially rented housing and promoting carbon neutral development and infrastructure. Total investments for service purposes are currently valued at £1.4m with the largest being a loan facility to a local housing association with a current balance of £0.9m.

8.2 **Risk management:** In light of the public service objective, the Authority is willing to take more risk than with treasury investments, however it still plans for such investments to break-even or generate a small profit after all costs. A limit of £4.6m is placed on total investments for service purposes to ensure that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services.

8.3 **Governance:** Decisions on service investments are made by the relevant service manager in consultation with the Chief Finance Officer and must meet the criteria and limits laid down in the Investment strategy. Most loans and shares are capital expenditure and purchases will therefore also be approved as part of the capital programme. The Chief Finance Officer is responsible for ensuring that adequate due diligence is carried out before investment is made. At this time, independent advice may be sought from organisations such as Arlingclose as Treasury Advisors.

8.4 Further details on service investments are in Sections 3 and 4 of the Annual Non-Treasury Investment Strategy: [link]

9. COMMERCIAL ACTIVITIES

9.1 Commercial investments or activities are those the Council invests in purely for financial gain. With Government financial support for local public services declining, the Authority has previously invested in commercial property purely or mainly for financial gain. Total commercial property investments are currently valued at £5.37m, with the largest being £1.355m (Cirencester town centre property leased as retail units) at 31 March 2023 providing a net return after all costs of 7.18%.

9.2 With financial return being the main objective, the Authority accepts higher risk on commercial investment than with treasury investments. The principal risk exposures include: vacancy periods (voids) between tenants, cost of material repairs to property, risk of fire or flood damage. These risk are managed by: acquiring properties with long leases and with tenants with a strong covenant and insuring the property. In the longer term, the changing nature of the high street for retail occupants may require the Council to review its commercial property holdings. These risks are managed by the Council's Property Services Team. The Council also has a Corporate Risk Register which is reported quarterly to the Council's Audit Committee and includes any significant risks arising from commercial investments. In order that commercial investments remain proportionate to the size of the authority, and to ensure that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services, these are subject to an overall maximum investment limit of £10m.

9.3 Decisions of commercial investments are made by the Council in line with the criteria and limits approved by Council in the Investment Strategy. Property and most other commercial investments are also capital expenditure and purchases will therefore also be approved as part of the Capital Programme. The Chief Finance Officer for ensuring that adequate due diligence is carried out before an investment in made.

9.4 Further details on commercial investments and limits on their use are included in Section 5 of the Investment Strategy.

Table 9: Prudential indicator: Net income from commercial and service investments to net revenue stream

PI: Net Revenue Stream	2022/23 Actual	2023/24 Budget	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast
Total net income from service and commercial investments (£m)	0.40	0.37	0.38	0.38	0.39
Proportion of net revenue stream	3.14%	2.77%	2.59%	2.60%	2.81%

10. OTHER LIABILITIES

10.1 In addition to debt of £0.4m detailed above, the Authority is committed to making future payments to cover its pension deficit (valued at £7m). It has also set aside £1m to cover risks of Business Rate valuation appeals.

11. GOVERNANCE

11.1 The CIPFA Prudential Code expects local authorities to consider and approve a number of 'prudential indicators'. These relate to the capital programme generally as well as borrowing and are set out in the sections above.

11.2 The Council will use borrowing in accordance with the CIPFA 'Prudential' system as a tool for delivering policy and managing its finances. Local authorities may borrow to finance capital expenditure, and the affordability of debt is the key constraint. Prudential borrowing is an important way to fund the Council's own priorities where external funding cannot be obtained. The Council sets and monitors prudential indicators to manage its debt exposures.

11.3 In order to ensure that borrowing remains at an affordable and sustainable level, the Council will seek over the medium term to manage its new prudential borrowing for normal service delivery at a level which is close to the amount which it sets aside from the revenue account each year for debt repayment (i.e. MRP).

11.4 The Council is mindful of Government and CIPFA advice that commercial investments including property must be proportionate to the resources of the authority. The Council is not currently planning any investments primarily for yield. All service and commercial investments will have regard to the guidance and lending terms issued by HM Treasury.

11.5 The arrangements for realising investments and managing liquidity risk will depend on the purpose and nature of the investment in each case. Where investments have been made to support service purposes and have been funded from cash resources, there is not a funding pressure to have an investment exit route in place. Where investments are funded by borrowing, the Council's MRP Policy sets out the arrangements to repay debt without resorting to a sale of the investments.

11.6 Financial and property investment decision making will follow the Council's Business Case governance requirements, with particular attention to expert due diligence, robust financial appraisal and taking external advice in consultation with the Chief Finance Officer. New investments must reflect the Council's core priorities and must be agreed by the Chief Finance Officer before presentation of any Council decision report.

11.7 Decisions on incurring new discretional liabilities are taken by the Chief Finance Officer. The risk of liabilities crystallising and requiring payment is monitored by finance and reported quarterly to Cabinet.

11.8 Advisers will be used where necessary to ensure that the Council is provided with sufficient skills and understanding to support robust decision making. In particular, the Council's treasury management adviser (Arlingclose) can provide support in relation to financial investments.

11.9 Officer and Member training will be available through the Council's treasury advisers. Information relevant to investment decisions will form part of Council decision reports to members. Due diligence requirements for investments will ensure that officers are aware of the core principles of the prudential framework and local authority regulatory requirements. These arrangements will support the capacity, skills and culture of the Council in making and managing investments for service and commercial purposes

12. MANAGEMENT OF THE CAPITAL PROGRAMME

12.1 In the above context of needs and resources, the Council has developed policies and high level processes to ensure the effective management of capital. This will be overseen by the Council through strong governance and assurance processes for capital planning, capital appraisal and approval, project management, and capital monitoring and review.

12.2 Service managers contribute annually, in the autumn, to the Council's revenue budget and capital programme. The Finance Team collates proposed changes to the Capital Programme for consideration by the Cabinet as part of the Council's budget setting process. The financing cost (which can be nil for projects funded from Council resources or external grants) is included in the Medium-Term Financial Strategy and detailed budgets for the forthcoming financial year. The Council's Overview and Scrutiny Committee considers both the Medium-Term Financial Strategy and the detailed budget. The comments of the Overview and Scrutiny Committee are reported to Cabinet when the Medium-Term Financial Strategy and detailed budget proposals are considered. Cabinet recommends the final Capital Programme and revenue budgets to Council in February each year.

12.3 The Council will need to consider the best approach for the consideration of capital business cases for projects which support the priorities of the Council prior to recommendation for approval of expenditure by Cabinet or Council. For full details of the Council's proposed capital programme see the revenue and budget papers considered by Cabinet and Council in February 2024: link to be added when Cabinet papers are published

12.4 All use of capital resources, including capital receipts, will be prioritised across the Council as a whole in relation to the Council's key priorities.

12.5 The Council's MTFS sets out the financial challenges and risks which the Council is currently managing. The Council's risk appetite is moving from low to moderate and Members are prepared to consider investments with a moderate level of risk for which there is an appropriate level of financial return. A combination of the Chief Finance Officer, the Council's Legal Team, Publica Finance, Group Manager and Strategic Director staff will support Council Member governance structures in ensuring that where risks are taken, they are fully understood and proactively managed.

12.6 The staff responsible for making capital expenditure, borrowing and investment decisions are professionally qualified and experienced. Use is also made of external advisors and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisors and other specialist advisors to support on specific transactions as required. This approach is more cost effective than employing such staff directly and ensures that the Council has access to the relevant skills and knowledge when required.

12.7 In-year revised or additional capital budgets may be approved by Cabinet or Council. The Financial Rules set out the decision-making process for approving additional in-year capital budgets. The Council will decide upon changes to the prudential borrowing limits.

ANNUAL MINIMUM REVENUE PROVISION STATEMENT

1. MRP STATEMENT 2023/24

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

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

1.3 The MHCLG Guidance requires the Council to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. This statement only incorporates options recommended in the Guidance.

1.4 For any unsupported capital expenditure incurred after 31 March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant assets, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure for all other assets or on capital expenditure not related to fixed assets but which has been capitalised by regulation or direction (revenue expenditure financed by capital under statute), will be charged over the useful economic life (UEL) of the asset up to a maximum of 50 years. MRP will be applied in the year following expenditure was incurred.

1.5 For assets acquired by finance lease or private finance initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

1.6 Where former operating leases have been brought onto the balance sheet on 01 April 2024 due to the adoption of the IFRS 16 Leases accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or discounts, then the annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard

1.7 Where loans are made to other bodies and designated as capital expenditure, no MRP will be charged unless (a) the loan is for an investment for commercial purposes and no repayment was received in year or (b) an expected credit loss was recognised or increased in year. However, the capital receipts generated by the repayments on those loans will be set aside to repay debt instead. Sufficient MRP will be charged to ensure that the outstanding capital financing requirement (CFR) on the loan is no higher than than the principal amount outstanding less the expected credit loss. This option was proposed by the government in its recent MRP consultation and in the Authority's view is consistent withthe current regulations.

1.8 At the commencement of 2023/24 the Council had, a Capital Financing Requirement (CFR) of £0.020m in relation to capital expenditure incurred in 2022/23 financed from borrowing via a Community Municipal Investment (CMI). Borrowing undertaken through the CMI in 2022/23 will require MRP to be charged to the Council's General Fund Revenue Account in 2024/25 and future years.

1.9 Capital expenditure incurred during 2024/25 which is financed from the CMI will not be subject to MRP charge until 2025/26.

1.10 Based on the Council's latest estimate of its capital financing requirement (CFR) on 31 March 2024, the MRP budget for 2023/24 has been set at (£0.013m).

1.11 Overpayments: The Authority can make voluntary overpayments of MRP that are available to reduce the revenue charges in later years. No overpayment is planned.

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COTSWOLD
DISTRICT COUNCIL

Council name	**COTSWOLD DISTRICT COUNCIL**
Name and date of Committee	**AUDIT AND GOVERNANCE COMMITTEE – 25 JANUARY 2024**
Subject	**ANNUAL GOVERNANCE STATEMENT ACTION PLAN 2023/24 UPDATE**
Wards affected	All
Accountable member	Cllr Joe Harris, Leader of the Council Email: joe.harris@cotswold.gov.uk
Accountable officer	Robert Weaver, CEO Email: Democratic@Cotswold.gov.uk
Report author	Cheryl Sloan, Business Manager, Governance, Risk & Business Continuity Email: Democratic@Cotswold.gov.uk
Summary/Purpose	This report provides the Audit and Governance Committee with an update on progress against the Annual Governance Statement action plan for 2023/24 as of January 2024.
Annexes	Annex A – Annual Governance Statement Action Plan 2023/24
Recommendation(s)	That the Audit and Governance Committee resolves to: 1. Note the Annual Governance Action Plan and associated progress updates
Corporate priorities	All
Key Decision	NO
Exempt	NO
Consultees/ Consultation	NA

COTSWOLD
DISTRICT COUNCIL

1. EXECUTIVE SUMMARY

1.1 To provide the Audit and Governance Committee with an update on the progress made against the actions detailed in the Council's Annual Governance Action Plan for 2023/2024.

2. BACKGROUND

2.1 The Audit and Governance Committee is the Committee of the Council charged with overseeing governance.

2.2 Regulation 4 of The Accounts and Audit Regulations 2011 require the Council to produce an Annual Governance Statement (AGS), setting out the Council's governance arrangements.

2.3 The draft AGS for 2023/24 was presented to the Audit and Governance Committee on 25 July 2023 and is included within the approved Annual Statement of Accounts. An update on the progress against the Action Plan was last presented to the Audit and Governance Committee on 18 October 2023.

3. MAIN POINTS

3.1 There are 11 key actions within the 2023/24 action plan, these include:

- Raising awareness of the new contract procedure rules
- Financial Management
- Risk Management
- Emergency Planning
- Portal Content Management
- Business Continuity
- New HR Policies
- LGA Peer Review & Support
- Review of service delivery model
- Internal Audit Recommendations
- Constitution Review

3.2 The plan identifies the specific tasks that will be undertaken in the respective areas of focus and sets timescales for their completion, along with any progress up to January 2024. The Action Plan also includes a RAG rating to show whether the actions are 'on target', 'off target but with action being taken to ensure delivery', or 'off target and no action yet agreed to resolve the situation'.

3.3 As of January 2024, all actions are on target, with the exception of Business Continuity Plans (BCP) and Financial Management. The BCP action has been progressed, however, the delivery plan will roll into 2024/25. The Financial Management action will be pushed into next financial year due to the Publica Review and planned changes to delivery and structures. Both actions will therefore carryover into the next financial year.

4. FINANCIAL IMPLICATIONS

4.1 There are no direct financial implications arising from this report.

5. LEGAL IMPLICATIONS

5.1 There are no direct legal implications arising from this report.

6. RISK ASSESSMENT

6.1 If the Council's governance arrangements are weak then Council is at risk of failing to safeguard the use of public funds. In turn this would lead to poor external assessments, damaging the reputation of the Council. The areas of focus for the 2023/24, as identified in the AGS, provides a clear set of priorities for the continual improvement of governance and mitigation of risk.

7. EQUALITIES IMPACT

7.1 An equalities impact assessment is not required for this report.

8. CLIMATE AND ECOLOGICAL EMERGENCIES IMPLICATIONS

8.1 There are no climate or ecological emergency implications arising directly from this report.

9. BACKGROUND PAPERS

9.1 The following documents have been identified by the author of the report in accordance with section 100D.5(a) of the Local Government Act 1972 and are listed in accordance with section 100 D.1(a) for inspection by members of the public:

- Annual Governance Statement 2023/24
- Statement of Accounts for 2022/23

9.2 These documents will be available for inspection online at www.cotswold.gov.uk or by contacting democratic services democratic@cotswold.gov.uk for a period of up to 4 years from the date of the meeting.

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COTSWOLD
DISTRICT COUNCIL

ANNUAL GOVERNANCE ACTION PLAN 2023/24

COTSWOLD DISTRICT COUNCIL

Notes and key

Each action in the plan is marked with a 'traffic light' as follows:

Green	On target
Amber	Off target but action being taken to ensure delivery (where this results in a reviewed target date, this is made clear in the table)
Red	Off target and no action has yet been agreed to resolve the situation
Complete	Action has been completed

This action plan contains actions from the Annual Governance Statement 2023/24 which are coordinated and monitored by the CDC Management Team.

Key to officers:

Accountable officer (AO)

CEO - Chief Executive: Robert Weaver

CFO - Chief Finance (S.151) Officer: David Stanley

MO - Monitoring Officer: Angela Claridge

Publica Responsible officer (RO)

BM Gov - Business Manager - Business Continuity, Risk and Governance: Cheryl Sloan

BM Fin - Business Manager - Finance: Michelle Burge

BM Comm - Business Manager - Communications and Marketing Mark Pritchard

BM HR - Business Manager - People: John Llewellyn

BP Proc - Senior Procurement Business Partner: Ciaran O'Kane

Issue 2: 05.01.24

	Key Area of Focus	Planned Actions	Responsible Officer	Completion due by	Progress
1	Raising awareness of the contract procedure rules	• The new Contract and Procurement Strategy will be approved July 2023. A priority this year will be to rollout Management and Officer Training to ensure this new strategy is understood and embedded.	BP Proc	31/03/24	The new Contract and Procurement strategy has been approved by all partner Councils. Briefing notes have been issued and a presentation provided to all Business Managers on their responsibilities under the new strategy.
2	Financial Management	• To review the financial procedure rules and financial processes to be completed in 2023/24 against the CIPFA Financial Management Code.	Director of Finance & Section 151	31/03/24 Moved to 31/03/25	The Publica review and transition process will influence the timing and nature of any review of financial procedures and processes. This action will therefore carry over into next financial year and will need a more incremental approach when structures and timings are agreed.
3	Risk Management	• To rollout the Risk Management Training to all relevant officers (Launched in May 2023) • To build risk management into the new Leadership and Development Training • To ensure the existing risk policy and process enables effective reporting, escalation and mitigation.	BM Gov	31/03/24	Risk management training was launched in May 2023. New portal pages are now live for Risk Management. The new leadership training is now on-hold due to the proposed changes in Publica and Council delivery models.

Issue 2: 05.01.24

					A lot of work has been undertaken to ensure that Risks are identified, escalated, and mitigated. Risk is now taken to all SMT meetings. The new CDC Risk Register was presented to Audit and Governance Committee in November 2023 and work is now being completed on the Risk Policy which will be presented early in the new Financial Year.
4	Emergency Planning	● To further increase community resilience in line with the new Resilience Framework, published in December 2022. ● To further develop our Emergency Response Framework by putting in place a Locality Response Team for Cotswold District Council who are trained and able to respond in the event of a significant local incident. ● To ensure Statutory Officers are trained and competent in their role as Gold (Strategic) Commander in the event of a	BM Gov	31/03/24	Advice and support is provided to interested communities as and when requested. A stronger LRF bid is currently at its final stages which will include a Business and Community role. New Locality based response teams are now in place for coordination and rest centre management. Regular meetings are in place with the volunteers. JESIP training has been completed and further training is scheduled for the Coordination Team, Rest Centre Team and Duty Manager / Officer JESIP training was completed in November 23 for all relevant staff. An overview of Emergency Planning responsibilities was

		significant local incident, and relevant officers are trained in Silver (tactical) and Bronze (operational response). ● To ensure the Safety Advisory Group considers any implications from Martyn's Law when considering planned events.			delivered to Statutory Officers. Duty Officer and Manager refresher training scheduled. This is ongoing. Work is being undertaken with the LRF to ensure we are sighted on changes. A Gloucestershire Event Partnership Safety Group has been formed to bring together all Safety Advisory Group Chairs and Category One responders to share best practice. The first meeting was held in November.
5	Portal Content Management	● To review the Publica Portal content to ensure it is up to date, and includes the latest versions of all policies and procedures	BM Comm	Dec 23	Portal pages are now complete and live. This is now 'business as usual' with updates being made as and when requested by services who own each of their portal pages. Staff portals will need to be reviewed in light of the Publica Review and will be likely that each council will need their own portal as staff are taken back in-house and therefore each council will need its own internal comms.

6	Business Continuity	• To further develop Business Continuity Processes to ensure they are robust and fit for purpose • To test the business-critical Business Continuity Plans in 2023/24	BM Gov	31/03/24	The Emergency Planning Officer has now completed BCP training, and a plan is being developed to review the Business Continuity policy to identify any additional areas for improvement. A rolling programme of BCP updates has been agreed for next financial year to enable a more detailed review of service area Business Impact Assessments and Business Continuity Plans. This action will be carried over into next financial year. The IT BCP was recently tested through an internal audit which assumed a successful cyber-attack and the off-premise rebuild of a business critical IT system.
7	New HR Policies	• Rollout a new and revised suite of HR policies in 23/24 • Ensure Managers are trained in the use of the new policies	BM HR	31/03/24	A suite of HR Policies has been reviewed and approved by Cabinet, with a further suite due later in the year. As HR policies are approved across the three partner Councils training will be completed.
8	LGA Peer Review and Support	• Complete the action plan from the October 2022 LGA Peer Review	CEO	31/03/24	A detailed action plan is in place to address the key areas for improvement as

					recommended in the October 2022 LGA peer review. A Peer Review progress meeting was held on 30 November 2023, which provided an overview of the work completed to date against the recommendations: - • Governance – ensure arrangements are robust • Overview & Scrutiny – role and committee • Training & development for elected members • Address the financial challenges – including due diligence • Consider Recovery Investment Strategy • Ensure a cohesive and respectful workplace • Consider delivery of ambitions and priorities through Publica The large majority of actions have been completed or are on target for completion. Some actions, such as the Publica Transition, will carry over into 2024/25.
9	Review of service delivery model	• Conduct a review of future service delivery options to make sure the solutions needed for the council to achieve financial stability can be	CEO	31/03/24	A review was completed by Human Engine with the report and recommendation taken

		achieved, given the MTFS shortfall over the years ahead. This review will examine the priorities for service delivery options and transformation.			to Cabinet on 2/11/23 and Full Council on 22/11/23. Programme Director has been appointed and is due to start w/c 22 January 2024 Local Partnerships have been commissioned to deliver a transition framework – this will report back to Cabinet and Council during March and April 2024. Officer Transition Board established along with 4 key workstreams covering Finance, Legal, HR and Communications.
10	Internal Audit Recommendations	• To address the recommendations made by Internal Audit and subsequently improve the Audit Opinion for 23/24.	Director of Finance & Section 151	31/03/24	This work is ongoing. An update on the Internal Audit recommendations and progress is presented by the Assistant Director, SWAP at Audit and Governance Committee on a 6-monthly basis.
11	Constitution Review	• To address recommendations from the External Auditor value for money review	Director of Governance & Development (Monitoring Officer)	31/03/24	The Constitution Working Group has an ongoing work programme, meeting on a regular basis to review and update the Council's Constitution. Their next meeting is scheduled for 5th March 2024. Since January 2023 a number of amendments and additions have been agreed, including the Executive/Scrutiny Protocol; Protocol

					for Electronic Voting; Protocol for Independent Cabinet Member Decision Making; enhanced transparency in relation to the management of public questions; updated Members Code of Conduct; Monitoring Officer Protocol & updated Budget Protocol.

COTSWOLD DISTRICT COUNCIL	**AUDIT AND GOVERNANCE COMMITTEE WORK PLAN** **1 DECEMBER 2023 – 31 MARCH 2024**

Audit and Governance Committee

The Audit and Governance Committee responsible for monitoring the adequacy and effectiveness of the Council's governance arrangements. This includes overseeing the audit function, annual accounts and the work of the internal auditors, promoting and maintaining high standards of conduct of members and, through its Standards Hearings Sub-Committee, determining complaints that an elected member of the district council or a town or parish council within the district are has breached the code of conduct.

The Committee has the following powers under the Council's Constitution:

- The Committee has the right to require the attendance of any Council officers and/or members in order to respond directly to any issue under consideration;
- To review any issues referred to it by the Chief Executive, other statutory officer or any Council body; and
- The power to call expert witnesses from outside the Council to give advice on matters under review or discussion.

This work programme sets out the expected business for meetings of the Audit and Governance Committee.

Item	Meeting Date	Lead Officer
25 January 2024		
Audit Plan 2022/23	25 Jan 2024	Michelle Burge, Chief Accountant michelle.burge@publicagroup.uk
Informing the Audit Risk Assessment	25 Jan 2024	Michelle Burge, Chief Accountant michelle.burge@publicagroup.uk
Annual Treasury Management Strategy and Annual Non-Treasury Investment Strategy 2024/25	25 Jan 2024	Michelle Burge, Chief Accountant michelle.burge@publicagroup.uk
Annual Capital Strategy 2024/25	25 Jan 2024	Michelle Burge, Chief Accountant michelle.burge@publicagroup.uk
CyberSecurity Update	25 Jan 2024	John Chorlton, Business Manager for ICT john.chorlton@publicagroup.uk
Internal Audit Progress Report	25 Jan 2024 25 Apr 2024	Lucy Cater, Assistant Director (SWAP) lucy.cater@publicagroup.uk
25 April 2024		
Risk Management Policy	25 Apr 2024	Cheryl Sloan, Business Manager - Business Continuity, Governance and Risk cheryl.sloan@cotswold.gov.uk
Statement of Accounts and Audit Opinion	25 Apr 2024	David Stanley, Deputy Chief Executive and Chief Finance Officer David.Stanley@cotswold.gov.uk
Climate Change	25 Apr 2024	Chris Crookall-Fallon, Head of Climate Action chris.crookall-fallon@cotswold.gov.uk
Annual Governance Statement – Action Plan Update	25 Apr 2024	David Stanley, Deputy Chief Executive and Chief Finance Officer David.Stanley@cotswold.gov.uk

Internal Audit Plan and Charter	25 Apr 2024	Lucy Cater, Assistant Director (SWAP) lucy.cater@publicagroup.uk
CFEU Update Report (RIPA and IPA annual update)	25 Apr 2024	Emma Cathcart, Head of Service, Counter Fraud and Enforcement Unit emma.cathcart@cotswold.gov.uk
Annual Standards Update	25 Apr 2024	Angela Claridge, Director of Governance and Development (Monitoring Officer) Angela.Claridge@Cotswold.gov.uk

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