THREE RIVERS DISTRICT COUNCIL

Three Rivers House
Northway
Rickmansworth
Herts WD3 1RL

AUDIT COMMITTEE

NOTICE AND AGENDA

For a meeting to be held in the Penn Chamber, Three Rivers House, Northway, Rickmansworth on Thursday, 30 November 2023 at 7.30 pm

Members of the Committee: -

Councillors:

Tony Humphreys (Chair)	Ruth Clark (Vice-Chair)
Lisa Hudson	Andrea Fraser
Khalid Hussain	Ciaran Reed
Raj Khiroya	Rue Grewal
Jonathan Solomons	

Joanne Wagstaffe, Chief Executive
Wednesday, 22 November 2023

The Council welcomes contributions from members of the public on agenda items at the Audit Committee meetings. Details of the procedure are provided below:

For those wishing to speak:
Members of the public are entitled to register and identify which item(s) they wish to speak on from the published agenda for the meeting. Those who wish to register to speak are asked to register on the night of the meeting from 7pm. Please note that contributions will be limited to one person speaking for and one against each item for not more than three minutes.

In the event of registering your interest to speak on an agenda item but not taking up that right because the item is deferred, you will be given the right to speak on that item at the next meeting of the Committee.

Those wishing to observe the meeting are requested to arrive from 7pm.

In accordance with The Openness of Local Government Bodies Regulations 2014 any matters considered under Part I business only of the meeting may be filmed, recorded, photographed, broadcast, or reported via social media by any person.

Recording and reporting the Council's meetings is subject to the law and it is the responsibility of those doing the recording and reporting to ensure compliance. This will include the Human Rights Act, the Data Protection Legislation and the laws of libel and defamation.

1. APOLOGIES FOR ABSENCE

To receive any apologies for absence.

2. MINUTES (Pages 5 - 12)

To confirm, as a correct record, the minutes of the Audit Committee meeting held on Thursday, 28 September 2023.

3. NOTICE OF OTHER BUSINESS

Items of other business notified under Council Procedure Rule 30 to be announced, together with the special circumstances that justify their consideration as a matter of urgency. The Chair to rule on the admission of such items.

4. DECLARATIONS OF INTEREST

To receive any Declarations of Interest.

5. INTERNAL AUDIT PROGRESS REPORT 2023/24 (Pages 13 - 54)

To consider a report of the Shared Internal Audit Service (SIAS) detailing –

1. Progress made by the Shared Internal Audit Service (SIAS) in delivering the Council's annual audit plan for 2023/24 as of 17 November 2023;
2. Proposed amendments to the approved 2023/24 Annual Audit Plan;
3. Implementation status of all previously agreed audit recommendations from 2019/20 onwards; and
4. An update on performance management information as of 17 November 2023.

The report recommends that the Committee:

1. Note the Internal Audit Progress Report for the period to 17 November 2023;
2. Approve amendments to the Audit Plan as of 17 November 2023; and
3. Agree changes to the implementation date for 3 Audit Recommendations (Paragraph 2.5) for the reason set out in Appendices 3 to 7.

6. TREASURY MANAGEMENT MID TERM REVIEW 2023/24 (Pages 55 - 74)

To consider the Treasury Management mid-year report by the Director of Finance which was prepared in compliance with CIPFA's Code of Practice on Treasury Management, and which covers performance against the Council's Capital Strategy and Treasury Management Policy.

The report is presented to the Audit Committee as the body delegated by Council to undertake the role of scrutiny of Treasury Management strategy and policies.

7. DRAFT CAPITAL INVESTMENT STRATEGY AND TREASURY MANAGEMENT STRATEGY STATEMENT 2024/25 (Pages 75 - 108)

To consider a report of the Director of Finance inviting comments on the Draft

Capital Investment Strategy and Treasury Management Strategy Statement over the Medium Term (2024/25 To 2026/27).

8. STATEMENT OF ACCOUNTS UPDATE (Pages 109 - 130)

To consider a report of the Head of Finance recommending that the Audit Committee note the progress and latest timetable for completion of the External Audit of the Statement of Accounts for 2019/20 onwards.

9. EXTERNAL AUDITOR UPDATE

Verbal update by the Council's External Auditors

10. DRAFT EXTERNAL AUDIT PLAN 2023/24 (Pages 131 - 152)

The Committee to consider the Draft External Audit Plan 2023/24 prepared by The Council's External Auditors, Azets.

11. FINANCE AND BUDGETARY RISKS (Pages 153 - 158)

To consider a report of the Head of Finance recommending that the Committee review the Risk Register and make any comments it wishes to make against individual risks.

12. AUDIT COMMITTEE WORK PROGRAMME (Pages 159 - 162)

To consider a report by the Head of Finance recommending that the Committee consider and make any changes necessary to its Work Programme

13. OTHER BUSINESS

Any other Items of Business approved under Item 3 of the Agenda.

14. EXCLUSION OF PRESS AND PUBLIC

If the Committee wishes to consider the remaining item(s) in private, it will be appropriate for a resolution to be passed in the following terms: -

"That, under Section 100A of the Local Government Act 1972, the press and public be excluded from the meeting for the following item(s) of business on the grounds that it/they involve(s) the likely disclosure of exempt information as defined under Paragraph 3 of Part I of Schedule 12A to the Act. It has been decided by the Council that in all the circumstances, the public interest in maintaining the exemption outweighs the public interest in disclosing the information."

Note: If other confidential business is approved under item 3, it will also be necessary to specify the class of exempt or confidential information in the additional items.

General Enquiries: Please contact the Committee Team at
committeeteam@threerivers.gov.uk

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THREE RIVERS DISTRICT COUNCIL

At a meeting of the Audit Committee held in the Penn Chamber, Three Rivers House, Rickmansworth, on Thursday, 28 September 2023 from 7.30 - 8.15 pm

Present: Councillors

Tony Humphreys (Chair)
Ruth Clark,
Lisa Hudson
Khalid Hussain
Raj Khiroya
Ciaran Reed
Rue Grewal

Officers in Attendance:

Hannah Doney, Head of Finance
Anita Hibbs: Legal & Democratic Services

Also Present

Darren Williams: Shared Internal Audit Service (SIAS)
Leigha Britnell: Shared Internal Audit Service (SIAS)

External in Attendance:

Simon Luk: Ernst and Young (EY)
Paul Grady: Azets Audit Services
Reshma Ravikumar: Azets Audit Services

AC18/23 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors Andrea Fraser and Jonathan Solomons.

AC19/23 MINUTES

The Minutes of the Audit Committee meeting held on 27 July 2023 were approved and the Chair was authorised to sign them as a correct record.

AC20/23 NOTICE OF OTHER BUSINESS

There were no Items of Other Business.

AC21/23 DECLARATIONS OF INTEREST

There were no Declarations of Interest.

AC22/23 UPDATE FROM THE EXTERNAL AUDITORS - EY

The Committee received an update from Mr Simon Luk of EY, the Council's External Auditors, stating that the Auditors were working on the Council's 2023 accounts having reviewed the various adjustments to date. The auditors were presently working on the adjustments in relation to Property, Plant and

Equipment (PPE), noting that there had been difficulties in relation to PPE and that EY were working with Council officers to resolve these issues.

In addition, there were concerns regarding Rent-to-Mortgage Properties and Unallocated Capital Expenditure and EY was awaiting responses to these issues as well is responses to concerns regarding Lease Workings.

In response to questions by Members, Mr Luk, and Mrs Hannah Doney, Head of Finance, provided the following information.

a) It was anticipated that the Draft Audit would be completed in time for submission to the December meeting of the Committee;

b) That the auditors had come to an impasse about the South Oxhey Initiative and would be discussing ways forward with Council officers next week.

   Mrs Doney stated that, originally, the South Oxhey Initiative ("the Initiative") was accounted for as Investment Property (IP) with the Council acquiring parcels of land in 2014/15 which was accounted for as IP until 2017/18. At that time, the Council's previous External Auditors expressed concerns and proposed that any acquisitions under the Initiative should be regarded as Inventory, which was not part of the Council's fixed assets and, therefore, subject to a different accounting treatment. In 2019/20, the External Auditors stated that these acquisitions should not be classified as Inventory but as Surplus Assets until the point of disposal of the asset to Countryside, at which time it would become a Finance Lease Asset.

   Accordingly, Council officers had completed a lot of work to reclassify the acquisitions as Surplus Assets and to produce the calculations for the Finance Lease Asset that was created when the parcels and phases of development were passed to Countryside. The first block was getting the valuations that were required to establish a fair value to create the Finance Lease Asset at the point of transfer. It took a long time to get the information from the valuers which was then passed to EY who had challenged the robustness of the valuation. This was an issue that could be resolved but was not one that was anticipated at the time of the last Committee meeting.

   Because the assets had been reclassified as Surplus Assets, EY wanted to test the additions and the amount that was recognised as Surplus Assets. Therefore, they had asked the Council to provide third-party evidence of all the spend on additions back to 2014/15. In 2014/15, the Council had a different finance system and no longer had all the supporting third-party evidence that EY had requested. In addition, there were gaps in subsequent information held by the Council because the Council had based its record-keeping on a requirement to provide information on assets which were classified as Inventory and not as Surplus Assets. Consequently, because officers were now retrospectively applying a different accounting treatment without all the necessary information, EY had asked that Three Rivers District Council confirm that it was satisfied that the accounts presented a "fair and true view" at the end of 2019/20. Accordingly, the Council was now preparing a Position Statement. As the information the Council had provided was still not sufficient to meet the relevant accountancy standards, it was necessary to find a way through the present impasse.

In response to further questions on this issue, Mrs Doney provided the following information.

- Valuations followed a framework that included subjective elements and, therefore, it was not unusual for valuation experts to disagree.
- Consequently, an audit firm, during the audit process, may say that something was not within their acceptable range and, therefore, the [local authority] had to agree to amend its valuation, or report the item as an unadjusted difference.
- In this case, there was a disagreement about how the lease premium paid at the beginning of the finance lease was treated in the calculation, these being 250-year finance leases with a small annual ground rent payable over the lifetime of the lease. Therefore, this was more complex than a standard valuation of a PPE asset.
- It was unusual for there to be a fundamental shift in how an asset was classified and there was a greater risk of this happening when there was a change of external auditor. However, she was satisfied that the current classification, as determined by EY, was correct.

c) EY, in accordance with their duty to ensure that the Council's accounts were a "true and fair view," was satisfied that the classification of the South Oxhey Initiative assets as Surplus Assets was correct. And, it was for this reason, that they had required that the assets be reclassified.

d) Regarding record-keeping, even if the assets were classified as Inventory, there should still be a year-on-year reconsideration of the values.

e) As part of the current exercise, there was a requirement to carry out a prior year adjustment. Accordingly, there would be a "Prior Year Adjustment" note in the accounts setting out the balance sheet and the impact on the CIES (Comprehensive Income/Expenditure Statement) which would reflect the differences if the subsequent changes in classification were considered.

f) It was not acceptable that the Council was still in the process of reconciling its 2019/20 accounts. However, if the Council could not satisfy the requirements of its external auditors, it would be necessary to draw a line under the matter and trust that this would be acceptable to the Committee.

g) It was good practice periodically to change auditors and EY had been the Council's external auditors for the last 10 years. In addition, to maintain independence, there were regulations governing how long an audit partner could work with the same local authority.

h) Areas of concern for EY included PPE; Unallocated Capital Expenditure; Rent and Lease Properties, which had been reclassified as Land & Buildings; and Lease Disclosure. However, the main area of concern was the South Oxhey Initiative.

i) The File Review process conducted by EY had the potential to raise additional queries and samples, and it was these final checks that the Council was addressing. It was believed that it would be easy to provide EY with the information required in those areas that had been identified by EY as still being areas of concern.

In conclusion, the Chair thanked Mr Luk for his update.

RESOLVED: That the Committee note the report.

AC23/23 STATEMENT OF ACCOUNTS UPDATE

Mrs Hannah Doney, Head of Finance, gave a verbal report stating that, because there had been no significant progress in completing the Council's Statement of Accounts for the years 2019 to 2023 since her last report to the Committee, she would, instead, update the Committee on information expected from the Department for Levelling Up, Housing and Communities (DLUHC) about how local authorities should address the backlog in audits. She also provided an update on the transition to the new External Auditors for 2023/24 onwards.

In her report, Mrs Doney referred to the following matters.

a) Following consultation, a ministerial statement was expected sometime in the autumn about how to address the audit backlog that was affecting local authorities across the country.

b) It was anticipated that central government would provide a means by which to draw a line under the Statement of Accounts for previous years, but it was not known how the DLHUC proposed that this be done.

   [Mrs Doney then provided some examples of how central Government might propose that this be done].

In response to a Member's question, Mrs Doney stated that there were several factors that had contributed to the current audit backlog in local authorities, including greater scrutiny of external auditors by the Financial Reporting Council (FRC) resulting in changes in External Audit standards, processes and procedures, including a greater focus on PPE; the Redmond Review recommendations in 2019 on regulating external audits of local authorities in England; difficulties faced by audit firms in recruiting suitably qualified accountants; a reluctance by Audit Firms to carry out local authority audits which were not deemed to be profitable; and the effects of the Covid pandemic, all of which contributed to a "perfect storm".

Against this backdrop, there were specific problems affecting the Three Rivers District Council 2019/20 Statement of Accounts and that the delay in completing the audit of these accounts further compounding the existing problems outlined in Item 5, above.

RESOLVED: That the Committee note the report.

AC24/23 FINANCIAL AND BUDGETARY RISKS

The Committee considered a report by Mrs Hannah Doney, Head of Finance, advising the Committee on the latest position in respect of the evaluation of financial risks faced by the Council. It was recommended that the Committee review the Risk Register and make any comments it wished to make about individual risks.

Mrs Doney introduced the report, noting that there were no changes to the residual risk score after mitigation, but that officers had updated the inherent risk for risks around inflation and worsening of the Medium-Term Financial Plan (MTFP) position. This reflected the current economic environment, including interest rate risks etc. The residual risk score following implementation of risk controls and mitigation measures had remained the same because the Council was well placed to manage these risks.

There was a good level of general balances which were there to manage financial risk and there was a robust financial planning process. Because there was a good level of general balances in place, this meant that the Council would be able to manage the economic shocks that may emerge because of high inflation, high contract inflation; and higher than budgeted-for pay awards.

In response to questions by Members of the Committee, Mrs Doney provided the following information.

a) Regarding FIN18, Business Rates Retention, there was a prospect of a change to the Business Rates Retention system. Presently, there was 50% retention which could move to 75% retention, but it was believed that this change had been put back to 2025/26.

   The Valuation Agency Office had undertaken a re-evaluation, effective from 1 April 2023, which had significantly increased the rateable value of businesses in the district. Transitional relief was in place for businesses which had seen an increase in valuation. However, as the transitional relief stepped down, it was anticipated that there was a greater risk of appeals against the re-evaluation.

   Should the appeals against re-evaluation be successful, this would have a significant impact on the income achieved by the Council as central Government had already fixed the tariffs for the amounts deducted by central Government. Therefore, there was the possibility of the Council's business rates retention income falling below the Council's minimum level which would mean that any growth within the Council's budget would be lost.

   Historically, the Council had always been a Member of the Hertfordshire Business Rates Pool ("Business Rates Pool") which gave the Council the opportunity to retain more of its growth through pooling government funding. However, because of the perceived risk, it was possible that the Council could be financially worse off if it remained a Member of the Business Rates Pool and, therefore, the Council had ceased to be a Member. The Council's membership of the Business Rates Pool for the year 2024/25 was presently under review. If it were the Council's intention to rejoin the Business Rates Pool, it would have to give notice of its intention to do so by 10 October 2023.

   Should the Council's Section 151 Officer recommend rejoining the Business Rates Pool, there would be a report to Council in December 2023 ahead of the deadline for final notification of intention to rejoin the Business Rates Pool in January 2024.

b) The purpose of Business Rate Pooling was to benefit all the Members of the Pool. Hertfordshire County Council and the respective District Councils had a combination of tariffs and top ups which, when pooled, allowed the local authorities that were Members of the Pool to retain differences in funding after a reckoning of the tariffs and top ups. If the business rates for a single Member of the Pool dropped, all the Members of the Pool were affected. Therefore, last year, the Members of the Pool took the view that, rather than risk any upside because of other Pool Member's downside, it was better not to pool business rates for the financial year 2023/24.

When pooling worked, it was to the detriment of central Government as central Government allowed local authorities with pooling arrangements to retain more of the income from business rates than they would have been permitted to retain if they were not members of a Business Rates Pool.

RESOLVED: That the Committee note the report.

AC25/23 INTRODUCTION OF NEW EXTERNAL AUDITORS FROM 2023/24

Mrs Hannah Doney, Head of Finance, introduced Paul Grady of the accountancy firm, Azets, and Ms Reshma Ravikumar, who would be the Council's Key Audit Partner and Audit Manager, respectively. Azets had been appointed through the PSAA (Public Sector Audit Appointments) procurement process and they would be the Council's auditors for the next five years beginning with the financial year 2023/24.

Mr Grady and Ms Ravikumar introduced themselves to the Members of the Committee and summarised their experience as auditors and the public sector work conducted by Azets. Mr Grady stated it was planned to start work on the Council's 2023/24 accounts in the autumn of this year, and to work with the Council as it resolved the backlog in finalising the Council's accounts from previous years with the current auditors, Ernst and Young (EY).

In response to a Member's question, Mr Grady stated that Azets were currently working under PSAA arrangements with 27 local authority bodies across England and several large Councils in Scotland. Within Hertfordshire, Azets was working with Watford, East Herts, and Stevenage District Councils.

NOTED

AC26/23 TRDC SIAS PROGRESS REPORT AGAINST THE 2023-23 AUDIT PLAN

The Committee considered a report by the Shared Internal Audit Service (SIAS) regarding the delivery of the Council's Annual Audit Plan for 2023/24 as of 15 September 2023.

The report proposed one amendment to the approved 2023/24 Annual Audit Plan and updated the Committee on the implementation status of all previously agreed Audit recommendations from 2019/20 onwards, as well as providing an update on Performance Management information as of 15 September 2023.

The Committee Members were recommended to:

1. Note the Internal Audit Progress Report for the period to 15 September 2023;
2. Approve the proposed amendment to the 2023/24 Audit Plan;
3. Agree changes to the implementation date for one audit recommendation (Paragraph 2.5 of the report) for the reason set out in Appendix 5 of the report; and

4. Agree removal of implemented audit recommendations (Appendices 3 to 6 of the report.)

Mr Darren Williams, Head of SIAS, introduced the report, noting that this was the second progress report that the Committee had received for 2023/24. Mr Williams then summarised key parts of the report, as follows.

a) Page 19: Three Final Internal Audit Reports and been issued since the July Committee, these relating to the areas of Business Continuity Planning; Payroll; and Fixed Asset Register. All three audits had been given a Reasonable Assurance Opinion.

   There were two reports in draft, these being the audits of Benefit Systems Parameter Testing, and Taxi Licensing, both of which were awaiting a Management Action Plan.

b) Page 20: Outstanding Audit Recommendation Follow-Ups. Since the July meeting of the Committee, an extension to an originally proposed implementation date for the Complaints Handling Audit has been requested by management, changing the target date from 31 May to 31 October 2023.

c) As set out in the Appendices to the report, three of the Audit Recommendations that were reported as outstanding in the July report to the Committee had been implemented.

d) Page 21: An update on current performance against Key Performance Indicators (KPIs) was provided. The delivery of planned audit days was at 28% against a profile of 32%, that is, 10.5 days behind where officers would have liked to have been at this stage in the year.

e) Projects to Draft Report Stage by 31 March 2023: 12% had been delivered against the profile of 30%, which was a difference of three projects. Two of these projects: IT Operations, and Safeguarding, were currently in fieldwork.

f) Mr Williams informed the Committee that a new Indicator, “Planned Projects to Final Report” has been introduced, that is, Final Reports for audits within the plan to be issued by the publication date of the Annual Assurance report. It was highlighted that the first measurement of this indicator could not be reported before May 2024, this being the date of the next Annual Assurance Report would be presented to the Committee.

g) Client Satisfaction: this was 100% based on two questionnaires out of 13 that had been returned,

Mr Williams introduced Leigha Britnell, who had recently been appointed as the Council’s Client Audit Manager, noting that Ms Britnell would be taking over the management of the Audit Plan and would be presenting the report at the next meeting of the Committee.

RESOLVED: That the Committee –

1. Note the Internal Audit Progress Report for the period to 15 September 2023;
2. Approve the proposed amendment to the 2023/24 Audit Plan;

3. Agree changes to the implementation date for one Audit Recommendation (Paragraph 2.5 of the report) for the reason set out in Appendix 5 of the report; and
4. Agree removal of implemented Audit recommendations (Appendices 3 to 6 of the report.)

AC27/23 AUDIT COMMITTEE WORK PROGRAMME

The Committee considered a report by Hannah Doney, Head of Finance, setting out the Audit Committee's latest Work Programme. The purpose of the report was to allow the Committee to review and update the Work Programme.

The Chair invited Members of the Committee to make any comments they might have on the Work Programme.

In response to a Member's question regarding the 2019/20 Statement of Accounts, Mrs Doney stated the Committee had agreed to delegate authority to officers to approve the Statement of Accounts. Accordingly, it was anticipated that officers would be able to report to the December meeting of the Committee that the accounts had been approved and signed by the Auditors, Chair of the Audit Committee, and Director of Finance.

Mrs Doney stated that, if the accounts had not been signed off by the time of the December meeting of the Committee, Members would be notified of this fact.

Risk Management Training

Mrs Doney noted that, regarding the schedule of training for Committee Members, the Committee was behind on the schedule by one training session. As the agenda for the December meeting of the Committee would include the Risk Management Framework report, and as it was important that the Committee consider the Treasury Management reports scheduled for that meeting, it was proposed that Mr Phil King, the Council's Risk Manager, when presenting the report, provide a detailed introduction contextualising the content of the report.

Mrs Doney went on to say that if Members of the Committee wished to have training, they inform officers so that this could be included in the Committee's Work Programme along with any other matters that the Committee might wish to have added to the Work Programme.

NOTED

CHAIR

Shared Internal Audit Service
Hertfordshire in Partnership

Three Rivers District Council
Audit Committee Progress Report
30 November 2023

Recommendation

Members are recommended to:

- Note the Internal Audit Progress Report for the period to 17 November 2023
- Approve amendments to the Audit Plan as at 17 November 2023
- Agree changes to the implementation date for 3 audit recommendations (paragraph 2.5) for the reason set out in Appendices 3 to 7
- Agree removal of implemented audit recommendations (Appendices 3 to 7)

Contents

Appendices

1. Introduction and Background

Purpose of Report

1.1 This report details:

a) Progress made by the Shared Internal Audit Service (SIAS) in delivering the Council's annual audit plan for 2023/24 as at 17 November 2023.
b) Proposed amendments to the approved 2023/24 Annual Audit Plan.
c) Implementation status of all previously agreed audit recommendations from 2019/20 onwards.
d) An update on performance management information as at 17 November 2023.

Background

1.2 The work of internal audit is required to be reported to a Member Body so that the Council has an opportunity to review and monitor an essential component of corporate governance and gain assurance that its internal audit provision is fulfilling its statutory obligations. It is considered good practice that progress reports also include proposed amendments to the agreed annual audit plan.

1.3 The 2023/24 Annual Audit Plan was approved by Audit Committee on 28 March 2023.

1.4 The Audit Committee receives periodic updates on progress against the Annual Audit Plan from SIAS, the most recent of which was brought to this Committee on 28 September 2023.

2. Audit Plan Update

Delivery of Audit Plan and Key Audit Findings

2.1 At 17 November 2023, 41% of the 2023/24 Audit Plan days had been delivered (calculation excludes unused 'To Be Allocated'). Appendix A provides a status update on each individual deliverable within the audit plan.

2.2 The following 2023/24 final reports have been issued since the September 2023 Audit Committee.

Audit Title	Date of Issue	Assurance Level	Number and Priority of Recommendations
Taxi Licensing	Sep '23	Reasonable	Two Medium Two Low
Fast Followers IAR Grant	Oct '23	Unqualified	N/A

All Priority Audit Recommendations

2.3 Members will be aware that a Final Audit Report is issued when agreed by Management. This includes an agreement to implement the recommendations made. It is SIAS's responsibility to bring to Members' attention the implementation status of recommendations; it is the responsibility of officers to implement the recommendations by the agreed date.

2.4 The table below summarises progress in implementation of all outstanding internal audit recommendations as at 17 November 2023, with full details given in appendices 3 to 7:

Year	Number of Recommendations	Implemented	Not yet due	Outstanding & request made for extended time or no update provided	% implemented
2019/20	37	36	1	0	97%
2020/21	25	24	1	0	96%
2021/22	36	34	2	0	94%
2022/23	44	34	7	3	77%
2023/24	4	2	2	0	50%

2.5 Since 28 September 2023 Audit Committee, extension to implementation dates have been requested by action owners for 3 recommendations as follows:

- One from the 2022/23 Financial Reconciliations audit, with a revised target date of 31 December 2023 (was 30 November 2023),
- One from the 2022/23 Treasury audit, with a revised target date of 31 January 2024 (was 30 November 2023), and
- One from the 2022/23 Fixed Asset register audit, with a revised target date of 31 December 2023 (was 31 October 2023).

Proposed 2023/24 Audit Plan Amendments

2.6 A Net Zero: Fast followers Grant certification was completed by the target date of 31 October 2023, with the time taken from the generic allocation of 'Grant Claims – to be allocated'.

Reporting of Audit Plan Delivery Progress

2.7 To help the Committee assess the current position in terms of progress against the projects in the 2023/24 Audit Plan, an analysis of agreed start dates is shown at Appendix 2. Dates have been agreed with management and resources allocated accordingly.

2.8 The 2023/24 Annual performance indicators and targets were approved by the SIAS Board in March 2023. Actual performance for Three Rivers District Council (including the Shared Services Plan) against the targets that are monitored in year is set out in the table below.

Performance Indicator	Annual Target	Profiled Target to 17 November 2023	Actual to 17 November 2023
1. **Planned Days** – percentage of actual billable days against planned chargeable days completed (excludes unused contingency)	95%	45% (100 / 221 days)	41% (90.5 / 221 days)
2. **Planned Projects** – percentage of actual completed projects to draft report stage against planned completed projects by 31st March 2024	90%	39% (7 out of 18 projects to draft)	28% (5 out of 18 projects to draft)
3. **Planned Projects** – percentage of actual completed projects to Final report stage against planned completed projects by the production of the HoA Annual Report	100%	N/A	11% New Indicator – first measurement will be May 2024 (Currently 2/18 delivered to final report stage)
4. **Client Satisfaction** – percentage of client satisfaction questionnaires returned at 'satisfactory overall' level (minimum of 39/65 overall)	95%	100%	50% (based on two received from fifteen issued in 2023/24)
5. **Number of Critical and High Priority Audit Recommendations agreed**	95%	95%	100% (based on one high priority recommendation made)

2.9 In addition, the performance targets listed below are annual in nature. Performance against these targets will be reported on in the 2023/24 Head of Assurance's Annual Report:

- **6. Annual Plan** – prepared in time to present to the March meeting of each Audit Committee. If there is no March meeting, then the plan should be prepared for the first meeting of the financial year.

- **7. Head of Assurance's Annual Report** – presented at the Audit Committee's first meeting of the civic year.

APPENDIX 1 INTERNAL AUDIT PLAN 2023/24 – UPDATE ON POSITION AS AT 17 NOVEMBER 2023

2023/24 SIAS Audit Plan

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		C	H	M	L				
Key Financial Systems									
Benefits (Shared Services Plan)						10	SIAS	2	Terms of Reference Issued
Debt Recovery (Shared Services Plan)						12	SIAS	1	In Planning
Key Financial Controls Testing (Shared Services Plan)						12	BDO	5	In Fieldwork
Main Accounting / Creditors – Control Risk Assessment (Shared Services Plan)						9	SIAS	1	In Planning
Payroll (Shared Services Plan)						10	No	0	Allocated
Parameters Testing (Shared Services Plan)						3	SIAS	3	Draft Report Issued
Operational Audits									
Agency Staffing (Shared Services Plan)						12	SIAS	6	In Fieldwork
Emergency Planning						8	No	0	Not Yet Allocated
Performance Management / Data Quality						15	SIAS	0.5	In Planning
Property Services						10	BDO	0.5	In PlanningNot Yet Allocated
Safeguarding						10	BDO	9.5	Draft Report Issued
Taxi Licensing	Reasonable	0	0	2	2	9	SIAS	9	Final Report Issued

APPENDIX 1 INTERNAL AUDIT PLAN 2023/24 – UPDATE ON POSITION AS AT 17 NOVEMBER 2023

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		C	H	M	L				
Temporary Accommodation						8	No	0	Not Yet Allocated
Watersmeet Theatre						8	SIAS	6	In Fieldwork
Contract Management									
Procurement of Play Areas / Small Outdoor Leisure Facilities						8	No	0	Not Yet Allocated
Grant Certifications									
Grant claims – to be determined						2	No	0	Not Yet Allocated
Net Zero: Fast Followers Grant	Unqualified	-	-	-	-	2	SIAS	2	Final Report Issued
IT Audits									
IT Operations (Shared Services Plan)						15	BDO	14.5	Draft Report Issued
Cyber Security (Shared Services Plan)						15	BDO	0	Allocated
To Be Allocated									
Unused Contingency (Shared Services Plan)						0	N/A	0	N/A
Follow-Up Audits									
Follow-up of outstanding audit recommendations						8	Yes	6	Through Year
Strategic Support									
2024/25 Audit Planning						5	Yes	0	Allocated

APPENDIX 1 INTERNAL AUDIT PLAN 2023/24 – UPDATE ON POSITION AS AT 17 NOVEMBER 2023

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		C	H	M	L				
Audit Committee						8	Yes	5.5	Through Year
Head of Internal Audit Opinion 2022/23						3	Yes	3	Complete
Monitoring and Client Meetings						7	Yes	4	Through Year
SIAS Development						3	Yes	3	Complete
2022/23 Projects Requiring Completion									
2022/23 Projects Requiring Completion (5 days TRDC plan / 4 days Shared Services Plan)						9		9	Complete
TRDC TOTAL						**119**		**54**	
SHARED SERVICES TOTAL						**102**		**36.5**	
COMBINED TOTAL						**221**		**90.5**	

<u>Key to recommendation priority levels:</u>
C = Critical, H = High, M = Medium, L = Low

APPENDIX 2 2023/24 AUDIT PLAN PROJECTED START DATES

Apr	May	Jun	July	Aug	Sept
	Parameters Testing (Shared Services Plan) **Draft Report Issued**	IT Operations (Shared Services Plan) **Draft Report Issued**	Agency Staffing (Shared Services Plan) **In Fieldwork**	Watersmeet Theatre **In Fieldwork**	Debt Recovery (Shared Services Plan) **In Planning**
	Safeguarding **Draft Report Issued**		Taxi Licensing **Final Report Issued**		Performance Management / Data Quality **In Planning**

Oct	Nov	Dec	Jan	Feb	Mar
Key Financial Controls Testing (Shared Services Plan) **In Fieldwork**	Benefits (Shared Services Plan) **Terms of Reference Issued**	Payroll (Shared Services Plan)	Cyber Security (Shared services plan)		
Property **In Planning**	Temporary Accommodation	Procurement of Play Areas / Small Outdoor Leisure Facilities	Emergency Planning		
Main Accounting / Creditors – Control Risk					

APPENDIX 2   2023/24 AUDIT PLAN PROJECTED START DATES

Oct	Nov	Dec	Jan	Feb	Mar
Assessment (Shared Services Plan) **In Planning**					
Net Zero: Fast Followers Grant Certification Final Report Issued					

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APPENDIX 3 OUTSTANDING RECOMMENDATIONS FROM THE 2019/20 AUDIT PLAN

Property (Rent and Lease Administration) 2019/20 **Final report issued October 2019**							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
01	We recommend that the Council review the systems used to maintain records of Council owned properties.	Medium	Position (September 2022) Progress on the implementation of the Property Management System continues at pace. Data held on the Councils IDOX system has been identified and a bulk extraction & cleansing of that a data has commenced. Mapping data held on the Council's ArcGIS system and ownership data held by the Land Registry is being compared, so that an accurate, and up to date ownership 'layer' can be produced. Once completed, this work will significantly reduce the time taken to establish ownership of TRDC assets and respond to customers. The mapping data will be cross-referenced with the Property Management System so that changes in ownership, new lettings or lease terminations can be reflected in the mapping 'spatial' data (mapping layers). The priority since acquiring the Property Management System is to have the garage properties/tenant records populated and the system fully functional for garage management as soon as possible. The Project Team had set a target date of the end of October 2022 to reach that stage and we are well on track to meet that target. Position (November 2022) Basic data on TRDC's property assets is currently being added to the Trace 'upload' spreadsheets and this work is likely to be concluded by the end of 2022. A data extract report is being downloaded from the IDOX system and any useful information will be	Head of Property Services / Property & Legal Services Teams	31 January 2024	×	

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Property (Rent and Lease Administration) 2019/20
Final report issued October 2019

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
Page 25			added to the Trace spreadsheet for uploading to the system. A complete ownership layer of assets and unregistered assets has been created by the Council's GIS Officer. This is a major step forward in being able to visually identify land owned or occupied by TRDC, without the need to download Land Registry Office Copies. The next stage is to correlate the data held on the GIS system with data being uploaded in the Trace system – these are likely to be linked by reference to the UPRN (Unique Property Reference Number). The garage management aspect of the Property Management System is now operational. This follows an intensive period of data-loading, testing and training. CSC colleagues are now getting to grips with the new system in order to manage the Council's garage estate. Minor improvements and amendments will e made in the coming weeks and months, but this stage marks a major milestone in the roll out of the Property Management System. Position (March 2023) The garage management data has been uploaded into the Trace system. Final data reconciliation and testing between the Property and CSC Teams is nearing completion and the official 'go live' for garage management via the Trace system will commence from 1 April 2023. This is all on target.				

Property (Rent and Lease Administration) 2019/20 **Final report issued October 2019**							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
Page 26			The focus now switches to collating and uploading data relating to TRDC's Commercial Estate. The property and asset addresses have been uploaded into the system and the next stage of work will shared between the Property & Legal Teams. Presently both Teams are recruiting key individuals who will lead on this work for the respective Services. In the intervening period, colleagues from the Property Team will continue with scoping and data collection work. Position (July 2023) Garage data has been loaded and reconciled and the Property Management system is being used for the management of garages – reports and processes have been provided. The GIS link has been applied and is currently being tested. Recruitment for a temporary staff member has commenced and once in place will continue with the data collection for the commercial properties. Position (September 2023) GIS link is working. The temporary Officer has been appointed and will start to load the commercial property data. A full procedure has been created to ensure consistency. Full training will be given. Financial data is being collated to compliment the PMS. On target for completion 31st January 2024 **Position (November 2023)**				

Property (Rent and Lease Administration) 2019/20

Final report issued October 2019

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
			The Temporary Property Data Analyst is currently engaged in collating data in connection with the Council's commercial property portfolio. The work remains on target for completion 31st January 2024				

APPENDIX 4 OUTSTANDING RECOMMENDATIONS FROM THE 2020/21 AUDIT PLAN

Debtors 2020/21 **Final report issued June 2021**							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
03	Consideration should be given to an annual review of debtor accounts to identify duplicate or dormant for deletion or deactivation.	Low	Position – July 2021 We will speak to Finance about the best way of doing this. Position – September 2021 A complete review of the entire Sundry Debtor service has recently been commenced and this will be included as part of the review. Position – November 2021 No update received. Position – February 2022 No update received. Position – July 2022 To date we have not been able to resource this review as we have had to prioritise Grant work and more recently the Council Tax Energy Rebates. We will pick up this project towards the end of the calendar year once the Energy rebate work is completed. Position – August 2022 No update received – target date not yet reached. Update received September 2022 but after reporting deadline for September 2022 Audit Committee: Finance are going to run and extract this data from the Finance System which Revs & Bens will then check. It may be completed before 30 October 2022; it really depends on how many are on the list. Position – November 2022	Recovery Team Leader, Revenues Manager and Finance.	31 August 2021	×	~~31 October 2021~~ ~~31 October 2022~~ ~~31 December 2022~~ ~~30 June 2023~~ 31 December 2023

APPENDIX 4 OUTSTANDING RECOMMENDATIONS FROM THE 2020/21 AUDIT PLAN

Debtors 2020/21 **Final report issued June 2021**							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
Page 29			The lists were provided by Finance mid-September, but work has not yet commenced as the entire Revs and Bens Service was delivering the Energy Fuel Rebate payments. Work will commence on the lists, week commencing 14.11.22. Position – February 2023 Revs and Bens have not had the capacity to carry out this work yet as resource has diverted to Energy Fuel Rebate schemes and resource has been very low due to long term staff sickness. Revs and Bens will take ownership of checking duplicate customer account and deleting those where we are certain there is no current billing rule. Finance and the individual services will need to take responsibility for deleting or de-activating old accounts. We will remind them of this requirement. Position – July 2023 The list has been generated and there are 2252 accounts to check. Each one must be checked individually before it can be decided if the duplicate entry can be deleted. Work has commenced on the checking / deletion. We are allocating a little resource to this each week as BAU work is extremely high currently so it will take some time to check all 2,000 accounts. Position – September 2023 Revenues Manager 12.09.23 This recommendation is a low priority, and we continue to be under resourced, which means the focus on housekeeping projects is not as high as we would like. This is progressing slowly because it needs to be managed				

Debtors 2020/21

Final report issued June 2021

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
			around BAU. Some further analysis of the reports from Finance is needed because some customers should have multiple account references, where, for example they are being billed for different services, such as Rent, Trade Waste, or for multiple units if they are a larger business. **Position – November 2023** **We have limited resource in the Recovery Team and BAU work takes precedence, but we continue to review these accounts.**				

Cyber Security 2021/22 **Final report issued April 2022**							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
01	1.1 Management should ensure that appropriate monitoring controls are in place for the password monitoring and management activities. These should include but not be limited to the following: • brute-forcing of account passwords including password spraying, • login attempts from unexpected geographic areas, • unexpected account lockouts • password database for the deny list hashes, • other unusual behaviour from users. 1.2 The above proposed controls, once in place, should be actively reported upon, through the periodic cyber security reports, to the senior management.	Medium	01 Mar 2022 the Azure AD Password Protection was implemented. Users will not be able to **change** passwords to weak passwords nor known passwords nor passwords from our Ban List of passwords. 1.1 – requires a third-party tool and associated funding would be required. The implementation of the password protection for Azure AD lowers the risk. 1.2 - this would be dependent on the ability to fund with a third-party tool – 1.1. Position – July 2022 Third party tools currently being reviewed and costed. Item not yet due. Position – August 2022 1.1 - Third party tools have been evaluated and Netwrix has been selected as the preferred tool. 1.2 – Netwrix had demonstrated the tool in detail and a 30-day trial to test the system further is available. 1.3 – Quotation for 1- and 3-year option has been provided. • 1-year option - £7,806 • 3-year option - £16,483 1.4 – Implementation of the tool will be dependent on the ability to fund the third-party tool, this will require an approval by ITSG for an additional spend. A paper to review this recommendation and request any growth in	Associate Director of ICT and Shared Services	31 March 2023	×	31 March 2024

APPENDIX 5 OUTSTANDING RECOMMENDATIONS FROM THE 2021/22 AUDIT PLAN

Cyber Security 2021/22

Final report issued April 2022

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
			budget 2022. Position – November 2022 1.1 – Due to the audit, which was performed by DLUHC, the scope of the security posture has extended. The grant to address the sections of the new recommendations within the scope has been successfully secured. 1.2 – The evaluation of the third-party tool has been extended, due to the new requirements within the scope presented post the DLUHC audit. 1.3 The new proposed completion dates recommended by DLUHC is end of Q4 March 2024. Position – February 2023 In progress. Produce options and costs continue to be reviewed and costed against all recommendations included within the DLUHC cyber grant budget. Position – July 2023 1.1 – All available options offered by a number of vendors have been evaluated. The decision has been made to utilise the DLUHC grant and to expand on the existing CSOC provision from Exponential-e to meet the requirements of the recommendation. 1.2 The quotation has been provided from Exponential-e to expand the CSOC offering. This has been approved and the project is now moving to the procurement phase. The procurement should be completed by the end of October 2023.				

Cyber Security 2021/22 **Final report issued April 2022**							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
			Position – September 2023 1.1 The procurement to expand the CSOC offering is completed, duration of the contract is set for 24 months. 1.2 – The on prem virtual deployment is currently in progress, deadline to implement the solution is set for end of October 2023. **Position – November 2023** **1.1 The implementation phase is completed, finetuning and baselining of the alerting with the vendor to reduce the false positives. This phase is expected to run over 8 week period.** **1.2 Once the finetuning and baselining is completed, it will be handed over to CSOC for monitoring, triage, and remediation**				
03	Management should conduct regular monthly vulnerability scans across the entire IT estate including endpoint, to identify and mitigate vulnerabilities including software flaws, missing patches, misconfigurations and malwares.	Low	This would require additional budget and would need a growth item approved, as there are licence implications for the Qualys scanner. Position – July 2022 Extension of current third-party tools currently being reviewed and costed. Item not yet due. Position – August 2022 1.1- Third party Qualys had introduced a new module which will enable the management of remote devices through the cloud. 1.2 – Both options are currently being evaluated and costed. Decision made will be based on cost, functionality, and management.	Associate Director of ICT and Shared Services	31 March 2023	×	~~30 June 2023~~ 30 November 2023

APPENDIX 5 OUTSTANDING RECOMMENDATIONS FROM THE 2021/22 AUDIT PLAN

Cyber Security 2021/22 **Final report issued April 2022**							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
			Position – November 2022 1.1 – Due to the allocation of a new Account Manager at Qualys and the changes within the licensing structure, Qualys are currently reviewing the proposed quotation to align the requirements with the new licensing structure. 1.2 – Workshop with Qualys has been scheduled to discuss the new proposed licensing structure and the modules which are required to enable the management of the devices remotely through the cloud and not relaying on the VPN. Position – February 2023 Remains in progress, however Associate Director of ICT and Shared services requests an extension of 3 months. This is due to a. Qualys licencing for public sector has recently changed. Awaiting updated quotations. b. In terms of funding, a recent grant award from DLUHC will cover this item. Therefore, no requirement for additional growth within the ICT service budget. Position – July 2023 1.1 The quotation from Qualys has been provided to extend the service to include the endpoint vulnerability scanning. This has been handed over to the desktop support team, who are currently reviewing the offering. Position – September 2023				

APPENDIX 5 OUTSTANDING RECOMMENDATIONS FROM THE 2021/22 AUDIT PLAN

Cyber Security 2021/22
Final report issued April 2022

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
			1.1 The revenue budget is currently being reviewed by the Director of Partnerships in absence of the Associate Director of ICT and Shared Services. **Position – November 2023** **1.1 Meeting took place with LittleFish 15 Oct – they are preparing a quote for us to consider.** **1.2 Direct meeting with vendor Qualys has take place to review available options and pricing. Request for a full system demo has been submitted, vendor to provide dates.**				

Complaints Handling 2021/22
Final report issued May 2022

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
01	We recommend that when a complaint is received, it is not only forwarded to the Head of Service but also to the designated complaints officer within the service. The officer should then immediately log the complaint on Firmstep and monitor timescales through to resolution. This would give the designated officer more context into the complaint and allow them to help adhere to the Council's prescribed timescales for dealing with complaints. Additionally, we recommend that when a complaint is	High	Complaints to be communicated to the Designated Complaints Logging Officer as well as Head of Service/Complaints Officer at time of receipt. Discussions to take place with Departments to find the best way of delivering this across platforms. If via Enquiries email then CSC will email to the designated officer as well as the Head of Service. Logging Officer then responsible with logging the complaint in a timely manner and monitor timescales until resolution. Head of Service/Complaints Officer to send Logging Officer response so complaint can be closed asap on Firmstep. Position (July 2022) We are currently reviewing the Corporate	Customer Service Centre Team Manager	31 October 2022	✓	Implemented

Complaints Handling 2021/22

Final report issued May 2022

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
	resolved this is noted immediately on Firmstep to ensure accurate information is available.		Complaints and Compliments Policy and Procedure with the intention that all complaints are to be logged by the Customer Service Centre. Centralising where the complaints are coming into will make us able to log the complaints immediately on receipt and help monitor response time from Departments. Once the complaint is logged it will be sent to the Department's Head of Service to investigate and respond to the complaint. Position (September 2022) We are currently reviewing the Corporate Complaints and Compliments Policy and Procedure with the intention that all complaints are to be logged by the Customer Service Centre. Centralising where the complaints are coming into will make us able to log the complaints immediately on receipt and help monitor response time from Departments. Once the complaint is logged it will be sent to the Department's Head of Service to investigate and respond to the complaint. This revised Compliments & Complaints policy is going to P&R Committee in November and will be put in place following approval. Position (November 2022) The new complaints and vexatious complaints policies were agreed at P&R on 7th November which are now live. Work is taking place in the creation of a new Corporate Complaints Procedure. These should be circulated by January 2023. Position (March 2023) Complaints procedure has been finalised and				

APPENDIX 5 OUTSTANDING RECOMMENDATIONS FROM THE 2021/22 AUDIT PLAN

Complaints Handling 2021/22

Final report issued May 2022

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
			work is continuing to be done so that members of the public are able to raise a complaint online using the self-service portal. Position (July 2023) We have finalised the wording for the Compliments and Complaints online forms, including internal and external correspondence. The forms have been built. Testing is underway to confirm function and raise any anomalies. This will allow members of the public to raise their complaints online using the self-service portal and Customer Service representatives to raise complaints as soon as they are received whether that is by email, letter, or over the phone. Completing and submitting the form will automatically log an open complaint on the Granicus system. (30th September 2023). Position (September 2023) We are currently in the final testing stage. We are on target to launch the new process for 1st October 2023. **Position (November 2023)** **The new procedure allows the complainant to log their complaint online which will log the complaint automatically on the Granicus system.** **A daily triage system is in place, and this will confirm whether the complaint will be dealt with in line with the compliments and complaints policy and if so, will be forwarded to the relevant department.** **Complaints received by alternative means will be dealt with under the same**				

APPENDIX 5 OUTSTANDING RECOMMENDATIONS FROM THE 2021/22 AUDIT PLAN

Complaints Handling 2021/22 **Final report issued May 2022**							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✗ or ✓	Revised Deadline
			Compliments and Complaints policy. **Relevant departments' complaint handlers and Heads of Service have access to the Granicus case viewer for their service to view and respond to complaints. Customer Service Team Manager in charge of monitoring complaints response times also has access to see open complaint jobs and will prompt services accordingly.** **Once the complaint has been responded to then the job will be closed.**				

APPENDIX 6 OUTSTANDING RECOMMENDATIONS FROM THE 2022/23 AUDIT PLAN

Development Management – Pre-Application Fees 2022/23

Final report issued February 2023

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
02	The Council should produce a line-by-line breakdown of the pre-application fees and charges and how they relate to the costs of the service to ensure that the costs are recovered fully and all resource requirements are considered adequately.	Low	Position (March 2023) It is proposed to undertake a full cost exercise that will take into account the cost of the team and organisational overheads for setting charges for 2024/25. Position (July 2023) Support from finance team needed to undertake this action. Finance team have to date been occupied by end of year work. HOS and TLs to discuss next steps with finance, however, six month extension suggested at this time to accommodate this work. Position (September 2023) Awaiting support from the Finance team. Still aiming for March 2024 completion. **Position (November 2023)** **Officers are discussing with Finance colleagues. Still aiming for March 2024 completion.**	Head of Regulatory Services / DM Team Leaders	30 September 2023	×	31 March 2024

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Financial Reconciliations 2022/23

Final report issued April 2023

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
01	We recommend that the reconciliation procedure notes detail the responsible owner as well as the next review date to ensure they remain up-to-date and relevant.	Low	The process notes do name the author of the note; however, we will add a next review date and responsible person. We will introduce a front sheet on each reconciliation to provide all details recommended. Position – July 2023	Chief Accountant	31 August 2023	×	~~30 November 2023~~ **31 December 2023**

APPENDIX 6 OUTSTANDING RECOMMENDATIONS FROM THE 2022/23 AUDIT PLAN

Financial Reconciliations 2022/23 **Final report issued April 2023**							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
			Process notes are in the process of being updated – on target for completion by deadline. Position – September 2023 Process note updates are continuing but progress is slower than anticipated due to work pressures. Completion is expected by 30th November 2023. **Position – November 2023** **Work pressures from external audit continue to delay completion of the review and update work. Completion is now expected by 31st December 2023**				

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Cyber Security 2022/23 **Final report issued April 2023**							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
01	Management should review and assess the current cyber security training platform and put arrangements in place so that training completion can be recorded, reported and monitored on an going basis. Arrangements should be put in place for ensuring that the cyber security training is completed by all members of staff, as required, which could include: • Identifying specific staff members who are required to	Medium	We will review the current cyber security training platform. The current platform is used for all mandatory training for staff. We will review the viability of users not receiving their device until they have completed their cyber-related mandatory training. Position – July 2023 1.1 – A review of alternative training platforms has been conducted and a demo of the products has been provided by the vendors.	Associate Director of ICT and Shared Services	31 December 2023	✓	

APPENDIX 6 OUTSTANDING RECOMMENDATIONS FROM THE 2022/23 AUDIT PLAN

Cyber Security 2022/23 **Final report issued April 2023**							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
Page 41	complete the training and working with their line managers to ensure completion. • Ensuring regular, top-down communication to increase awareness of the training. Requiring completion of the e-learning before issuing new devices to individuals or as part of performance and progression reviews.		1.2 - Each product comes at a cost and budget implications are being considered. 1.3 - The management of training completion by staff is currently being carried out by HR and members of staff are being notified by email when they are due to complete each training module. 1.4 – Starters, Movers, Leaver's process is currently being updated to ensure that joiners complete the Cyber Security Modules as part of the probation period as per HR Probationary Policy. Position – September 2023 1.4 – The Starters, Movers, Leaver's process has been updated to reflect the completion of the cyber security module as per the requirement of the HR Probation Policy. **Position – November 2023** **1.1 – W3R HR have updated the probation policies for each council (WBC and TRDC) with our suggested text - "Ensuring the employee has satisfactorily completed all mandatory training – including CyberEssentials training if the employee has an ICT account"** **TRDC policy** **WBC policy**				

APPENDIX 6 OUTSTANDING RECOMMENDATIONS FROM THE 2022/23 AUDIT PLAN

Treasury 2022/23 **Final report issued April 2023**							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
01 Page 42	1) The Councils should develop an ESG policy, which ensures that investments are made in consideration with the Councils climate change, environmental and governance policies. The policy should emphasise that the Council seeks to be a responsible investor and consider ESG risks as an important overlay to the investment process, thereby improving future sustainability of investments. Once incorporated, ESG risks should also be included in under the Risk Management section of the Treasury Management Practices document for consistency. 2) The policy should also explain that the Councils will not knowingly invest directly in businesses whose activities and practices pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the Council's mission and values. 3) The policy should outline the conditions where investments should not be made with certain organisations, which have material links to: • Human rights abuse (e.g., child labour, political oppression) • Environmentally harmful activities (e.g., pollutants, destruction of habitat, fossil fuels) • Socially harmful activities (e.g.,	Medium	An ESG Policy will be developed for both Councils during 2023/24 for approval alongside the 2024/25 Treasury Management Strategy Statements. Position – July 2023 Guidance has been provided by our Treasury Management providers and we are on target to include an ESG policy within the 2024/25 Treasury Management Strategy Statements. Position – September 2023 We remain on track to include an ESG Policy in the Draft Treasury Management Strategy Statements for 2024/25 which will be presented to Audit Committees in November and December. **Position – November 2023** **The draft ESG policies have been published for Audit Committees and will form part of the budget papers to Council in January (WBC) and February (TRDC).**	Head of Finance	30 November 2023	×	31 January 2024

APPENDIX 6 OUTSTANDING RECOMMENDATIONS FROM THE 2022/23 AUDIT PLAN

Treasury 2022/23
Final report issued April 2023

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
	tobacco, gambling).						

Council Tax 2022/23
Final report issued May 2023

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
01	TRDC should ensure that a review of debt outstanding is conducted, and decisions taken regarding whether or not to proceed for write-offs. Subsequently, write-offs should be conducted at regular intervals going forward. The 'How and Why to put a write off code on a Council Tax Account' procedure should include version control to ensure that it is reviewed periodically.	Medium	A review of all outstanding debt will be completed during 2023/24. All outstanding write-offs have been cleared since this report was written and on-going write-offs will be reviewed once a quarter. Agreed. Our quality team will get a version control sheet added. Position – July 2023 The review of all debt is underway, and this will include looking at debts suitable for write-off. The write-offs for Q1 are being prepared. Version control has been added to all procedures. Position – September 2023 Revenues Manager 12.09.23 The team continue to identify and put forward cases for write off where appropriate. **Position – November 2023** **Q1 write-offs have been prepared and await sign-off. Q2 write-offs are being prepared.**	Revenues Manager/Data Performance Manager	31 March 2024	×	

Council Tax 2022/23

Final report issued May 2023

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
04	The Council should document the processes relating to backdated discounts and exemptions to ensure that consistent actions are undertaken by staff and these refunds are appropriately reviewed and approved prior to payment.	Low	Agreed. Position – July 2023 The document for backdating an SPD has been documented. We will incorporate the approach for all the other types of discount and exemptions so that it the guidance is held in once process. Position – September 2023 Revenues Manager 12.09.23 The processes are documented, they just need to be collated, which has been delayed due to the summer period. Management controls are in place to ensure appropriate review takes place prior to approval. **Position – November 2023** **The process notes for issuing refunds have been updated and refunds are authorised at Team Leader level prior to payment.**	Revenues Manager/Data Performance Manager	30 June 2023	✓	30 Sept 2023

NDR 2022/23

Final report issued May 2023

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
01	We recommend that: • Actions are taken to address the issue preventing the production of the monthly 'default arrangement list' and (subject to the issue being successfully resolved), arrangements are put in place for	Medium	The default arrangements list is working and being run. During 2022/23 much of the BAU recovery work slipped due to the service having to process energy and business grants (CARF). During 2023/24 all recovery work will be reviewed, and this will include a review of arrangements that have defaulted.	Revenues Manager	31 March 2024	×	

NDR 2022/23 **Final report issued May 2023**							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
	Senior Officers to check that these are being actioned appropriately. • As an interim measure, Revenues Officers should be reminded to diarise arrangements to enable checks to be conducted to confirm arrangements are being complied with.		Position – July 2023 Review is currently underway. Position – September 2023 Revenues Manager 12.09.23 A review of the Recovery processes is ongoing and as part of this we are looking at the ways in which this can be managed more efficiently. **Position – November 2023** **No change to the position in September. The review of recovery processes continues.**				
02	We recommend that: • Seven-day lists are produced and actioned at regular interval (e.g. monthly). • Arrangements are put in place for Senior Officers to check that these are being actioned appropriately.	Medium	The 7-day list is working and being run. During 2022/23 much of the BAU recovery work slipped due to the service having to process energy and business grants (CARF). During 2023/24 all recovery work will be reviewed, and this will include a review of arrangements that have defaulted. Position – July 2023 Review is currently underway. Position – September 2023 Revenues Manager 12.09.23 A review of the Recovery processes is ongoing and as part of this we are looking at the ways in which this can be managed more efficiently. **Position – November 2023** **No change to the position in September. The review of recovery processes continues.**	Revenues Manager	31 March 2024	×	

APPENDIX 6 OUTSTANDING RECOMMENDATIONS FROM THE 2022/23 AUDIT PLAN

Property Services 2022/23 **Final report issued May 2023**							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
03	The Council should ensure that it is aware of all records which were held outside of the Capita System, and that once the information is fully implemented within the TRAMPS system these external records are deleted.	Medium	This recommendation is noted and Officers will continue to observe all data protection and GDPR guidance with respect to data security. External records will be deleted once this stage of work is complete. A wider Council review of direct debit data transfer is being carried out. As part of this a data upload into the TRAMPS system is being considered. Position (July 2023) Data protection and GDPR guidance continues to be followed by Officers. Completion date remains on target. Position (September 2023) work is ongoing and remains on target for completion by the specified date. Once the data transfer has been fully reconciled, data from the legacy system will be fully and thoroughly deleted. **Position (November 2023)** **Final reconciliation work is nearing completion and on target for 31st December date. Once complete all legacy data will be deleted.**	Facilities Manager	31 December 2023	×	

APPENDIX 6   OUTSTANDING RECOMMENDATIONS FROM THE 2022/23 AUDIT PLAN

Business Continuity Planning 2022/23

Final report issued July 2023

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
01	In order to prevent unnecessary delays in the case of a business continuity incident all recommendations within the Disaster Recovery Plan should be actioned and followed up.	Medium	The DR Plan is separate to the BC Plan and is the responsibility of ICT to update/maintain **Position (November 2023)** **The recommendations have been actioned and are being followed up**.	ICT Service Delivery Manager	30 November 2023	✓	
02	An agreed plan for regular Business Continuity training should be scheduled to ensure all staff with business continuity responsibilities have received all the necessary training and support to be able to fully perform their duties.	Medium	Agreed. Tabletop exercise will be undertaken in Q1 of 2024 **Position (November 2023)** **On target to complete by March 2024.**	Emergency Planning & Risk Manager	31 March 2024	×	
04	The Council should ensure that a full review of the Business Continuity Plan is completed by March 2023.	Medium	Implementation has been delayed so that the SCPs will align with new Council structure and new post of EP & Risk Officer filled. **Position (November 2023)** **On target to complete by March 2024.**	Emergency Planning & Risk Manager	31 March 2024	×	

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Fixed Asset Register

Final report issued July 2023

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
01	We recommend that procedures are put in place by the finance service, which make clear the information to be provided regarding the acquisition and disposal of assets in order to ensure that accurate finance records can be created and maintained.	Low	We will issue updated guidance about the information to be recorded on Purchase Orders to coincide with he roll-out of upgraded Finance System. Pro-forma returns to be issued to capital budget holders, to be completed with support	Chief Accountant	31 October 2023 31 December 2023	×	31 December 2023

Fixed Asset Register

Final report issued July 2023

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
			from Finance Business Partners, specifying information to be provided regarding additions and disposals. **Position – November 2023** **Initial review of capital additions and disposals will be conducted in January 2024, ahead of interim audit. Pro-forma returns to be created in December 2023.**				
02	We recommend that the Fixed Asset Register includes as a minimum the following information related to valuations: • Indication of whether asset is in scope for revaluation • Date of Last Valuation • Date of Next Valuation Valuation Methodology	Low	We note the recommendation and will ensure that the recommended fields are included in the final Fixed Asset Registers for 2020/21 and subsequent years. **Position – November 2023** **The fixed asset register spreadsheet redesign is complete and the required fields have been captured.**	Chief Accountant	30 November 2023	✓	

CIL Spend

Final report issued June 2023

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
01	We recommend that the policy (Governance Report) is updated to outline the method of submitting CIL applications, e.g. to the CIL inbox. This should be communicated across the Council. Where applications are received directly to an individual officer, a	Low	We can update the Governance report to specify applications are sent to the dedicated CIL Inbox Should emails be received directly by the CIL Officer we will ensure they are forwarded to the dedicated inbox and the sender notified of the correct email address for future correspondence.	CIL Officer	31 August 2023	×	

APPENDIX 6 OUTSTANDING RECOMMENDATIONS FROM THE 2022/23 AUDIT PLAN

CIL Spend
Final report issued June 2023

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
	reminder should be sent back to the applicant detailing the correct method for submitting applications. In order to retain audit trails, the CIL Officer should forward all applications to the CIL inbox.		We do not feel it would be good practice to refuse and ask the sender to re submit. **Position (November 2023)** **With effect of November 2023 the CIL Inbox is being used for all correspondence. Until now this has caused problems because the CIL Inbox wasn't working correctly (you couldn't send or forward emails from this destination). The governance Report has not been updated yet.**				

Payroll 2022/23
Final report issued July 2023

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
01	We recommend that managers are reminded to inform HR if any starter information changes, including start date.	Low	On this occasion, the manager of the service area agreed an earlier start date with the employee, after the contract had been sent out but without informing HR. This resulted in an underpayment that was rectified and the right date entered onto the iTrent system. HR will remind managers that HR need to be informed if an earlier or later start date is subsequently agreed.	HR Operations Lead.	Implemented	✓	Implement ed
02	We recommend that officers should annotate the starter form to confirm that it has been input by one officer and checked by a different officer.	Low	The Payroll preview forms are reviewed by the first and second officer and MHR are annotated to note changes to payroll in the month and to review any discrepancies. Cross checking, and annotation, is therefore undertaken at pay preview as well as at the	n/a	Implemented	✓	Implement ed

			time of inputting and discrepancies are picked up before final sign off. Payments cannot be made until all relevant information is obtained and inputted.				
03	We recommend that all additional payments are reviewed to ensure that an end date is included. This should be for the period the additional payment is required (e.g. six months). Furthermore, approvals for additional payments should be received before the extra duties or additional work is undertaken. Full explanation of the reasons for the additional payment should be recorded and retained on file.	Medium	These occasions relate to instances where backpay has been applied, i.e. the officer has already been undertaking the duties and managers have agreed the earlier commencement date for the duties and payment to be applied. HR are already ensuring that end dates (where applicable) are included on all forms and that explanations for the additional payment is recorded and retained. However, it is not always possible to ensure approval for the additional duties is received prior to the duties being carried out, especially when managers agree that a backpay situation has occurred. In all situations of additional payment, HR are already ensuring no payment is made until there is approval.	HR Operations Lead.	Implemented	✓	
04	We recommend that the Council ensure that all claims are submitted online and authorised prior to the payment period commencing and employees are reminded of the necessity to do so.	Low	It is not possible to ensure that all overtime claims are submitted online. There is a significant workforce at the Depot that do not have access to iTrent to input their overtime claims and this must be done as a manual exercise. A manual claim would also need to be made in cases where overtime has been approved by the manager in the employee's notice period, if the overtime has taken place after the pay run has already been made for the month. There are occasions where it has been agreed between the manager and employee to undertake overtime but the claim is made after the event. It is important to note that accuracy figures obtained from MHR show a 98-100% accuracy month on month and the risk of overpayment is	HR Operations Lead	n/a	✓	Implement ed

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			low.				

Taxi Licensing

Final report issued June 2023

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
01	We recommend that should a licence holder fail to renew any of their key documents within the term of their licence, that they should be contacted, and their licence suspended until they complete the renewal process.	Medium	We have a process in place whereby suspension notices are sent out by officers when document has expired. This is currently done on a weekly basis. We will look at running this process on a daily basis (officer time allowing) to ensure licenced drivers are contacted and their licence suspended. Work requires input from Senior Technical Support Officer and Customer Service Centre as the latter may be tasked with running the check on a daily basis and producing reports. **Position (November 2023)** **Suspensions letters are now created with the actual date of the suspension. Officers check the suspensions daily and send to licensees accordingly (6 November 2023)**	Lead Licensing Officer	30 April 2024	✓	Implemented
02	We recommend that the service updates their website to show the most up to date list of supporting documents needed to issue a licence.	Medium	We can confirm that the website has now been updated and the documents that are not a mandatory requirement have been removed. **Position (November 2023)** **Completed**	Lead Licensing Officer	Immediate	✓	Implemented
03	We recommend that fees should be reconciled monthly between Idox and the finance system.	Low	This had already been raised with the digital team and finance prior to the audit. Officers will continue to liaise with finance to ensure that payee details are transferred to the payment system to ensure reconciliation can be achieved. **Position (November 2023)**	Lead Licensing Officer	30 April 2024	×	

Taxi Licensing

Final report issued June 2023

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
			Officers are continuing to liaise with finance to ensure that payee details are transferred to the payment system to ensure reconciliation can be achieved.				
04	We recommend that the service should undertake a data cleansing exercise on an annual basis to ensure they are only keeping necessary information.	Low	We will discuss further with the relevant officer and review the retention policy. When a licence has been surrendered, we are required to keep the record if the driver has issues that could be of interest or concern to another licensing authority. **Position (November 2023)** **To be reviewed with the Data Protection Officer and potentially delete and securely dispose of all files that are not required.** **(Retain files indefinitely where there is information that should be shared with other authorities such as any enforcement action that has been taken by Three Rivers).**	Lead Licensing Officer	30 April 2024	×	

APPENDIX 8 ASSURANCE AND RECOMMENDATION PRIORITY LEVELS

Audit Opinions	
Assurance Level	**Definition**
Assurance Reviews	
Substantial	A sound system of governance, risk management and control exist, with internal controls operating effectively and being consistently applied to support 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.
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.
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.
Not Assessed	This opinion is used in relation to consultancy or embedded assurance activities, where the nature of the work is to provide support and advice to management and is not of a sufficient depth to provide an opinion on the adequacy of governance or internal control arrangements. Recommendations will however be made where required to support system or process improvements.
Grant / Funding Certification Reviews	
Unqualified	No material matters have been identified in relation the eligibility, accounting and expenditure associated with the funding received that would cause SIAS to believe that the related funding conditions have not been met.
Qualified	Except for the matters identified within the audit report, the eligibility, accounting and expenditure associated with the funding received meets the requirements of the funding conditions.
Disclaimer Opinion	Based on the limitations indicated within the report, SIAS are unable to provide an opinion in relation to the Council's compliance with the eligibility, accounting and expenditure requirements contained within the funding conditions.
Adverse Opinion	Based on the significance of the matters included within the report, the Council have not complied with the funding conditions associated with the funding received.

Recommendation Priority Levels		
Priority Level		**Definition**
Corporate	**Critical**	Audit findings which, in the present state, represent a serious risk to the organisation as a whole, i.e. reputation, financial resources and / or compliance with regulations. Management action to implement the appropriate controls is required immediately.
Service	**High**	Audit findings indicate a serious weakness or breakdown in control environment, which, if untreated by management intervention, is highly likely to put achievement of core service objectives at risk. Remedial action is required urgently.
	Medium	Audit findings which, if not treated by appropriate management action, are likely to put achievement of some of the core service objectives at risk. Remedial action is required in a timely manner.
	Low	Audit findings indicate opportunities to implement good or best practice, which, if adopted, will enhance the control environment. The appropriate solution should be implemented as soon as is practically possible.

AUDIT COMMITTEE – 30 NOVEMBER 2023

PART I - DELEGATED

TREASURY MANAGEMENT MID-YEAR REPORT 2023/24 (DoF)

Summary

1.1 This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management and covers performance against the Council's Capital Strategy and Treasury Management Policy.

1.2 The report is presented to the Audit Committee as the body delegated by Council to undertake the role of scrutiny of treasury management strategy and policies.

Details

2.1 **Background**

2.1.1 This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017). The primary requirements of the Code are as follows:

i. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
ii. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
iii. Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report, (stewardship report), covering activities during the previous year.
iv. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
v. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Audit Committee.

2.1.2 This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first half of the 2023/24 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators;
- A review of the Council's borrowing strategy for 2023/24;
- A review of compliance with Treasury and Prudential Limits for 2023/24;

- A review of the Council's investment portfolio for 2023/24.

2.2 Economics and interest rates

2.2.1 The second quarter of 2023/24 saw:

- Interest rates rise by a further 1%, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.
- Short, medium and long-dated gilts remain elevated as inflation continually surprised to the upside.
- A 0.5% month on month decline in real Gross Domestic Product (GDP) in July, mainly due to more strikes.
- Consumer Price Index (CPI) inflation falling from 8.7% in April to 6.7% in August, its lowest rate since February 2022, but still the highest in the G7.
- Core CPI inflation declining to 6.2% in August from 7.1% in April and May, a then 31 years high.
- A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the three month year on year growth of average earnings rose to 7.8% in August, excluding bonuses).

2.2.2 The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below have been provided by Link Group and are based on the Certainty Rate (the standard rate minus 20 bps). The Certainty Rate has been available to local authorities since 1 November 2012 subject to an annual application. Three Rivers District Council is able to access the Certainty Rate for 2023/24.

2.2.3 The latest interest rate forecast, dated 25 September 2023, sets out Link Group's view that short, medium and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy.

2.2.4 As set out in the following table, the bank rate is expected to remain at 5.25% until September 2024 then fall steadily by 2.5% to 2.75% over the following 18 months while PWLB will begin falling by December 2023 but at a slower rate and by just 1.6% across all maturity periods through to the end of December 2026:

Link Group Interest Rate View	25.09.23												
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.00	2.75	2.75	2.75	2.75	2.75
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.00	2.80	2.80	2.80	2.80	2.80
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.10	2.90	2.90	2.90	2.90	2.90
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.20	3.00	3.00	3.00	3.00	3.00
5 yr PWLB	5.10	5.00	4.90	4.70	4.40	4.20	4.00	3.90	3.70	3.70	3.60	3.60	3.50
10 yr PWLB	5.00	4.90	4.80	4.60	4.40	4.20	4.00	3.80	3.70	3.60	3.60	3.50	3.50
25 yr PWLB	5.40	5.20	5.10	4.90	4.70	4.40	4.30	4.10	4.00	3.90	3.80	3.80	3.80
50 yr PWLB	5.20	5.00	4.90	4.70	4.50	4.20	4.10	3.90	3.80	3.70	3.60	3.60	3.60

2.2.5 Further information, provided by Link Group, about the economic context during the first six months of 2023/24 is provided in Appendix 1 – Economics Update.

2.3 Capital Investment Strategy Update

2.3.1 The Capital Strategy, containing the Treasury Management Policy for 2023/24, was approved by Council on 21 February 2023.

2.3.2 Although there has been a significant shift in the external operating environment, there are no policy changes to the Capital Strategy and Treasury Management Policy.

2.4 The Council's Capital Position (Prudential Indicators)

2.4.1 The Council's capital expenditure plans are one of the key drivers of treasury management activity. This table shows the revised estimates for capital expenditure and expenditure to 30 September 2023 against the capital programme agreed at the Budget in February 2023. The total forecast capital investment for 2023/24 is £20.023m compared to an original budget of £4.602m. Variances to budget are set on in the Council's Budget Management Report to Policy and Resources Committee.

Prudential indicator for Capital Expenditure:

Committee	Original Budget 2023/24 £'000	Actuals to 30 September £'000	Forecast Year End Position 2023/24 £'000
General Public Services & Economic Development Committee	2,368	638	3,037
Climate Change, Leisure & Community Committee	1,122	684	1,475
Policy and Resources Committee	1,112	395	1,554
Major Projects	0	3,603	13,957
Total	**4,602**	**5,319**	**20,023**

Note the structure of the capital programme has been revised to reflect the updated committee structure.

2.4.2 The table below sets out how the capital investment for 2023/24 will be financed:

Funding	Original Budget 2023/24 £'000	Forecast Year End Position 2023/24 £'000
Grants & Contributions	586	5,157
Reserves	333	333
Capital Receipts	1,100	1,100
Section 106 & CIL Contributions	930	1,146
Borrowing (Internal & External)	1,654	12,288
Total Capital Funding Applied	**4,602**	**20,023**

2.4.3 The borrowing element of the table increases the underlying indebtedness of the Council which is expressed as the Capital Financing Requirement (CFR). The net increase in CFR will be lower after taking into account revenue charges for the repayment of debt (the Minimum Revenue Provision).

2.4.4 The latest forecast for the CFR, which is the underlying need to borrow for a capital purpose, is set out in the table below. The reduced forecast for the CFR reflects the forecast reduced need to borrow for capital investment in 2023/24. It also shows the expected debt position over the period, which is termed the Operational Boundary.

2023/24	Original Estimate £'000	Current Position £'000	Revised Estimate £'000
Prudential indicator - Capital Financing Requirement:			
Capital Financing Requirement	26,914		41,943
Net Movement in CFR	1,128		11,875
Prudential indicator – the Operational Boundary for external debt:			
Borrowing	30,000	8,000	8,000
Total external debt (year end position)	**30,000**	**8,000**	**8,000**

Note the CFR may be subject to restatement following the conclusion of the 2019/20 and 2020/21 external audit.

2.4.5 The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2022/23 and next two financial years. This allows some flexibility for limited early borrowing for future years. Where external borrowing is below the underlying need to borrow, this is financed in the short term through internal borrowing. This currently forecast to be £41.943m at year end.

2023/24	Original Indicator £'000	Revised Indicator £'000
Capital Financing Requirement	26,914	41,943
Gross External Borrowing	8,000	8,000
Internal Borrowing	**18,914**	**33,843**

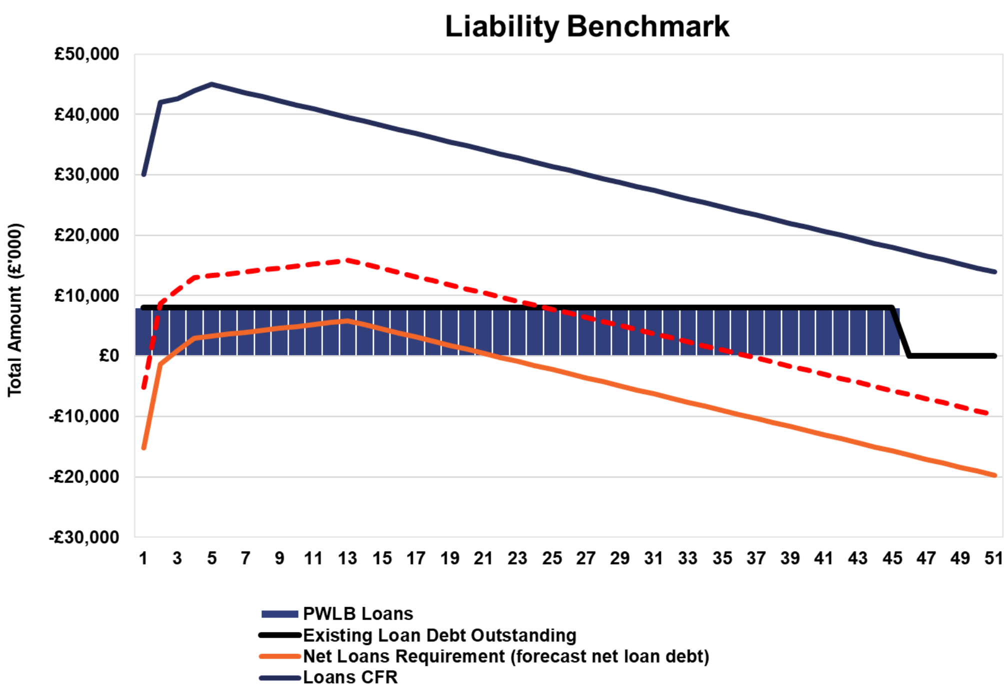
2.4.6 A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Prudential indicator – the Authorised Limit for external debt:

2023/24	Original Indicator £'000	Current Position £'000	Revised Indicator £'000
Borrowing	42,000	8,000	25,000
Total	**42,000**	**8,000**	**25,000**

2.4.7 The Treasury Management Code of Practice requires local authorities to calculate their Liability Benchmark. The benchmark includes a projection of external debt required over the long term to fund the organisation's approved budgets and plans compared to the forecast of total borrowing outstanding. The benchmark should be used to evaluate the amount, timing and maturities needed for new borrowing in relation to the organisation's planned borrowing needs in order to avoid borrowing too much, too little, too long or too short.

2.4.8 The Liability Benchmark, based on the latest estimates for the capital financing requirement and borrowing at 30 September 2023, is shown in the graph below. The cash currently invested in externally managed funds has been incorporated in the available cash, reducing the net and gross loans requirement. The graph shows that the Council is expected to have capacity to continue utilising cash to borrow internally beyond the MTFP period.



2.4.9 Under the Prudential Code, the Council is also required to report on the affordability of the Council's capital plans to ensure that the capital assets proposed means that the total capital investment of the authority remains within sustainable limits. The revised estimates reported are based on the position reported in the Council's

Budget Management Report – Quarter 2 which is based on information as at 30 September 2023.

2.4.10 The first of these indicators is Financing Costs to net revenue stream. This indicator identifies the trend in the cost of capital, (borrowing and other long-term obligation costs net of investment income), against the net revenue stream. The net revenue stream is the Council's core funding of Council Tax, Business rates, and unringfenced central government grants. Investment income includes interest from Treasury Management activities and interest from loans to joint ventures and subsidiaries.

	2023/24 Original Estimate £'000	2023/24 Revised Estimate £'000
Cost of Capital	13	13
Net Revenue Stream	13,444	13,357
Ratio %	**0.1%**	**0.1%**

2.4.11 The second indicator is the Net income from commercial investment to net revenue stream. This indicator is intended to show the financial exposure of the authority to the loss of income.

2.4.12 Net income from commercial investments comprises net income from financial investments (other than treasury management investments), together with net income from other assets held primarily for financial return, such as commercial property.

	2023/24 Original Estimate £'000	2023/24 Revised Estimate £'000
Commercial Investment	1,090	1,130
Net Revenue Stream	13,444	13,357
Ratio %	**8.1%**	**8.5%**

2.5 Borrowing

2.5.1 The Council's forecast year end capital financing requirement (CFR) for 2023/24 is £41.943m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing), or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. At 30 September 2023 the Council has external borrowing of £8.000m. The balance of £33.943m is financed in the short term by the utilisation of cash flow funds in lieu of borrowing. This is a prudent and cost-effective approach in the current economic climate but will require ongoing monitoring in the event that any upside risk to gilt yields prevails.

2.5.2 The Council’s current external borrowing portfolio is comprised of one loan of £8.000m from the Public Works Loan Board (PWLB). The loan is a long term loan with repayment on maturity, reflecting the expectation that the Council will have a long term borrowing requirement. The loan commenced in March 2019 and will run to September 2068 (49.5 years) at an annual interest rate of 2.41%.

2.5.3 The capital programme is being kept under regular review due to the effects of inflationary pressures, shortages of materials and labour. Our borrowing strategy will, therefore, also be regularly reviewed and then revised, if necessary, in order to achieve optimum value and risk exposure in the long-term.

2.6 **Compliance with Treasury and Prudential Limits**

2.6.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the half year ended 30 September 2023, the Council has operated within the treasury and prudential indicators set out in the Council’s Capital Investment Strategy and Treasury Management Policy for 2023/24. The Director of Finance reports that no difficulties are envisaged for the current or future years in complying with these indicators.

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

2.7 **Annual investment strategy**

2.7.1 In accordance with the CIPFA Treasury Management Code of Practice, the Council’s Annual Investment Strategy sets out the Council’s investment priorities as being:

- Security of capital
- Liquidity
- Yield

2.7.2 The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council’s risk appetite. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions.

2.7.3 Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the period ended 30 September 2023.

2.8 **Creditworthiness**

2.8.1 The credit rating agency Fitch continues to hold the UK sovereign debt rating on Negative Outlook, reflecting a downside bias to the current ratings in light of expectations of weaker finances and the economic outlook. Standard and Poor and Moody’s credit rating agencies both report a stable outlook.

2.9 **Investment Counterparty criteria**

2.9.1 The current investment counterparty criteria selection approved in the Annual Investment Strategy is meeting the requirement of the treasury management function.

2.9.2 The Council has continued to limit exposure to banks and building societies with deposits limited to the Council's bank, Lloyds, and the UK government through investments with the Debt Management Office (DMO).

2.10 **Investment balances**

2.10.1 The average level of funds available for investment purposes during the first half of the financial year was £26.009m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme. The average interest rate earned on investments was 4.63% (low 2.43%, high 5.25%). This compares to average Bank of England Base Rate of 4.80% (low 4.25%, high 5.25%). The Sterling Overnight Index Average (SONIA) benchmark is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors. Over the same period, the average SONIA rate was 4.73% (low 4.18%, high 5.19%). Performance against these benchmarks reflects effective short-term cash management, avoiding excessive exposure to the lower rates paid on overnight bank deposits while maintain liquidity and investing with high credit quality counterparties.

2.10.2 Although interest receivable rates have remained high during 2023/24, the cost of borrowing remains higher than the benefit of investing cash, known as the 'cost of carry.' Therefore, the Council will continue to maximise the use of internal borrowing, utilising internal cash balances to offset the need to borrowing in the short term and reducing the net interest cost.

2.10.3 The Council's investment portfolio is set out in appendix 3.

2.11 **Externally Managed Funds**

2.11.1 During 2020/21 the Council identified an amount of core cash available for longer-term investment. The cash was invested in a Money Market Fund managed by Royal London Asset Management. This is an 'accumulating' fund, which means it does not pay regular interest. Instead, returns generated by the fund are reinvested, increasing the value of the investment. A total of £2.350m was invested in November 2020. The fair value at 30 September 2023 was £2.459m. This represents an unrealised gain of £0.109m.

2.12 **Credit Ratings**

2.13 Credit rating information is supplied by our treasury consultants, Link Asset Services, on all counterparties that comply with the Council's criteria. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. There have been no changes to the Council's approved counter party list as a result of changes to credit ratings during the year.

Financial Implications

3.1.1 The Council has set an income budget of £0.290m for 2023/24. At 30 September the Council had received £0.417m, benefiting from the increase in interest rates and higher cash balances than expected.

3.1.2 Based on current external borrowing, the Council will incur interest payable costs of £0.193m. No additional borrowing is expected to be required during the year. The interest expense budget for 2023/24 is £0.302m.

3.1.3 The additional income and reduced borrowing cost forecast has been reported in the Budget Monitoring Report to Policy and Resources Committee and will continued to be monitored during the remainder of the year.

Legal Implications

4.1 There are no legal implications arising directly from this report.

Equal, Staffing, Environmental, Community Safety, Public Health, Customer Services Centre, Communications & Website, Health & Safety Implications

5.1 None specific.

Risk Management

6.1 The Code of Practice on Treasury Management identifies eight key risks that are inherent in Treasury Management activity. The Council's Treasury Management Policy sets out the risks that it is seeking to manage:

1.	**Credit and Counterparty Risk**	That the entity holding Council funds is unable to repay them when due.	This risk is managed through the maintenance of a list of authorised counterparties, with separate limits to ensure that the exposure to this risk is limited.
2.	**Liquidity Risk**	That the Council may not have the cash it needs on a day to day basis to pay its bills.	This risk is managed through forecasting and the retention by the Council of an adequate working capital balance. In addition, through the Public Works Loan Board and other organisations, the Council is able to access short term borrowing, usually within 24 hours.
3.	**Interest Rate Risk**	That the costs and benefits expected do not materialise due to changes in interest rates.	This risk is managed through the placing of different types and maturities of investments, the forecasting and monitoring of the interest budget (with assistance from the Council's retained advisors).

4.	**Exchange Rate Risk**	That losses or gains are made due to fluctuations in the prices of currency.	The Council does not engage in any significant non-sterling transactions.
5.	**Inflation**	That Inflation erodes the value of investments.	The Council priorities security and liquidity over yield but where possible investment returns will aim to match inflation to preserve the capital value.
6.	**Refinancing Risk**	That the loans taken by the Council will become due for repayment and need replacing at a time when there is limited finance available or interest rates are significantly higher.	The timing of loan maturities is monitored along with interest rate forecasts. Officers ensure that due dates are monitored and seek advice from the Council's advisors about when to raise any finance needed.
7.	**Legal and Regulatory Risk**	That the Council operates outside its legal powers.	This risk is managed through the Council's training and development of Officers involved in Treasury Management, the independent oversight of Internal and External Audit, and the advice (for example on the contents of this strategy) taken from the Council's Treasury advisors.
8.	**Operational e.g. Fraud, Error and Corruption**	The risk that losses will be caused by impropriety or incompetence.	This risk is managed through the controls in the Council's financial procedures. For example, the segregation of duties between those making investment decisions and those transferring funds
9.	**Market / Price Risk**	That the price of investments held fluctuates, principally in secondary markets.	The majority of the Council's investments are not traded, but where they are (e.g. Property investment portfolio) the main investments' value comes from the income they generate which is generally long term and secure. The Council's investment in Royal London Asset Management, relating to the Croxley Park reserve, is held for the long term which enables the Council to reduce the risk of needing to divest when prices fall.

6.2 In the current macro-economic environment, the two most high-profile risks remain interest rate risk and refinancing risk. This is a shift in focus from credit and counterparty risk which had been the prevailing concern from the 2008 banking crisis through to 2022/23 when interest rates started rising rapidly.

6.3 The principles set out in the Treasury Management Policy and Annual Investment Strategy remain appropriate to manage these risks.

Recommendation

8.1 That the Committee notes the contents of the 2023/24 mid-year review of the Treasury Management function and recommends the report to Council.

Report prepared by: Hannah Doney, Head of Finance

Data Quality

Data sources:

Link reports

Data checked by:

Hannah Doney, Head of Finance

Data rating: Tick

1	**Poor**	
2	**Sufficient**	
3	**High**	**x**

Background Papers

Treasury Management Strategy Statement 2023/24

APPENDICES / ATTACHMENTS

- Appendix 1 – Economics Update
- Appendix 2 – PWLB Rates
- Appendix 3 – Investment Portfolio

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Economics Update

This update has been provided by the Council's appointed Treasury Management Advisors, Link Group. The update was prepared in October 2023 and reflects the position at 30 September 2023.

- The first half of 2023/24 saw:
  - Interest rates rise by a further 100bps, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.
  - Short, medium and long-dated gilts remain elevated as inflation continually surprised to the upside.
  - A 0.5% m/m decline in real GDP in July, mainly due to more strikes.
  - CPI inflation falling from 8.7% in April to 6.7% in August, its lowest rate since February 2022, but still the highest in the G7.
  - Core CPI inflation declining to 6.2% in August from 7.1% in April and May, a then 31 years high.
  - A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the 3myy growth of average earnings rose to 7.8% in August, excluding bonuses).
- The 0.5% m/m fall in GDP in July suggests that underlying growth has lost momentum since earlier in the year. Some of the weakness in July was due to there being almost twice as many working days lost to strikes in July (281,000) than in June (160,000). But with output falling in 10 out of the 17 sectors, there is an air of underlying weakness.
- The fall in the composite Purchasing Managers Index from 48.6 in August to 46.8 in September left it at its lowest level since COVID-19 lockdowns reduced activity in January 2021. At face value, it is consistent with the 0.2% q/q rise in real GDP in the period April to June, being followed by a contraction of up to 1% in the second half of 2023.
- The 0.4% m/m rebound in retail sales volumes in August is not as good as it looks as it partly reflected a pickup in sales after the unusually wet weather in July. Sales volumes in August were 0.2% below their level in May, suggesting much of the resilience in retail activity in the first half of the year has faded.
- As the growing drag from higher interest rates intensifies over the next six months, we think the economy will continue to lose momentum and soon fall into a mild recession. Strong labour demand, fast wage growth and government handouts have all supported household incomes over the past year. And with CPI inflation past its peak and expected to decline further, the economy has got through the cost-of- living crisis without recession. But even though the worst of the falls in real household disposable incomes are behind us, the phasing out of financial support packages provided by the government during the energy crisis means real incomes are unlikely to grow strongly. Higher interest rates will soon bite harder too. We expect the Bank of England to keep interest rates at the probable peak of 5.25% until the second half of 2024. Mortgage rates are likely to stay above 5.0% for around a year.
- The tightness of the labour market continued to ease, with employment in the three months to July falling by 207,000. The further decline in the number of job vacancies from 1.017m in July to 0.989m in August suggests that the labour market has loosened a bit further since July. That is the first time it has fallen below 1m since July 2021. At 3.0% in July, and likely to have fallen to 2.9% in August, the job vacancy rate is getting closer to 2.5%, which would be consistent with slower wage growth. Meanwhile, the 48,000 decline in the supply of workers in the three months to July offset some of the loosening in the tightness of the labour market. That was due to a 63,000 increase in inactivity in the three months to July as more people left the labour market due to long term sickness or to enter education. The supply of labour is still 0.3% below its pre-pandemic February 2020 level.

- But the cooling in labour market conditions still has not fed through to an easing in wage growth. While the monthly rate of earnings growth eased sharply from an upwardly revised +2.2% in June to -0.9% in July, a lot of that was due to the one-off bonus payments for NHS staff in June not being repeated in July. The headline 3myy rate rose from 8.4% (revised up from 8.2%) to 8.5%, which meant UK wage growth remains much faster than in the US and in the Euro-zone. Moreover, while the Bank of England's closely watched measure of regular private sector wage growth eased a touch in July, from 8.2% 3myy in June to 8.1% 3myy, it is still well above the Bank of England's prediction for it to fall to 6.9% in September.

- CPI inflation declined from 6.8% in July to 6.7% in August, the lowest rate since February 2022. The biggest positive surprise was the drop in core CPI inflation, which declined from 6.9% to 6.2%. That reverses all the rise since March and means the gap between the UK and elsewhere has shrunk (US core inflation is 4.4% and in the Euro-zone it is 5.3%). Core goods inflation fell from 5.9% to 5.2% and the further easing in core goods producer price inflation, from 2.2% in July to a 29-month low of 1.5% in August, suggests it will eventually fall close to zero. But the really positive development was the fall in services inflation from 7.4% to 6.8%. That also reverses most of the rise since March and takes it below the forecast of 7.2% the Bank of England published in early August.

- In its latest monetary policy meeting on 20 September, the Bank of England left interest rates unchanged at 5.25%. The weak August CPI inflation release, the recent loosening in the labour market and the downbeat activity surveys appear to have convinced the Bank of England that it has already raised rates far enough. The minutes show the decision was "finely balanced". Five MPC members (Bailey, Broadbent, Dhingra, Pill and Ramsden) voted for no change and the other four (Cunliffe, Greene, Haskel and Mann) voted for a 25bps hike.

- Like the US Fed, the Bank of England wants the markets to believe in the higher for longer narrative. The statement did not say that rates have peaked and once again said if there was evidence of more persistent inflation pressures "further tightening in policy would be required". Governor Bailey stated, "we'll be watching closely to see if further increases are needed". The Bank also retained the hawkish guidance that rates will stay "sufficiently restrictive for sufficiently long".

- This narrative makes sense as the Bank of England does not want the markets to decide that a peak in rates will be soon followed by rate cuts, which would loosen financial conditions and undermine its attempts to quash inflation. The language also gives the Bank of England the flexibility to respond to new developments. A rebound in services inflation, another surge in wage growth and/or a further leap in oil prices could conceivably force it to raise rates at the next meeting on 2nd November, or even pause in November and raise rates in December.

- The yield on 10-year Gilts fell from a peak of 4.74% on 17th August to 4.44% on 29th September, mainly on the back of investors revising down their interest rate expectations. But even after their recent pullback, the rise in Gilt yields has exceeded the rise in most other Developed Market government yields since the start of the year. Looking forward, once inflation falls back, Gilt yields are set to reduce further. A (mild) recession over the next couple of quarters will support this outlook if it helps to loosen the labour market (higher unemployment/lower wage increases).

- The pound weakened from its cycle high of $1.30 in the middle of July to $1.21 in late September. In the first half of the year, the pound bounced back strongly from the Truss debacle last autumn. That rebound was in large part driven by the substantial shift up in UK interest rate expectations. However, over the past couple of months, interest rate expectations have dropped sharply as inflation started to come down, growth faltered, and the Bank of England called an end to its hiking cycle.

- The FTSE 100 has gained more than 2% since the end of August, from around 7,440 on 31st August to 7,608 on 29th September. The rebound has been primarily driven by higher energy prices which boosted the valuations of energy companies. The FTSE 100's relatively high concentration of energy companies helps to explain why UK equities outperformed both US and Euro-zone equities in September. Nonetheless, as recently as 21st April the FTSE 100 stood at 7,914.

Public Works Loan Board Rates – April to September 2023

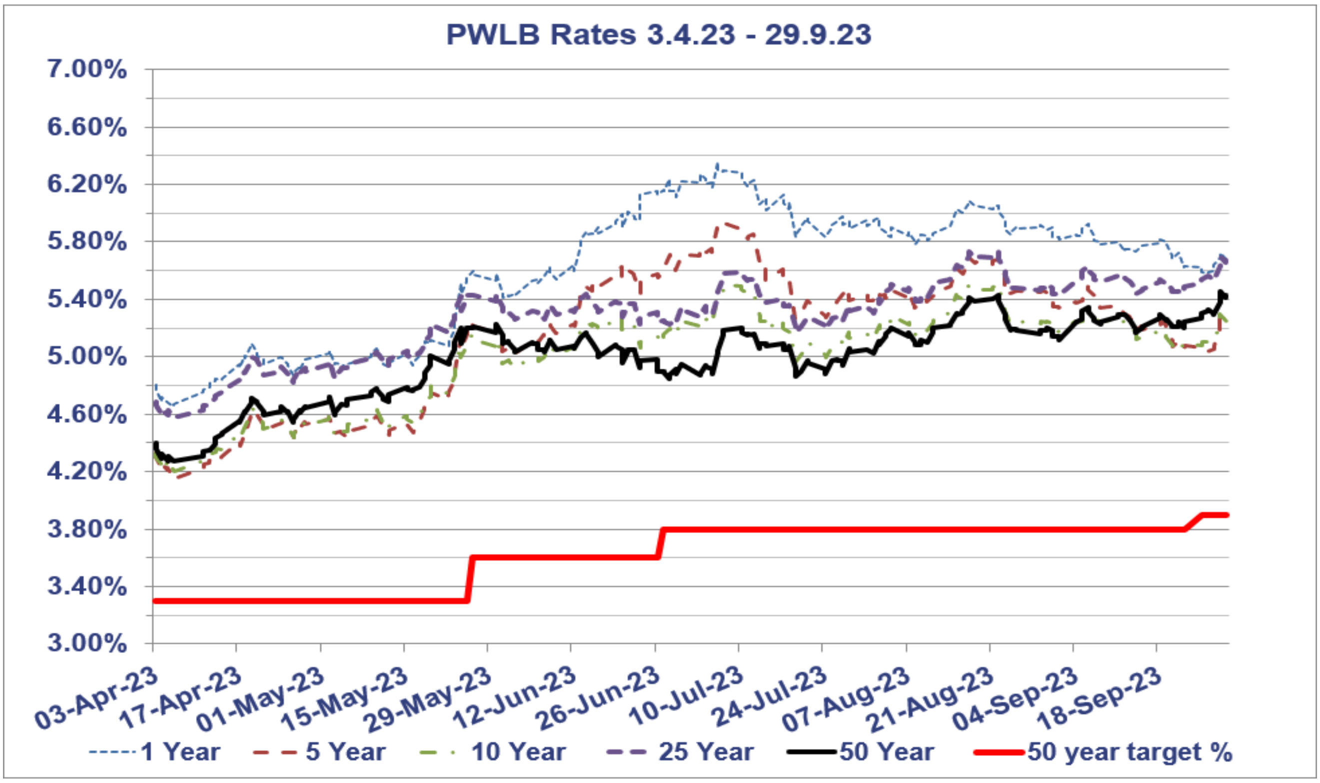
PWLB maturity certainty rates (gilts plus 80bps) year to date to 29th September 2023

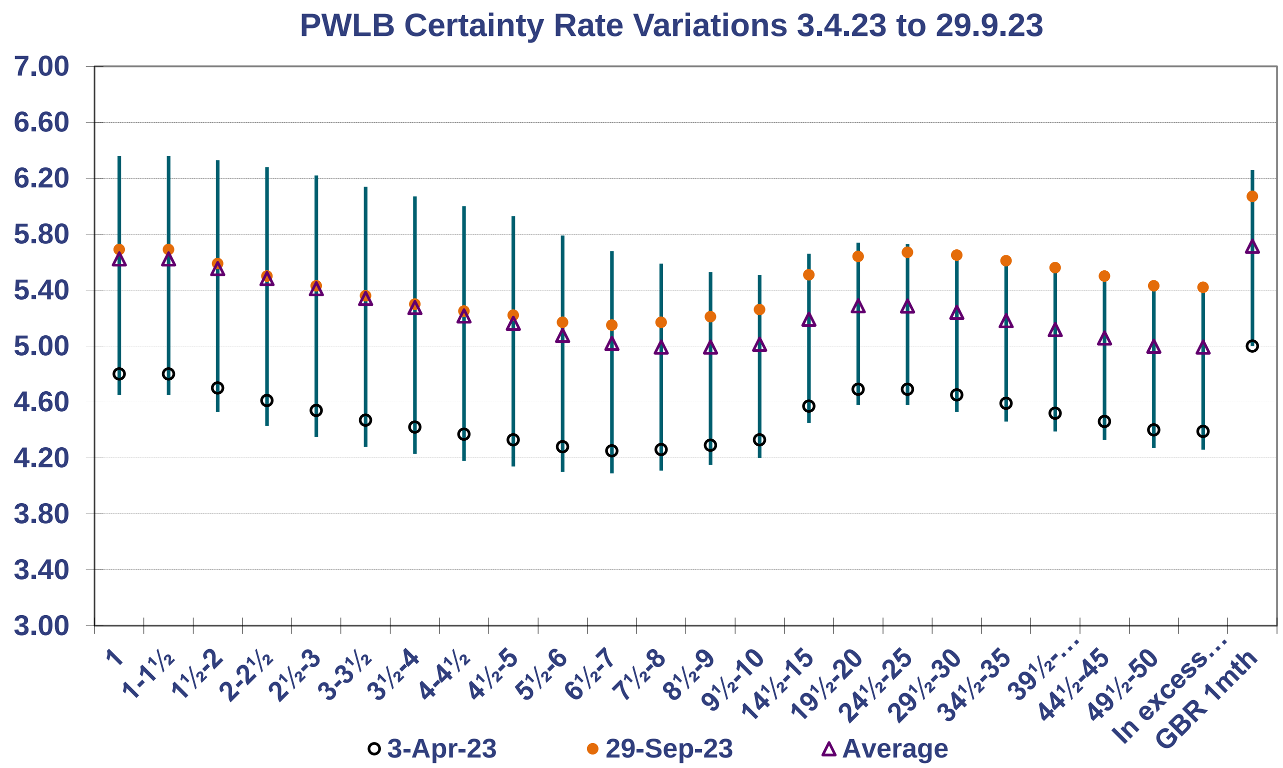
Gilt yields and PWLB certainty rates were on a generally rising trend throughout the first half of 2023/24. At the beginning of April, the 5-year rate was the cheapest part of the curve and touched 4.14% whilst the 25-year rate was relatively expensive at 4.58%.

July saw short-dated rates peak at their most expensive. The 1-year rate spiked to 6.36% and the 5-year rate to 5.93%. Although, in due course, short-dated rate expectations fell, the medium dates shifted higher through August and the 10-year rate pushed higher to 5.51% and the 25-year rate to 5.73%. The 50-year rate was 4.27% on 5th April but rose to 5.45% on 28th September.

Link Group forecast rates to fall back over the next two to three years as inflation dampens. The CPI measure of inflation is expected to fall below 2% in the second half of 2024, and we forecast 50-year rates to stand at 3.90% by the end of September 2025. However, there is considerable gilt issuance to be digested by the market over the next couple of years, as a minimum, so there is a high degree of uncertainty as to whether rates will fall that far.

PWLB RATES 01.04.23 - 30.09.23





HIGH/LOW/AVERAGE PWLB RATES FOR 01.04.23 – 29.09.23

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.65%	4.14%	4.20%	4.58%	4.27%
Date	06/04/2023	06/04/2023	06/04/2023	06/04/2023	05/04/2023
High	6.36%	5.93%	5.51%	5.73%	5.45%
Date	06/07/2023	07/07/2023	22/08/2023	17/08/2023	28/09/2023
Average	5.62%	5.16%	5.01%	5.29%	5.00%
Spread	1.71%	1.79%	1.31%	1.15%	1.18%

- The current PWLB rates are set as margins over gilt yields as follows: -.
    - **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
    - **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
    - **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

Appendix 3

Investment Portfolio

Three Rivers District Council

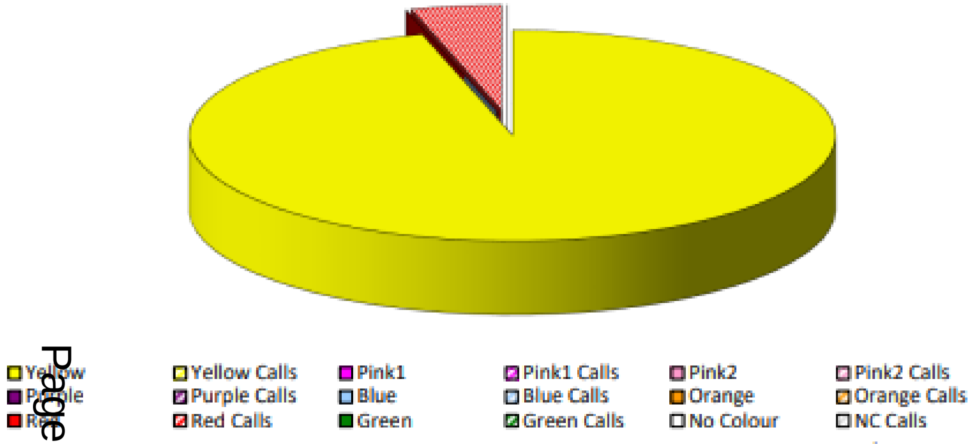
Current Investment List

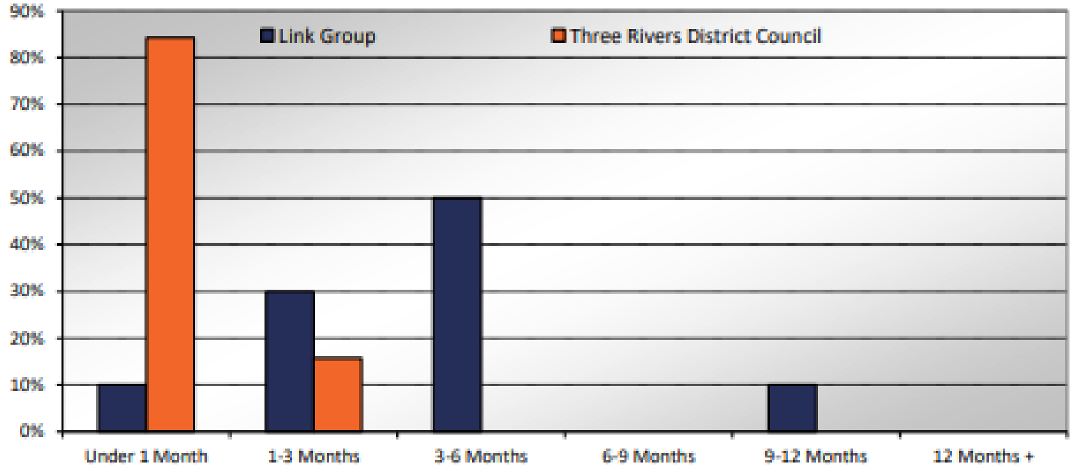
Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest LT / Fund Rating	Historic Risk of Default
Lloyds Bank Plc (RFB)	1,436,635	0.01%		Call	A+	0.000%
DMO	21,000,000	5.17%	29/09/2023	02/10/2023	AA-	0.000%
DMO	4,375,959	5.17%	29/09/2023	06/10/2023	AA-	0.000%
DMO	5,000,000	4.79%	06/06/2023	06/12/2023	AA-	0.004%
Total Investments	**£31,812,594**	**4.88%**				0.001%

Note: An historic risk of default is only provided if a counterparty has a counterparty credit rating and is not provided for an MMF or USDBF, for which the rating agencies provide a fund rating. The portfolio's historic risk of default therefore measures the historic risk of default attached only to those investments for which a counterparty has a counterparty credit rating and also does not include investments which are not rated.

Three Rivers District Council

Portfolio Composition by Link Group's Suggested Lending Criteria





Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

Portfolios weighted average risk number = 1.18

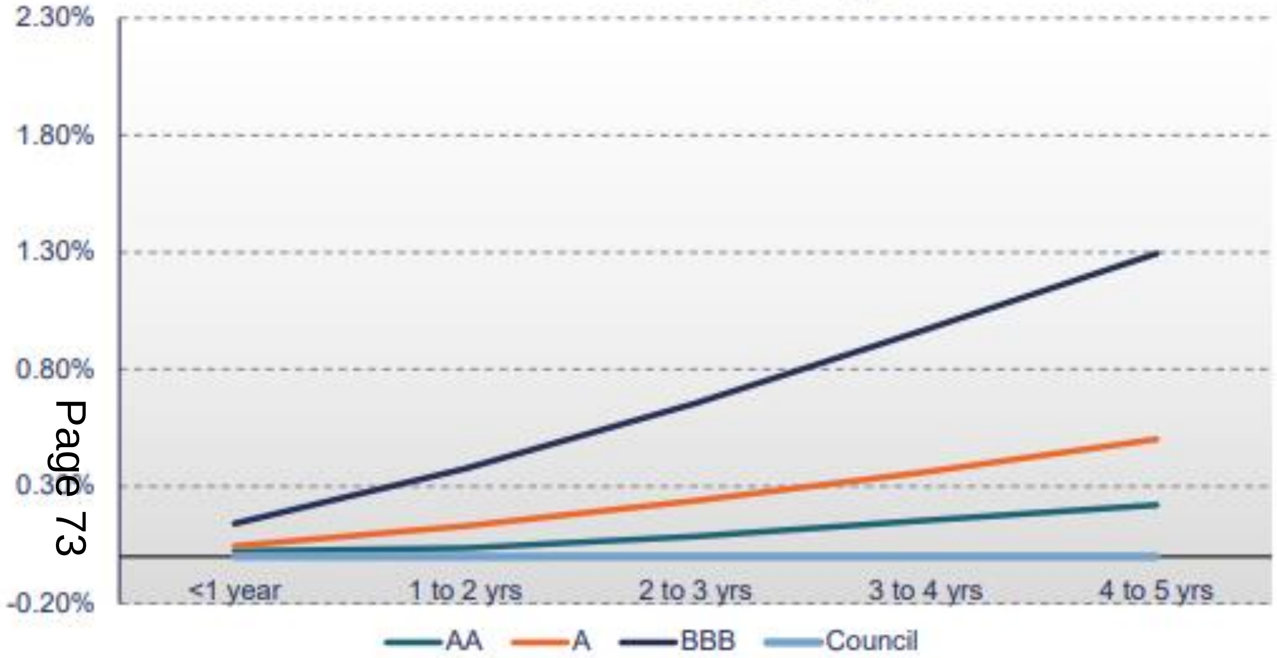
WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution	Excluding Calls/MMFs/USDBFs WAM	Excluding Calls/MMFs/USDBFs WAM at Execution
Yellow	95.48%	£30,375,959	0.00%	£0	0.00%	5.11%	13	33	13	33
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Orange	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Red	4.52%	£1,436,635	100.00%	£1,436,635	4.52%	0.01%	0	0	0	0
Green	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
	100.00%	**£31,812,594**	**4.52%**	**£1,436,635**	**4.52%**	**4.88%**	**13**	**32**	**13**	**33**

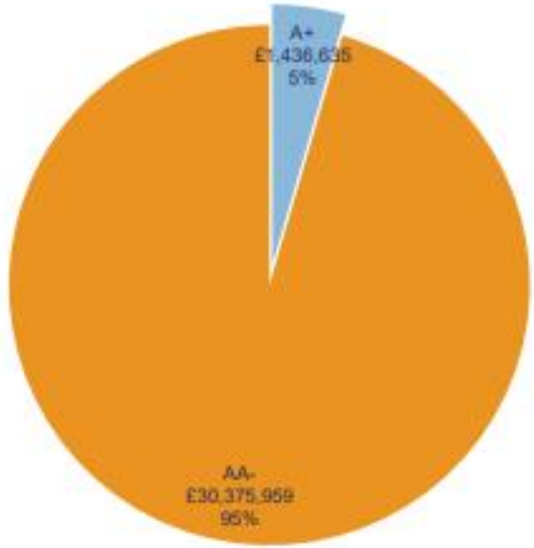
Three Rivers District Council

Investment Risk and Rating Exposure

Investment Risk Vs. Rating Categories



Rating Exposure



Historic Risk of Default

Rating/Years	<1 year	1 to 2 yrs	2 to 3 yrs	3 to 4 yrs	4 to 5 yrs
AA	0.02%	0.04%	0.09%	0.16%	0.22%
A	0.05%	0.13%	0.24%	0.36%	0.50%
BBB	0.14%	0.38%	0.65%	0.97%	1.29%
Council	0.00%	0.00%	0.00%	0.00%	0.00%

Historic Risk of Default
This is a proxy for the average % risk for each investment based on over 30 years of data provided by Fitch, Moody's and S&P. It simply provides a calculation of the possibility of average default against the historical default rates, adjusted for the time period within each year according to the maturity of the investment.

Chart Relative Risk
This is the authority's risk weightings compared to the average % risk of default for "AA", "A" and "BBB" rated investments.

Rating Exposures
This pie chart provides a clear view of your investment exposures to particular ratings.

Note: An historic risk of default is only provided if a counterparty has a counterparty credit rating and is not provided for an MMF or USDBF, for which the rating agencies provide a fund rating. The portfolio's historic risk of default therefore measures the historic risk of default attached only to those investments for which a counterparty has a counterparty credit rating and also does not include investments which are not rated.

AUDIT COMMITTEE – 30 NOVEMBER 2023

PART I - NOT DELEGATED

. DRAFT CAPITAL STRATEGY AND THE TREASURY MANAGEMENT POLICY
(DoF)

1. Summary

1.1 The purpose of this report is to enable Audit Committee to comment on the draft capital strategy and treasury management policy over the medium term (2024/25 to 2026/27).

2. Details

2.1 The capital strategy (the Strategy) is designed to give a clear and concise view of how the council determines it priorities for capital investment, decides how much it can afford to borrow and sets its risk appetite. It is intended to give a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability.

2.2 The framework the government uses to control how much councils can afford to spend on capital investment is known as the Prudential Framework. The objectives of the Prudential Code, which sets out how this framework is to be applied, are to ensure that local authorities' capital investment plans are:

- affordable, prudent, and sustainable,
- that treasury management decisions are taken in accordance with good professional practice, and
- that local strategic planning, asset management planning and proper option appraisal are supported.

2.3 This capital strategy sets out how the Council will achieve the objectives set out above.

Capital Investment Programme - Expenditure

2.4 Capital Investment is the term used to cover all expenditure by the council that can be classified as capital under legislation and proper accounting practice. This includes expenditure on:

- property, plant and equipment,
- heritage assets,

- investment properties., and
- loans to subsidiaries and joint ventures

2.5 Property, plant and equipment includes assets that have physical substance and are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes. They are expected to be used during more than one financial year. Expenditure on the acquisition, creation or enhancement of these assets is capitalised on an accruals basis, provided that the Council is likely to benefit from the future economic benefits or service potential and the cost of the item can be measured reliably. Expenditure on repairs and maintenance is charged to the revenue account when it is incurred.

2.6 Heritage Assets are held with the objective of increasing knowledge, understanding and the appreciation of the Council's history and local area.

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

2.8 Detailed accounting policies in relation to assets and capital expenditure may be found in the annual statement of accounts.

2.9 **Appendix 1** shows the 2023/24 revised capital budget and draft capital budgets for the period 2024/25 to 2026/27. A summary of the proposed capital programme is set out in the following table, ***for the purpose of the draft strategy 2026/27 includes only those schemes normally rolled forward and all years will be updated as part of the 2024/25 budget setting process***.:

Capital Investment Programme	Actual 2022/23 £m	Forecast Year End 2023/24 £	Latest Budget 2024/25 £	Latest Budget 2025/26 £	Rolled Forward Budget 2026/27 £m
Leisure, Environment and Community	3.292				
Infrastructure, Housing and Economic Development	1.070				
General Public Services & Economic Development		3.037	1.827	1.827	1.814
Climate Change Leisure & Community		1.475	1.114	0.793	0.793

Policy and Resources	1.098	1.554	0.935	0.795	0.779
Major Projects	1.240	13.957	0.000	0.000	0.000
Total Capital Investment	**6.700**	**20.023**	**3.875**	**3.415**	**3.386**

2.10 Forecast expenditure of £10.343M relates to delivery of housing under the Local Housing Fund, grant of £4.492 will be received in respect of this borrowing with the balance funded from borrowing which will be repaid by future rents in respect of these properties or interest payments from Three Rivers Homes Ltd. The balance of major projects expenditure relates mainly to the acquisition of the Foxgrove Path site which has been transferred to Watford Community Homes for development of affordable housing. The Council has lent the money to Watford Community Housing for the purchase of the land by way of a development agreement.

Capital Investment Programme – Funding

2.11 The Capital Investment Programme can be funded from a variety of sources. Explanations of the funding sources are set out in the following paragraphs.

2.12 Government Grants & Other Contributions: These are grants for specific purposes which may be available from the Government, e.g. Disabled Facility Grants. The Council can also attract partnership funding from other local authorities and agencies e.g. Local Enterprise Partnership (LEP). The Council has also benefited in the past from other funding such as lottery grants.

2.13 Section 106 and Community Infrastructure Levy Contributions: These are contributions from developers to the public services and amenities required for the development.

2.14 Capital Receipts Reserve: Capital receipts are derived when selling assets such as land. The main receipt relates to the arrangements made when the Council sold its housing stock to Thrive Homes Ltd in 2008; the Transfer Agreement included a Right to Buy (RTB) Sharing Agreement whereby the Council is entitled to a share of the post-transfer receipts from RTB sales and a 'VAT Shelter Agreement' whereby the Council benefits from the recovery of VAT on continuing works carried out by Thrive. The current MTFP forecasts that this reserve will be fully utilised to support the capital programme.

2.15 Revenue Contributions: Revenue balances from the General Fund may be used to support capital expenditure.

2.16 New Homes Bonus Reserve: New Homes Bonus is a grant relating to the number of new homes delivered in a local authority area. There are no government restrictions on whether this is capital or revenue, nor is there any ring-fence imposed.

2.17 Borrowing: The Council is allowed to borrow to support its capital expenditure as long as this is prudent, sustainable, and affordable. Where the Council decides to borrow to fund capital expenditure the annual cost of borrowing is included within the revenue budget.

2.18 The capital programme includes an assessment of likely available resources to finance capital expenditure and includes assumptions regarding capital receipts, which have been estimated at £1.100m in 2023/24 and £1.000m in future years.

2.19 **Appendix 3** shows the sources of capital funding proposed over the period 2023/24 to 2026/27, including the funding generated in each year and balances carried forward at the end of each year. The funding for the proposed capital programme is set out in the table below, ***for the purpose of the draft strategy 2026/27 includes only those schemes normally rolled forward and all years will be updated as part of the 2024/25 budget setting process***:

Funding	**Actual 2022/23 £m**	**Forecast Year End 2023/24 £**	**Proposed Budget 2024/25 £**	**Proposed Budget 2024/25 £**	**Proposed Budget 2024/25 £m**
Grants	0.633	5.157	0.586	0.586	0.586
Reserves	2.095	0.333	0.095	0.095	0.095
Capital Receipts	3.299	1.100	1.000	1.000	1.000
Section 106 and CIL	0.673	1.146	0.321	0.000	0.000
Borrowing	0.000	12.287	1.873	1.734	1.705
Total Funding Applied	**6.700**	**20.023**	**3.874**	**3.415**	**3.386**

2.24 **Appendix 4** shows details of all Section 106 contributions currently received and available to use.

Future Investment

2.25 Future Investment Schemes will be assessed on the basis of a full business case which will include full resourcing for the project and an assessment of affordability.

Priority areas for future capital investment are:

- Schemes that generate a financial surplus for the Council; and in particular those that increase the supply of housing locally (for example through the joint ventures with Watford Community Housing and Thrive).
- Schemes that generate revenue budget savings for the Council.
- Schemes that allow the Council to benefit from future economic regeneration potential within the local area; especially those that attract additional investment into the local area from regional or national agencies.
- Schemes that provide additional or improved services to the Council's residents, in line with the Council's Strategic Plan.

2.26 The Council will continue to seek opportunities to work in partnership with others to promote economic development and the provision of housing within Three Rivers wider economic area. Current partners include Countrywide Properties for the South Oxhey scheme, along with Watford Community Homes and Thrive Homes as the two major local registered social providers.

2.27 The Council has established Three Rivers Commercial Services to allow it to work more closely with providers and exploit future commercial opportunities. The Council currently has two joint ventures with Watford Community Housing, Three Rivers Development LLP and Three Rivers Homes Ltd.

3. Treasury Management

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

3.2 The Treasury Management Strategy Statement (**Appendix 5**) details the policies, practices, objectives and approaches to risk management of its treasury management activities, which is to be monitiored by the Audit Committee. The Council's investment strategy's primary objectives are safeguarding the repayment of the principal and interest of its investments on time, and then ensuring adequate liquidity, with the investment return being the final objective. The strategy allows the Director of Finance, in consultation with the Lead Member, the delegated authority to approve any variation to the Treasury Management Strategy during the year with the objective of maximising the Council's returns without significantly increasing risk. This could include use of other investment instruments such as Government bonds or Gilts.

4. Prudential Indicators

4.1 All Local Authorities are required to set prudential indicators for the forthcoming year and following years before the beginning of the forthcoming year. The indicators must be set by full Council.

The prudential indicators fall into two main categories of 'Prudence' and 'Affordability'. The indicators for Prudence are further separated between those relating to the Council's capital expenditure plans and those relating to levels of external debt.

4.2 Prudence – Capital Expenditure

4.3 The Capital Financing Requirement (CFR) is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure, which has not immediately been paid for, will increase the CFR. An increase in the CFR does not necessarily mean that the council will borrow externally to fund the increase. The Council manages its cash balances as a whole and may choose to use internal cash (generated by holding reserves and through timing differences between income and expenditure).

	2023/24 Forecast £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Total Proposed Capital Expenditure	**20.023**	**3.875**	**3.415**	**3.386**
Capital Financing:				
Grants	(5.157)	(0.586)	(0.586)	(0.586)
Reserves	(0.333)	(0.095)	(0.095)	(0.095)
Capital Receipts	(1.100)	(1.000)	(1.000)	(1.000)
Section 106 and CIL	(1.146)	(0.321)	(0.000)	(0.000)
Total Funding	**(7.736)**	**(2.002)**	**(1.681)**	**(1.681)**
Gap	12.287	1.873	1.734	1.705
MRP – pre-2023/24 borrowing	(0.188)	(0.188)	(0.188)	(0.188)
MRP – 2023/24 borrowing onwards		(0.113)	(0.188)	(0.256)
Opening CFR	25.484	36.583	38.155	39.513
Closing CFR	**36.583**	**38.155**	**39.513**	**40.774**

Note: the opening CFR is subject to restatement following audit; the borrowing figure of £12.287M in 2023/24 includes £9.458M of loans in respect of housing.

Prudence – External Debt

4.5 There are two limits on external debt: the 'Operational Boundary' and the 'Authorised Limit'. Both are consistent with existing plans and the proposals in the budget report for capital expenditure and financing, and with approved treasury management policy statement and practices.

4.6 These prudential indicators ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2022/23 and next two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue purposes.

4.7 The Operational Boundary is the limit beyond which external borrowing is not normally expected to exceed. In most cases this would link directly to the authority's plans for capital expenditure, its estimates for CFR and its estimate of cashflow requirements for the year for all purposes. The Council may need to borrow, this limit represents a contingency should the need arise.

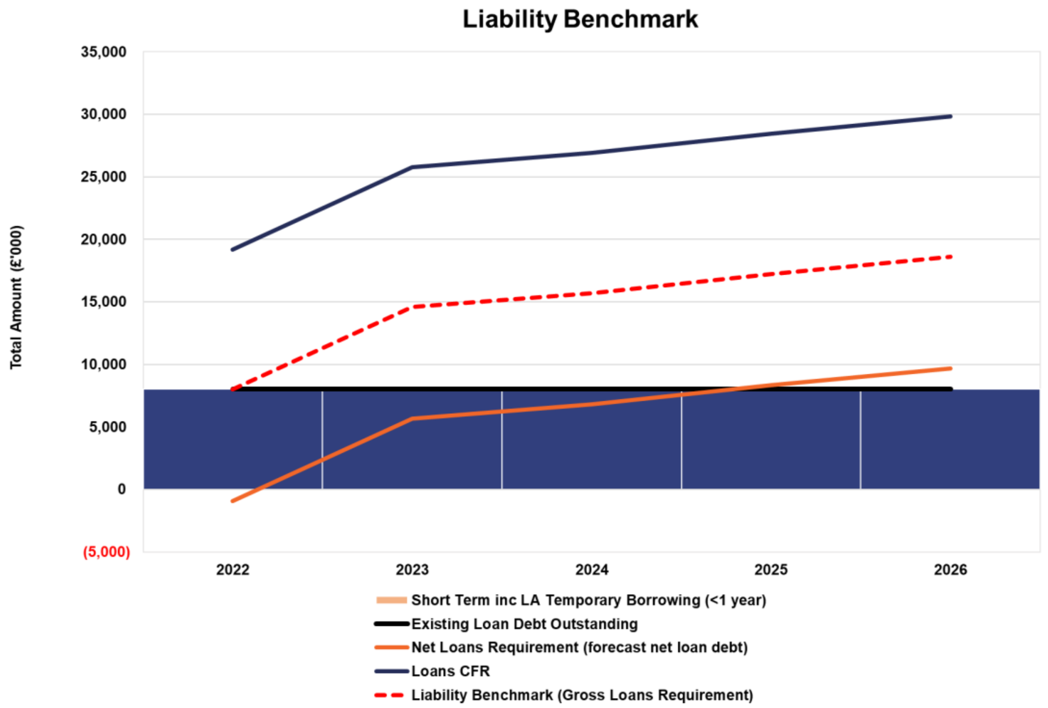
Operational Boundary	2023/24 £m	2024/25 £m	2025/26 Estimate £m	2026/27 Estimate £m
Borrowing	30.000	32.000	33.000	34.000

4.8 The Authorised Limit for External Borrowing controls the overall level of borrowing and represents the limit beyond which external long and short term borrowing is prohibited, and this limit needs to be set or revised by the Council. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (2) of the Local Government Act 2003.

Authorised Limit	2023/24 £m	2024/25 £m	2025/26 Estimate £m	2026/27 Estimate £m
Borrowing	42.000	39.000	40.000	41.000

Treasury Management Indicator – The Liability Benchmark

4.9 The Treasury Management Code of Practice requires local authorities to calculate their Liability Benchmark. The benchmark includes a projection of external debt required over the long term to fund the organisation's approved budgets and plans compared to the Forecast of total borrowing outstanding. The benchmark should be used to evaluate the amount, timing and maturities needed for new borrowing in relation to the organisation's planned borrowing needs in order to avoid borrowing too much, too little, too long or too short.



Graph to be updated for final figures.

Affordability

4.10 The fundamental objective in the consideration of the affordability of the authority's capital plans is to ensure that the level of investment in capital assets proposed means that the total capital investment of the authority remains within sustainable limits.

4.11 In considering the affordability of its capital plans, the authority is required to consider its forecast financial position, including all of the resources currently available to it and estimated for the future, together with the totality of its capital, borrowing and investment plans, income and expenditure forecasts and risks.

4.12 The following indicators provide an indication of the impact of the capital investment plans on the Council's overall finances.

Financing costs to net revenue stream

4.13 This indicator identifies the trend in the cost of capital, (borrowing and other long-term obligation costs net of investment income), against the net revenue stream. The net revenue stream is the Council's core funding of Council Tax, Business rates, and un-ringfenced central government grants. Investment income includes interest from Treasury Management activities and interest from loans to joint ventures and subsidiaries.

	2022/23 Actual £m	2023/24 Forecast £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Net Cost of Capital	0.010	(0.206)	0.019	0.038	
Net Revenue Stream	13.735	14.191	13.822	13.804	
Ratio %	**0.01%**	**-1.5%**	**0. 1%**	**0.3%**	

Net income from commercial investment to net revenue stream

4.14 This indicator is intended to show the financial exposure of the authority to the loss of income.

4.15 Net income from commercial investments comprises net income from financial investments (other than treasury management investments), together with net income from other assets held primarily for financial return, such as commercial property.

	2022/23 Actual £m	2023/24 Forecast £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Commercial Investment Income	1.129	1.129	1.150	1.182	
Net Revenue Stream	13.735	14.191	13.822	13.804	
Ratio %	**8%**	**8%**	**8%**	**8%**	

5. The Minimum Revenue Provision (MRP) Strategy and Policy Statement

5.1 The Minimum Revenue Provision (MRP) is designed to pay off an element of the capital spend which has not already been financed from existing revenue or capital resources. The Council is required to make prudent provision, by way of a charge to the revenue account, which means that the repayment of debt is enabled over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

5.2 The Council is also able to increase the rate it reduces its CFR by undertaking additional voluntary payments (voluntary revenue provision - VRP) in addition to any MRP; this is not currently the Council's policy.

5.3 Government Regulations require the Council to approve a MRP Statement in advance of each year. The Council's MRP policy statement is at **Appendix 6**.

5.4 Three Rivers District Council's process is to produce for approval by the Director of Finance, in consultation with the Portfolio Holder, a business case for each scheme intended to be unfunded from other resources. This will clearly show the level of MRP which is proposed to ensure that the repayment of any debt can be made in a period commensurate with the period over which the expenditure provides benefits or makes returns.

5.5 Where the Council decides to borrow to fund capital expenditure the annual cost of borrowing is included within the revenue budget.

6. Skills and Knowledge and Professional Advice

6.1 The Council has a shared service with Watford Borough Council for the provision of the finance function allowing access to a greater range of professional skills than would otherwise be available if each council had a separate team. The council uses external advisers on all major projects.

6.2 The Council contracts with Link Asset Services for the provision of Treasury advice. Link Asset Services provide non-regulated advice on the management of the council's cash flows, investments and borrowings and a markets information service. The Councils VAT advisers are PSTax.

7. Risk

7.1 Financial risks are closely monitored as a separately identifiable part of the corporate risk management framework. The Council's risk appetite is evolving as it becomes involved in a wider range of major property lead investments both within its economic area linked to regeneration and more widely for income generation purposes.

7.2 The Council takes advice from its professional advisers to both identify and mitigate the key risks it faces and ensures that all decisions are made with an understanding of the risks involved.

7.3 Whilst recognising the importance of generating income to support services, the Council will ensure that its external income is actively managed to safeguard the future financial sustainability of the council. In this respect it will continue to seek to balance income from its commercial investment activities against its overall level of risk and the amount of reserves available to mitigate this risk.

7.4 In assessing the risk of its commercial investments the Council will consider the level of risk inherent in the income stream, the security held, its ability to realise assets or other security should the need arise and the level of income received from commercial investments compared to the total income of the council.

8. Options/Reasons for Recommendation

8.1 The recommendations allow the Committee to comment on the draft strategy before it is finalised to report to Policy and Resources Committee in January.

9. Policy/Budget Reference and Implications

9.1 The recommendations in this report contribute to the process whereby the Council will approve and adopt its strategic, service and financial plans under Article 4 of the Council's Constitution.

10. Equal Opportunities, Legal, Staffing, Environmental, Community Safety, Customer Services Centre and Communications, Health & Safety & Website Implications

10.1 None specific.

11. Financial Implications

11.1 As contained in the body of the report.

12. Risk Management Implications

12.1 There are no risks to the Council in agreeing the recommendation below.

13. Recommendation

13.1 That the report is noted.

Report prepared by: Alison Scott – Director of Finance

Report Checked by: Sally Riley – Finance Business Partner

Background Papers

- **None**

Appendices

1. Capital Investment Programme 2023/24 to 2026/27 - Expenditure
2. Capital Investment Programme 2023/24 to 2026/27 - Variances
3. Capital Investment Programme 2023/24 to 2026/27 - Funding
4. Section 106 Balances 2023/24
5. Treasury Management Strategy Statement
6. Minimum Revenue Provision (MRP) Strategy and Policy Statement

The recommendations contained in this report DO NOT constitute a KEY DECISION but contribute to the process whereby the Council will approve and adopt its Strategic, Service and Financial Plans under Article 4 of the Council's Constitution

APPENDIX 1

CAPITAL INVESTMENT PROGRAMME 2023/24 to 2026/27 – EXPENDITURE

To be completed as part of budget setting

APPENDIX 2

CAPITAL INVESTMENT PROGRAMME 2023/24 to 2026/27 VARIANCES

To be completed as part of budget setting

APPENDIX 3

CAPITAL INVESTMENT PROGRAMME 2023/24 to 2026/27 FUNDING

To be completed as part of budget setting

APPENDIX 4

SECTION 106 BALANCES 2023/24

To be completed as part of budget setting

Appendix 5

Three Rivers District Council

DRAFT DECEMBER 2022

THREE RIVERS DISTRICT COUNCIL

1. Summary

1.1. This document sets out the Council's Treasury Management Strategy Statement (TMSS).

1.2. The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as: "the management of the local authority's 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. The TMSS supports the delivery of the Council's Capital Strategy and provides additional detail on how the Council manages its Treasury Management Activity.

1.4. The TMSS details the policies, practices, objectives and approaches to risk management of its treasury management activities, which is to be monitored by the Audit Committee. The primary objectives are of the Treasury Management Strategy Statement are:

- Security - Safeguard the repayment of the principal and interest of its investments on time
- Liquidity - Ensure adequate liquidity to meet obligations as they fall due
- Yield - Investment return is the final objective and is considered after security and liquidity requirement have been satisfied.

1.5. This statement is reviewed and approved annually by Council alongside the Council's budget, Medium Term Financial Plan (MTFP) and Capital Strategy.

1.6. The Director of Finance in consultation with the Lead Member for Resources and Shared Services has delegated authority to approve any variation to the Strategy Statement during the year with the objective of maximising the Council's returns without significantly increasing risk.

2. Risks

2.1. The key Treasury Management risks are set out in the CIPFA Treasury Management Code of Practice ("the TM Code"). The following paragraphs set out these risks and how they are managed:

Credit and Counterparty Risk - The risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, derivative instrument, or capital, project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources.

This risk is managed through the maintenance of a list of authorised counterparties, with separate limits to ensure that the exposure to this risk is limited.

Liquidity Risk - The risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, compromising the organisation's business/service objectives.

This risk is managed through forecasting and the retention by the Council of an adequate working capital balance. In addition, through the Public Works Loan Board and other organisations, the Council is able to access short term borrowing, usually within 24 hours.

Interest Rate Risk - The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances against which the organisation has failed to adequately protect itself.

This risk is managed through the placing of different types and maturities of investments, within limits set for the amount of borrowing which may mature in a given time-period, the forecasting and monitoring of the interest budget (with assistance from the Council's retained advisors).

Exchange Rate Risk - The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation's finances against which the organisation has failed to adequately protect itself.

The Council does not engage in any significant non-sterling transactions.

Inflation – also called purchasing power risk, is the chance that the cash flows from treasury instruments (such as investments) won't be worth as much in the future because of changes in purchasing power due to inflation.

The Council priorities security and liquidity over yield but where possible investment returns will aim to match inflation to preserve the capital value.

Refinancing Risk - The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancings, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.

The timing of loan maturities is monitored along with interest rate forecasts. Officers ensure that due dates are monitored and seek advice from the Council's advisors about when to raise any finance needed.

Legal and Regulatory Risk - The risk that the organisation itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements and that the organisation suffers losses accordingly.

This risk is managed through the Council's training and development of Officers involved in Treasury Management, the independent oversight of Internal and External Audit, and the advice (for example on the contents of this strategy) taken from the Council's Treasury advisors.

Operational Risk, including Fraud, Error and Corruption - The risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes the risk of fraud, error, corruption or other eventualities in treasury management dealings.

This is managed through the controls in the Council's financial procedures. For example, the segregation of duties between those making investment decisions and those transferring funds.

Price / Market Risk - The risk that through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to adequately protect itself.

The majority of the Council's investments are not traded, but where they are (e.g. Property investment portfolio) the main investments' value comes from the income they generate which is generally long term and secure.

3. Treasury Indicators: Limits to Borrowing Activity

3.1. There are two limits on external debt: the 'Operational Boundary' and the 'Authorised Limit'. Both are consistent with existing plans and the proposals in the budget report for capital expenditure and financing, and with approved treasury management policy statement and practices. These indicators are set out in the Capital Strategy.

3.2. The key difference is that the Authorised Limit cannot be breached without prior approval of the Council. The Operational Boundary is a more realistic indicator of the likely position. The difference between the authorised limit and operational boundary for borrowing is that the authorised limit includes a head room for borrowing for future known capital needs now. The Authorised Limit represents the limit beyond which borrowing is prohibited, and needs to be revised if necessary by members.

4. Borrowing Strategy

4.1. The Council's treasury team maintains a cashflow forecast and works its liquidity requirements within this forecast; it may, on rare occasions, be necessary to borrow short-term for cashflow purposes. This will be in the form of short term debt or overdraft facilities and is normally for small amounts for minimum durations. As this is based on need and has a defined repayment period it is not normally included within the limits set above.

4.2. The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated (ie: the cost of holding does not outweigh the benefits of early borrowing) and that the Council can ensure the security of such funds. Any associated risks will be approved and reported through the standard reporting method.

5. Investment Policy

5.1. The Council's investment policy has regard to the statutory Guidance on Local Government Investments and TM Code. The Council's investment priorities are security first, liquidity second, then yield.

5.2. Investment instruments identified for use in the financial year are listed below under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices Schedules and are detailed at Annex A.

5.3. As part of its diversification of investments, the Council has invested some of its core funds (ie: funds not immediately required for cashflow reasons) in longer–term investment property instruments. These are in the form of individual assets directly owned by the council. Although the Council has no current investments or plans to invest in pooled property funds, these are an option that could be considered in the future. All property investments are controlled through the Property Investment Board (PIB) and each investment is subject to its own business case and appraisal before a decision to invest is taken and before any Council funds are committed.

5.4. During 2020/21 the Council made a small Money Market Fund investment with Royal London Asset Management to diversify placement of some longer term cash. It is intended to continue to make use of this fund during 2024/25 while cash balances permit.

6. Creditworthiness policy

6.1. The Council will ensure:

- It maintains a policy covering both the categories of investment types it will invest in and the criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections below.

- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

6.2. The Director of Finance will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary and will provide an overall pool of counterparties considered high quality.

6.3. Credit rating information is supplied by our treasury consultants on all active counterparties that comply with the Council's criteria. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing.

7. Counterparty Categories

7.1. The Council uses the following criteria in choosing the categories of institutions in which to invest:

- **Banks 1 - Good Credit Quality**

  The Council will only use UK banks or foreign banks trading in the UK in sterling denomination and which meet the Rating criteria.

- **Banks 2 – The Council's Own Banker**

  For transactional purposes, if the bank falls below the above criteria, it will be included, although in this case balances will be minimised as far as possible in both monetary size and time within operational constraints.

- **Bank Subsidiary and Treasury Operations**

  The Council will use these where the parent bank has the necessary ratings outlined above and the parent has provided an indemnity guarantee.

- **Building Societies**

  The Council will use all Societies which meet the ratings for banks outlined above.

- **Specific Public Bodies**

  The Council may lend to Public Bodies other than Local Authorities. The criterion for lending to these bodies is that the loan has been approved by Council.

- **Money Market Funds AAA Rated**

  The Council may lend to Money Market Funds in order to spread its investment risk.

- **Local Authorities**

  A limit of £5m per authority will be applied.

- **Debt Management Deposit Account Facility**

  A Government body which accepts local authority deposits.

- **Council Subsidiaries (non-specified)**

  The Council will lend to its subsidiaries subject to approval of a business case by the Portfolio Holder, in consultation with the Director of Finance. Business cases must be accompanied by an independent assessment of viability, and be subjected to regular monitoring by the Director of Finance.

7.2. Further details of counterparty categories and limits are set out Annex A Schedule of Specified and Non-Specified Investments.

7.3. The Council will also consider investment in property in accordance with its Property Investment Strategy. All property investments will be dependent on a standalone business case being proven.

8. The Monitoring of Investment Counterparties

8.1 The credit rating of counterparties is monitored regularly. The main rating agencies (Fitch, Moody's and Standard & Poor's) provide credit ratings for financial institutions. The Council receives credit rating information (changes, rating watches and rating outlooks) from Capita Asset Services Treasury Solutions as and when ratings change, and counterparties are checked promptly. The Council considers minimum short term ratings as key criteria in the choice of creditworthy investment counterparties; F1+, P-1 and A-1+ are the highest short term credit ratings of Fitch, Moody's and Standard & Poor's respectively. Minimum Short Term Ratings, where given, must be met for all categories.

8.2 On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Director of Finance, and if required new counterparties which meet the criteria will be added to the list.

8.3 For non-specified investments (e.g. e-f above) the progress of the entity against the approved, independently verified business case will be monitored by the Director of Finance.

9. Use of Additional Information Other Than Credit Ratings

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

10. Time and Monetary Limits Applying to Investments

10.1 The time and monetary limits for institutions on the Council's Counterparty List summarised in the table below, are driven by the above criteria. These limits will cover both Specified and Non-Specified Investments.

11. Exceptional Circumstances

11.1 The criteria for choosing counterparties set out above provide a sound approach to investment in "normal" market circumstances. Whilst Members are asked to approve this base criteria above, under the exceptional current market conditions Director of Finance may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until the banking system returns to "normal" conditions. Similarly, the time periods for investments will be restricted.

11.2 Examples of these restrictions would be the greater use of the Debt Management Deposit Account Facility (DMO) – a Government body which accepts local authority deposits, money Market Funds, and strongly rated institutions. The credit criteria have been amended to reflect these facilities.

12. Investment Strategy

12.1 In-House Funds - investments will be made with reference to the core balance and cashflow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

12.2 Investment Treasury Indicator and Limit - total principal funds invested for greater than one year. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

Treasury Indicator & Limit	2023/24	2024/25	2025/26	2026/27
Maximum Principal Sums invested for greater than one year (excluding property investment and loans to Council subsidiaries).	£10m	£10m	£10m	£10m

13. Investment Risk & Security Benchmarking

13.1 These benchmarks are simple guides to maximum risk and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmarks is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the Mid-Year or Annual Report. The benchmarks are as follows:

Security:

Security of the investments is measured by credit ratings, which is supplied by the three main credit rating agencies (Fitch, Moodys and Standard & Poors). Where investments are made to Council subsidiaries (non-listed), the security is measured through a business case with independent viability assessment.

Liquidity:

The Council set liquidity facilities/benchmarks to maintain:

- Authorised bank overdraft - nil.
- Liquid short term deposits of at least £0.5m available with a week’s notice.

The Council has the benefit of instant access to its funds on the general account with Lloyds.

Yield:

The Council benchmarks the yield on its operational cash against SONIA (the Sterling Overnight Index Average). This is a measure of market rates for actual returns on overnight cash deposits. Performance against this indicator will be reported in the reports produced at mid-year and year-end.

14. Policy on Environment, Social and Governance (ESG) considerations

14.1 This Council is supportive of the Principles for Responsible Investment (www.unpri.org) and will seek to bring ESG (environmental, social and governance) factors into the decision-making process for investments. Within this, the Council is also appreciative of the Statement on ESG in Credit Risk and Ratings which commits signatories to incorporating ESG into credit ratings and analysis in a systemic and transparent way. The Council uses ratings from Fitch, Moody’s and Standard & Poor’s to support its assessment of suitable counterparties. Each of these rating agencies is a signatory to the ESG in credit risk and ratings statement, which is as follows:

“We, the undersigned, recognise that environmental, social and governance (ESG) factors can affect borrowers’ cash flows and the likelihood that they will default on their debt obligations. ESG factors are therefore important elements in assessing the creditworthiness of borrowers. For corporates, concerns such as stranded assets linked to climate change, labour relations challenges or lack of transparency around accounting practices can cause unexpected losses, expenditure, inefficiencies, litigation, regulatory pressure and reputational impacts.

At a sovereign level, risks related to, inter alia, natural resource management, public health standards and corruption can all affect tax revenues, trade balance and foreign investment. The same is true for local governments and special purpose vehicles issuing project bonds. Such events can result in bond price volatility and increase the risk of defaults.

In order to more fully address major market and idiosyncratic risk in debt capital markets, underwriters, credit rating agencies and investors should consider the potential financial materiality of ESG factors in a strategic and systematic way. Transparency on which ESG factors are considered, how these are integrated, and the extent to which they are deemed material in credit assessments will enable better alignment of key stakeholders.

In doing this the stakeholders should recognise that credit ratings reflect exclusively an assessment of an issuer’s creditworthiness. Credit rating agencies must be allowed to maintain full independence in determining which criteria may be material to their ratings. While issuer ESG analysis may be considered an important part of a credit rating, the two assessments should not be confused or seen as interchangeable.

With this in mind, we share a common vision to enhance systematic and transparent consideration of ESG factors in the assessment of creditworthiness*."*

14.2 The assessment of creditworthiness undertaken by Fitch, Moody's and Standard & Poor's includes analysis of the following ESG factors when assigning ratings:

- ***Environmental:*** *Emissions and air quality, energy and waste management, waste and hazardous material, exposure to environmental impact.*

- ***Social:*** *Human rights, community relations, customer welfare, labour relations, employee wellbeing, exposure to social impacts.*

- ***Governance:*** *Management structure, governance structure, group structure, financial transparency.*

14.3 The Council will continue to evaluate additional ESG-related metrics and assessment processes that it could incorporate into its investment process and will update accordingly.

14.4 The Council does not invest directly in company bonds or equity. However, the Council is exposed to these investment instruments through the use of externally managed pooled investment funds.

14.5 This Council will not invest in pooled funds that invest in companies whose core activities pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the Council's mission and values e.g.:

a. Human rights abuse (e.g., slave or child labour, political oppression)
b. Activities that damage the environment by extraction of fossil fuels, destruction of habitat, or creation of pollutants
c. Socially harmful activities (e.g., tobacco, gambling)
d. Manufacture of weapons

15. Reporting Requirements

15.1 The Audit Committee has the responsibility for the scrutiny of Treasury Management policies and practices and receives the Treasury Management Policy for review prior to approval by Council.

15.2 An annual report on the performance of the Treasury Management function, including the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy is considered by Council following the end of the financial year

15.3 Council also receives a Mid-Year Treasury Management Report setting out activity to 30 September.

16. Policy on the Use of External Service Providers

16.1 Link Asset Services are the appointed external advisors. The Council recognises that responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon our external service providers. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

16.2 The Council will also, from time to time, procure specialist advice for ad-hoc pieces of work; this will be procured in accordance with the Council's normal procedure rules.

17. Member and Officer Training

17.1 In order to ensure that Members and Officers are sufficiently trained and qualified to monitor and manage the Council's Treasury Management activity, the following measures are in place:

- Ensuring that officers attend suitable courses and seminars to keep their technical knowledge up to date;
- Keeping up to date with CIPFA publications on Treasury Management;
- Regular briefings both by email and face to face with the Council's Treasury advisors;
- Reports and briefing sessions to Members on major changes to Treasury policies and strategies.

Annex A

Non Specified Investment Category	Limit (£ or %)
Any bank or building society that has a minimum long term credit rating of A (or equivalent), for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	£5m
The Council's own banker if it fails to meet the basic credit criteria.	In this instance balances will be minimised as much as possible
Building Societies not meeting the basic security requirements under the specified investments. The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The Council may use such building societies which were originally considered Eligible Institutions and have a minimum asset size of £5,000m, but will restrict these types of investments to £2m for up to six months.	£2m
Specific Public Bodies The Council can seek Member approval to make loans to other public bodies for periods of more than one year.	£10m
Loans to Council Subsidiaries The Council will lend to its subsidiaries subject to approval of a business case by the Portfolio Holder, in consultation with the Director of Finance. Business cases must be accompanied by an independent assessment of viability, and be subjected to regular monitoring by the Director of Finance.	£10m limit for any single loan
Other unspecified investments The strategy allows the Portfolio Holder, in consultation with the Director of Finance, in consultation with the Lead Member, the delegated authority to approve any variation to the Treasury Management Strategy during the year which may be brought about by investigating the opportunity to invest for greater than one year and also to invest in other investment instruments i.e Government bonds, Gilts and investment property with a view of to maximising the Council's returns without significantly increasing risk. This allows the addition of further unspecified investments, subject to conditions which will be generally similar to (e).	£10m

Schedule 1 (A) – UK Banks & Building Societies

	Minimum Short Term Ratings						
Institution Type	**Fitch**	**Moody's**	**S&P**				
The Council's own Bankers	F1m	P-1	A-1	If Council's own bankers fall below the minimum long term criteria for UK banks, cash balances will be managed within operational liquidity constraints and balances will be minimised as much as possible.			
Wholly Owned Subsidiaries of UK Clearing Banks - Parent Ratings	F1	P-1	A-1	Long Term Credit Rating: AA(F), Aa2(M), AA(S&P)	Long Term Credit Rating: Single A (All agencies)	Long Term Credit Rating: Lower than A (All agencies)	Long Term Credit Rating: Lower than A
Partially Owned Subsidiaries of UK Clearing Banks - Parent Ratings	F1	P-1	A-1				
UK Building Societies (Credit Rated)	F1	P-1	A-1				
UK Building Societies (Unrated)				Assets over £15bn	Assets over £5bn	Assets of £2.5bn	Assets of £1bn
	Maximum Amount / Duration:			**£10m** **364 Days**	**£10m** **6 Months**	**£10m** **3 Months**	**£10m** **1 Month**

Schedule 1 (B) – Other Entities	
Specific Public Bodies	As approved by Members – up to £10m for up to 10 years
Debt Management Deposit Facility (UK Government)	Unlimited – this is the Council's Safe-Haven Deposit facility with the UK Government
Money Market Funds (AAA Rated)	£5m per fund
Municipal Bond Agency	As approved by Members
UK Local Authorities	A Maximum of £5m applies per Authority. The Council can invest in all UK Local Authorities whether rated or not. The Council will not lend to an authority which is subject to a s.114 notice without member approval.

Notes:-

1. F1+, P-1 and A-1+ are the highest short term credit ratings of Fitch, Moody's and Standard and Poor's respectively.
2. Minimum Short Term Ratings - Where given, these must be met, for all categories (except RBS Group).
3. Building Societies - A Building Society has to meet either the ratings criteria or the assets criterion to be included in the category, not both.
4. Maximum amount is the maximum, in total, over all investments, with any one institution (with the exception of RBS Group).

Appendix 6

Minimum Revenue Provision (MRP) Strategy and Policy Statement

The Minimum Revenue Provision (MRP) is designed to pay off an element of the capital spend which has not already been financed from existing revenue or capital resources. The Council is required to make prudent provision, by way of a charge to the revenue account, which means that the repayment of debt is enabled over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

The Council is also able to increase the rate it reduces its CFR by undertaking additional voluntary payments (voluntary revenue provision - VRP) in addition to any MRP; this is not currently the Council's policy.

Government Regulations require the Council to approve a MRP Statement in advance of each year. The following is the Council's MRP statement:

From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be:

- **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3)

This option provides for a reduction in the borrowing need over the asset's estimated life.

No MRP provision is made in respect of investments or payments to the joint ventures as such investments are intended to be time-limited and allow for the repayment of debt. For finance leases the council will charge MRP to its General Fund each year dependant on the life of the underlying asset.

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AUDIT COMMITTEE – 30 NOVEMBER 2023

PART I – DELEGATED

Statement of Accounts Update
(DoF)

1 Summary

1.1 This report sets out the latest position for external audit of the Statement of Accounts.

2 Detail

2.1 Statement of Accounts 2019/20

2.1.1 Officers are working with the External Auditors to finalise the audit as soon as possible. It is anticipated that this will be achieved by the end of November or shortly afterwards. An oral update will be provided at the meeting.

2.2 Statement of Accounts 2020/21

2.2.1 Work on the 2020/21 audit has been delayed as prioritisation has been given to resolving the final queries arising from the 2019/20 audit. Focus will return to this audit in December. The Committee may be required to meet to receive the auditor's report and approve the audited accounts prior to the next scheduled meeting in March.

2.3 External Audit of the Statement of Accounts 2021/22 and 2022/23

2.3.1 The Public Sector Audit Appointments Ltd (PSAA) reported on 10 October 2023 that only 5 out of 467 local government bodies' 2022/23 audit opinion had been given by the statutory deadline of 30 September 2023. This takes the cumulative total for the backlog of outstanding audits to 914 across the sector with the majority of councils having outstanding audits for 2021/22 and 2022/23.

2.3.2 In a press release the chair of the PSAA, Steve Freer said,

> *The scale of the backlog of local audit opinions is becoming more and more serious. It is now very clear that an extraordinary intervention of some sort is urgently required to put the system back on track. Hopefully, current work to develop a solution can be concluded quickly, enabling details of the planned solution to be announced and implemented as soon as possible.*
>
> *An important strand of any solution must be to address the root causes of so many delayed opinions so that following its implementation the delivery of timely opinions is firmly and permanently re-established.'*

2.3.3 In July, the Minister for Local Government (Lee Rowley) wrote to Councils and audit firms setting out the options being explored to address the backlog. The letter is included at Appendix 1. This included setting a backstop date for the completion of outstanding audits and a mechanism for qualifications or disclaimers of opinions where these could not be met with implementation of these proposals by December 2023.

2.3.4 It is understood that a proposed solution will be consulted on during November. Without clarity on this solution, it is not possible to set out the approach to or timeline for the 2021/22 and 2022/23 audits. The solution may result in the audits not being completed if the backstop date is set at 31 March 2024.

2.4 Statement of Accounts and External Audit 2023/24

2.4.1 Officers are in the process of on boarding the new auditors and walkthroughs have taken place during the end of October and beginning of November.

2.4.2 We have been able to facilitate this alongside the progress on the 2019/20 and 2020/21 audits as the majority of these early enquiries do not require input from the Officers directly involved in responding to current audit queries. Onboarding has included engagement with ICT, Internal Audit and the Monitoring Officer.

2.4.3 The draft audit plan for 2023/24 is elsewhere on the agenda. An interim audit covering transactions during the first ten months of the financial year will take place in February and March ahead of the main audit in the summer.

2.5 Audit Fees

2.5.1 The Redmond review (Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting undertaken by Sir Tony Redmond and published in September 2020) highlighted the level of audit fees as one of the key barriers to resilience, quality, skills and training within the external audit sector and specifically recommended that ‘the current fee structure for local audit to be revised to ensure that adequate resources are deployed to meet the full extent of local audit requirements.’

2.5.2 Following the recent national procurement exercise, the PSAA have recently consulted on the scale fee for 2023/24 onwards. The full consultation is included at Appendix 2. The proposal sets out a 151% increase to the core scale fee plus adjustments for additional work undertaken as a result of changes to audit standards. This is likely to result in an increase of around £0.160m per year.

2.5.3 The final 2023/24 fee scale and the PSAA’s consultation response will be published by Thursday 30 November 2023. The increase in scale fee will be built into the Council’s Medium Term Financial Plan through the budget setting process. The increase in costs is recognised as a cost pressure by DLUCH however, at this stage no new burdens funding has been confirmed.

3 Policy/Budget Reference and Implications

3.1 The recommendations in this report are within the Council’s agreed policy and budgets.

4 Financial, Legal, Equal Opportunities, Staffing, Environmental, Community Safety, Public Health, Customer Services Centre, Communications & Website, Risk Management and Health & Safety Implications

4.1 None specific arising from this report.

5 Recommendation

The Audit Committee is recommended to:

- Note the progress and latest timetable for completion of the external audit of the statement of accounts for 2019/20 onwards.

Report prepared by: Hannah Doney, Head of Finance

Data Quality

Data sources: None used in the preparation of the report

Background Papers

Statement of Accounts report to Audit Committee July 2023

APPENDICES / ATTACHMENTS

Appendix 1 Letter from Minister for Local Government to Councils and Audit firms

Appendix 2 PSAA Consultation on the 2023/24 audit fee scale

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Department for Levelling Up, Housing & Communities

Lee Rowley MP

Parliamentary Under-Secretary of State for Local Government and Building Safety

To: Local Authority Chief Executives, Local Authority Leaders and
Chief Financial Officers in England, and
Local Audit Firm Partners

Department for Levelling Up, Housing and Communities

Fry Building
2 Marsham Street
London
SW1P 4DF

18 July 2023

Dear Chief Executive / Chief Financial Officer / Local Authority Leaders / Local Audit Firm Partners,

This letter comprises an update on work since the Spring that DLUHC officials, along with Financial Reporting Council (FRC) colleagues, have undertaken to address the significant backlog of local audits in England and develop a sustainable solution to the timeliness challenges which the sector has faced in recent years. At the time of writing, only 27% of local audits have been completed for the financial year 2021-22. The combined total of outstanding local audits dating back to 2015-16 is now totalling nearly 520.

The attached paper derives from the recent work and outlines a proposed approach to resolving these issues, which has been agreed in principle with key partners across the local audit system. As Leaders of Local Authorities, Chief Executive Officers and Chief Financial Officers, you and your finance teams, alongside your auditors and Key Audit Partners, are critical to delivering high-quality financial reporting and audit in the public interest. As the paper suggests, decisive and concerted action is required to deal with the challenges in the local audit system. I would very much welcome your support in these endeavours and DLUHC officials will continue to engage with you as these proposals are further developed.

In summary, we are proposing that the National Audit Office (NAO) and DLUHC set a series of statutory deadlines for accounts preparers and auditors to clear the backlog of delayed audits for financial years 2015/16 to present. Auditors would then be required to provide as much assurance as possible for these outstanding years, reporting as normal any significant concerns they have on an organisation's financial controls and financial reporting, as well as financial resilience, governance and risk. Where necessary, it is intended that auditors would need to limit their opinion, making clear to the user of the accounts where full evidence hasn't been confirmed, and which the auditor is therefore unable to provide assurance over. Auditors' statutory duty to report on value for money (VfM) arrangements and their statutory audit powers (such as the power to make statutory recommendations or produce Public Interest Reports where necessary) will remain a high priority.

It will be the case that these deadlines may result in qualifications and disclaimers of opinion in the short term for a number of local bodies. We believe that these steps are necessary to reset the system and to restore the assurance which is provided by timely annual audits. Whilst further detailed work is needed across the Summer, there is broad consensus across the system that without any action being taken, delays will continue for a number of years, and in that scenario, when the delayed audits are reported they will offer little if any assurance about the current position. In the meantime, there is a heightened risk of auditors not identifying and reporting on important, more current issues. We must ensure the capacity of the sector is focused on the most recent position as soon as possible.

It is critical that a repeat of the backlog is avoided in the future. Work across the local audit system must therefore be sustainable and ensure proportionate financial reporting requirements, auditing requirements and regulatory requirements are in place.

The Comptroller & Auditor General (C&AG) is therefore considering changes to the Code of Audit Practice on certain balances in the accounts to prevent continued local audit delays while a broader solution is sought. Potential changes would be time limited and would need to be supported by wider changes to standards and regulation. The C&AG will of course keep the Code of Audit Practice under review and will consider the effectiveness and operation of any changes made to the Code. This would inform a wider review of the measures to clear the backlog outlined above.

To support this broader work, it is important that the accounting framework set through the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Local Authority Accounting carefully balances the need for adherence to financial standards against the needs of the users of local authority financial information, including ensuring the accounts are still useful and valuable to the taxpayer. CIPFA is therefore exploring changes to the Code for the medium and long term, in order to enable a more proportionate approach to the accounting requirements for local authority non-investment assets and pension valuations for a local authority context.

CIPFA has already made a temporary adjustment to the Accounting Code on the reporting requirements for valuation of local authority infrastructure assets, to support amendments to regulation made by DLUHC in December 2022. However, clearly a long-term solution needs to be developed. This will take longer than the current temporary measures (both legislative and Code based) allow. As such, DLUHC will seek to extend the changes made to legislation last year and CIPFA will consider whether the current amendments to the Code can be extended in tandem.

In terms of ongoing regulatory requirements, the FRC has committed to set out annually its planned regulatory programme, areas of focus and how its inspection activity serves the public interest. As part of this work, the FRC intends to clearly set out how its inspection activity will review auditors' work on operational assets and pensions valuation, the rationale for doing so and examples of good practice. The FRC's inspection activity will continue to review compliance with auditing and ethical standards, any revised Code of Audit Practice and associated guidance. The FRC is also working with auditors, practitioners and regulatory bodies to consider whether changes to the level of audit materiality may be beneficial. This work is expected to conclude before the end of the year.

The Levelling Up, Housing and Community Committee is conducting an inquiry into Local Financial Reporting and Audit. I gave evidence to the Committee on 17 July and I have shared a copy of the enclosed cross-system statement with the Committee Chair.

The proposals will be subject to further work and engagement across the system over the Summer, including with Section 151 Officers, Chief Executive Officers, elected representatives, the Local Government Association and audit firms. We look forward to discussing this further with you in the coming weeks and will ensure that there are arrangements in place to engage all parts of the local audit sector, including the range of local bodies. Subject to the conclusion of the appropriate details, we anticipate changes to the relevant codes and standards will be made in time for implementation to begin by the end of December 2023.

Yours sincerely,

LEE ROWLEY MP

Parliamentary Under-Secretary of State for

Local Government and Building Safety

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Public Sector Audit Appointments

Consultation on the 2023/24 audit fee scale

Opted-in local government, fire, police and other bodies

September 2023

Public Sector Audit Appointments Limited (PSAA) is an independent company limited by guarantee incorporated by the Local Government Association in August 2014.

The Secretary of State has specified PSAA as an appointing person for eligible local government bodies for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.

PSAA is responsible for appointing an auditor and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme, and managing the contracts with audit firms to provide the audit services required.

Contents

Summary

1 This consultation invites audited bodies and other stakeholders to submit views on PSAA's proposals for setting the fee scale for the 2023/24 audits. At this stage, it is expected that audit work under this fee scale will largely be undertaken from autumn 2024 onwards. However, there is currently a local audit system-wide discussion taking place about the possible timetable for the audit work for 2023/24 and earlier years for which audit opinions are currently outstanding.

2 The 2023/24 audits are the first in the second five-year appointing period. PSAA awarded new contracts for this appointing period in 2022 to six audit firms, following a challenging and protracted procurement. The procurement demonstrated clearly the limited audit capacity available to meet the demands of the local audit market.

3 This consultation on the 2023/24 fee scale is taking place at a time of change in the local audit system. Consultees will be aware that the audit profession has been subject to high levels of scrutiny in recent years following several widely reported financial failures in the private sector. Over this period there have been growing delays in completing local audits. In July 2023 the Department for Levelling Up, Housing and Communities (DLUHC) announced proposals to address the backlog, and is working with all stakeholders to tackle the complex issues involved. The proposals include the possibility of a time-limited revision to the Code of Audit Practice, which may reduce the amount of audit work needed while the backlogs are resolved. System leadership arrangements are also evolving, with the expected transfer of shadow system leadership from DLUHC to the Financial Reporting Council (FRC) in the near future.

4 PSAA is required under the local audit regulations to consult on and set the 2023/24 fee scale by 1 December 2023. Proposals to address the audit backlog are still under consideration and any changes affecting fees are still to be confirmed, so we cannot reflect them in the proposed fee scale yet. We are therefore consulting on the basis of existing audit requirements. We will need to assess the impact on audit fees once changes are confirmed, and at that point we will write to opted-in bodies to set out how we will update fees. Where an auditor has collected audit fees in part or in full and a change in requirements means that the total work done represents less than the fee already collected, then the auditor must return the balance and refund the body the appropriate amount. This ensures that bodies pay only for work that has been done.

5 Our fee scale proposals for 2023/24 audits are set out in more detail in the body of this consultation. In summary, they involve ensuring that scale fees are fully and consistently updated for the start of the new appointing period. This means that the scale fee for each opted-in body better reflects the audit work required under the current Code of Audit Practice published by the National Audit Office and the regulatory expectations of the FRC. Updating the fee scale in this way will have the benefit of making expected fees clearer for opted-in bodies much earlier in the audit cycle and reducing the volume of ongoing fee variations.

6 The consultation explains how PSAA proposes to calculate the audit fees which will make up the 2023/24 fee scale. The proposals involve managing the impact of a range of elements, including the additional fees now required for recurrent additional work; changes in local audit requirements (for example updated technical standards); and

adjustments at individual bodies where local circumstances now require more audit work than previously. The 2023/24 scale fee calculation involves:

a) the scale fee for the previous year (2022/23), as the starting point;

b) adding in fees for any changes in the audit work now needed, replacing the need for fee variations wherever possible; and

c) taking the total of the previous scale fee plus the additional work needed (a plus b) and applying the procurement adjustment for the new contract rates for audit firms.

7 When we announced the outcome of the procurement in October 2022, we advised opted-in bodies to anticipate a major re-set of total fees for 2023/24 involving an increase estimated in the order of 150% on total fees (that is, scale fees plus additional fees) for 2022/23. We are now able to confirm the increase required is 151%.

8 We recognise the significant financial pressures on all types of local government bodies and understand that any further cost pressure is unwelcome. However, the level at which we are proposing to set the 2023/24 fee scale is determined by the audit work needed to deliver audits compliant with the requirements of the Code of Audit Practice, and market rates.

9 The PSAA Board will consider consultation responses carefully in determining the final fee scale for 2023/24. We will publish the final fee scale on our website by 30 November 2023.

Responding to the consultation

We welcome comments on the proposals contained in this document. Please provide your feedback at:

https://www.surveymonkey.co.uk/r/ZS8YK3K

The consultation will close at **noon** on **Tuesday 10 October 2023.**

The 2023/24 fee scale

Introduction

10 PSAA is required under the Local Audit (Appointing Person) Regulations 2015 to consult on and prescribe a scale or scales of fees for bodies that have opted into its national auditor appointment scheme.

11 A scale of fees must relate to a particular financial year and must be set by 1 December of the relevant year. A published fee scale cannot be amended after the statutory publication date.

12 The 2023/24 fee scale consultation is taking place in the context of considerable turbulence and uncertainty in the local audit system. Following a number of widely reported financial failures in the private sector the government commissioned a series of reviews of audit and has subsequently consulted on proposals for change. The 2020 Redmond review focused specifically on the local audit system and the transparency of local authority financial reporting. It highlighted a lack of coherence and leadership in the current local audit framework, contributing to wider issues including audit delays and market instability.

13 Audit delays have become more prevalent in the local audit system under the pressure of additional audit requirements, increasing expectations from professional regulators, shortages of experienced auditors and greater complexity of transactions and structures at opted-in bodies. In July 2023 DLUHC announced proposals to address the backlog, and is working in tandem with the FRC and all other stakeholders to find a sustainable solution.

14 System leadership arrangements are also evolving, with the expected transfer of shadow system leadership from DLUHC to the FRC ahead of the creation of a new regulator, the Audit, Reporting and Governance Authority, which will become the system leader for local audit.

15 The 2023/24 fee scale is the first in the second five-year appointing period specified by PSAA, covering 2023/24 to 2027/28 audits. Auditors will undertake their work under new contracts. The bid prices we received in the procurement involve a significant increase compared to our previous procurement in 2017, reflecting the major challenges in the wider audit market and in the local audit system.

The 2023/24 fee scale

16 In setting the 2023/24 fee scale, PSAA is proposing to update individual scale fees to ensure they reflect current audit requirements for all opted-in bodies. This updating is particularly important for the 2023/24 fee scale, to ensure fees are set on a consistent and equitable basis at the start of the new contract period.

17 We propose that the 2023/24 fee scale should include the following elements:

a) the scale fees set for 2022/23;

PLUS:

b) approved fee variations for recurrent additional work in prior years that have not yet been included in the fee scale, or estimates where fee variations are yet to be determined (for example where audit completions have been delayed);

c) fees where changes in audit requirement for prior years have required additional work and these fees have not yet been consolidated into the fee scale (for example the requirement for the VFM arrangements commentary);

d) fees for new changes in audit requirements, where there is appropriate evidence to support consolidation at this point;

e) adjustments at specific bodies where there are special circumstances; and

f) the adjustment required for the procurement outcome.

18 Further information on each element is provided in the following paragraphs.

The scale fees set for 2022/23

19 In setting the fee scale each year, we use the scale fees for the previous year as the starting point before taking into account any necessary adjustments, for example in respect of any recurring approved fee variations. This should provide the most up-to-date information available about the work required to deliver an audit compliant with the Code of Audit Practice and regulatory requirements at each opted-in body.

20 However, the impact of delayed audit completions meant that when we consulted on and set the last fee scale in autumn 2022, we did not have complete data on the total fees needed for all audits. We were therefore not able to update the scale fees for ongoing additional work at all opted-in bodies when we set the 2022/23 fee scale.

Fee variations for recurrent requirements not yet included in the fee scale

21 Auditors may find it necessary to carry out additional audit work to give their audit opinion. This may be because requirements have changed, or it may be due to local circumstances. The local audit regulations allow for additional fees to be payable where substantial additional work is required. Additional fees are evaluated under our fee variations process and are subject to PSAA approval.

22 Where the additional audit work is of an ongoing nature we consolidate the additional fee into the fee scale fee at the earliest opportunity, to reflect the need for that work in future years and reduce the need for fee variations. In contrast, non-recurrent additional work continues to be dealt with through one-off fee variations each year.

23 For the 2023/24 fee scale we are proposing to update the scale fees for individual opted-in bodies where additional recurrent audit work is needed. We will use information on approved fee variations for prior years or estimated figures where audits have been delayed. This updating process will put the scale fees for all 2023/24 audits onto an equal basis.

24 The categories of additional work where we have reviewed approved fee variations or proposed estimates for consolidation cover: group accounts, pension valuation, PPE valuation, enhanced audit requirements in relation to public interest entities and major local audits, increased FRC challenge, PFI, and investment valuation (pension funds).

25 We have considered the applicability of each category to each opted-in body to ensure we are consolidating the proposed additional fees consistently and equitably. In some cases, for example bodies with long-standing group accounts requirements, if we have not previously consolidated a fee variation into the scale fee but are aware that group accounts are required, we have updated the proposed 2023/24 scale fee to include this.

26 While most PFI schemes will be long-standing schemes, an incoming audit firm will not be familiar with the details of each scheme and will need to undertake additional work to understand the scheme and model. This additional work will require a fee variation.

27 It is important to stress that consolidating additional fees for recurrent requirements identified in prior years does not change the total fee to be charged. It introduces greater certainty on fees and will help to address the current imbalance where fee variations have become a significant proportion of the total audit fee required.

Changes in local audit requirements

28 Audit requirements have increased in recent years as a result of increased regulatory challenge, changes to the audit work required under the Code of Audit Practice and updated auditing and financial reporting standards.

29 Where local audit requirements change or are updated PSAA must consider the potential impact of each development on the fee scale. We need to consider whether additional fees are appropriate, whether we can estimate the additional fees based on reliable evidence, and at what point it is appropriate to incorporate the fees into the proposed fee scale. When consolidating fees into the fee scale it is particularly important to avoid the risk of over-estimating the additional audit work needed in the longer term.

30 Over the last three years we have commissioned external independent technical research to provide information, analysis and recommendations to support our work on updating the fee scale. This work has also provided input to our fee variations reviews. The results of this work support the information paper we publish each year in relation to audit fees.

31 Based on the research this year we are now able to determine the level at which it is reasonable to consolidate additional work into the 2023/24 fee scale for:

- the VFM arrangements commentary that replaced the previous binary conclusion in the 2020 Code of Audit Practice, effective from 2020/21 audits; and
- additional requirements in ISA (UK) 540 (revised) Auditing Accounting Estimates, effective from 2020/21 audits.

32 We have previously published indicative minimum additional fee ranges for work in these areas from 2020/21 onwards, and will publish an update for 2022/23 audits in September 2023. The level at which we propose to consolidate additional fees for the work into the 2023/24 fee scale assumes there is nothing unusual about the circumstances of an individual body and that good arrangements and internal controls are in place.

VFM arrangements commentary – fees for consolidation

Body type	Minimum core range published for 2020/21 and 2021/22 audits	Benchmark level for inclusion in 2023/24 fee scale
District councils	£6,000-£11,000	£8,500
County councils	£10,000-£19,000	£14,500
Unitary authorities London borough councils Metropolitan district councils	£10,000-£19,000	£14,500
Police and crime commissioners and chief constables	£6,000-£11,000 Split between PCC and CC not specified	£8,500 in total, split as: £5,700 PCC £2,800 Chief constable
Fire authorities	£5,000-£9,000	£5,250
Other local government bodies (such as combined authorities, national park authorities)	Not specified, as the number of bodies by body type is too small and arrangements are variable	Based on average of approved fee variations by body type

ISA 540 revised – fees for consolidation

Body type	Minimum core fee published for 2020/21 and 2021/22 audits	Benchmark level for inclusion in 2023/24 fee scale
District councils	£2,500	£2,000
County councils	£3,800	£3,000
Unitary authorities London borough councils Metropolitan district councils	£4,400	£3,500
Police and crime commissioners and chief constables	£2,500 Covers both	£2,000 in total, split as: £1,300 PCC £700 Chief constable
Fire authorities	£1,900	£1,500
Pension fund audits	£1,600	£2,000
Other local government bodies (such as combined authorities, national park authorities)	Not specified, as the number of bodies by body type is too small and arrangements are variable	Based on average of approved fee variations by body type

33 For work on the VFM arrangements commentary it is important to note that:

- the NAO guidance requires the auditor to make a judgement on the work required at each body based on a risk assessment. Where previously approved fee variations for the core work are higher than the proposed benchmark, we expect to consolidate the higher figure recognising that additional work is required;
- where we have not yet received fee variations for individual bodies, or where the audit is moving to a new appointed audit firm from 2023/24, we expect to use the benchmark figure for fee scale consolidation; and
- any work required in addition to the core work on the commentary, for example on specific risks, would continue to be subject to one-off fee variations because the

work will vary from year to year and the additional fees should not therefore be consolidated into the fee scale.

Other changes in local audit requirements

34 Our fees research has also considered whether it would be appropriate to determine suggested fee ranges or consolidate additional fees into the fee scale for other new requirements, including:

- ISA 315 revised (risks of material misstatement), applicable from 2022/23;
- ISA 240 revised (auditor's responsibilities relating to fraud), applicable from 2021/22; and
- IFRS 16 (leasing), applicable from 2024/25.

35 The research has concluded that it is premature at this stage to consolidate additional fees into the fee scale for these requirements because:

- the research could not identify a consistent basis for estimating the additional fees needed at this stage in the application of the new requirements;
- there is expected to be a significant first year effect which it would not be appropriate to consolidate into the fee scale; and
- the level at which consolidation will be appropriate is likely to be variable depending on the circumstances of individual bodies.

36 We therefore propose using the fee variations process to establish a realistic fee level for consolidation into a future fee scale.

37 We have also considered the expectation in NAO auditor guidance that auditors of pension funds should provide IAS 19 assurances under the scope of the Code of Audit Practice to auditors of admitted bodies that are relevant local audit bodies. We propose including an additional fee for this work into the 2023/24 scale fee for each pension fund audit, calculated based on the number of assurances expected for local audit bodies.

Adjustments for specific opted-in bodies

38 As part of our work to update the fee scale we have considered whether there are opted-in bodies which have experienced significant changes in size or complexity or other factors, and assessed whether it is appropriate to make adjustments to the 2023/24 scale fee.

39 We propose making a temporary scale fee adjustment in less than 20 cases, but subject to detailed review after the first audit year in order to compare to the actual outcome. We will then determine if the adjustment is correct or requires further refinement for subsequent years.

40 Our aim in amending the 2023/24 scale fee in this way is to provide a more realistic scale fee for opted-in bodies.

Adjustment for the procurement outcome

41 PSAA announced the outcome of the procurement for the appointing period 2023/24-2027/28 in October 2022. We advised opted-in bodies to anticipate a major re-set of

total fees for 2023/24, involving an increase of the order of 150% on the total expected fees for 2022/23, based on the information available at the time, some of which had to be estimated.

42 The finalised adjustment required is 151%, reflecting latest information on approved fee variations and confirmed auditor appointments for each firm.

43 Calculation of the procurement uplift of 151% also applies to the hourly rates used to calculate fees for additional work, as set out below.

Additional fee hourly rates

Grade	Hourly rates for audit year 2022/23	Audit fee adjustment to reflect the procurement outcome (uplift by 151%)	Hourly rates for audit year 2023/24 (rounded)
Partner or Director	£165	£249	£414
Senior Manager or Manager	£91	£137	£228
Senior Auditor	£59	£89	£148
Other	£45	£68	£113

For example, an additional fee of £10,000 for audit year 2022/23 would generate a fee of £25,100 for comparable work in audit year 2023/24.

44 PSAA sets the fee scale each year based on the income it needs from audit fees to meet the costs of the audit contracts, and its own costs (1.4% of the total). Periodically we return any surplus to opted-in bodies by means of a distribution, once it is clear the surplus is no longer needed to discharge our responsibilities.

Summary of Proposal

45 In summary, we propose that the fee scale for 2023/24 will be built up as follows:

2023/24 fee scale: proposed elements	
A	The scale fees for 2022/23
Plus:	
B	Fee variations for recurrent additional audit work in prior years not yet included in scale fees
C	Changes in local audit requirements
D	Adjustments at specific bodies for local circumstances
E	Adjustment for the procurement outcome

46 We will write to each individual opted-in body during the consultation period to set out their expected scale fee based on these elements. We have set out below an example of how the scale fee will be made up:

Example		
1)	2022/23 scale fee	£52,140
2)	Add: approved fee variations or estimates for recurring work* not already included	£10,500
3)	Add: changes in audit requirements (VFM arrangements, ISA 540)	£10,000
4)	Add: adjustment for special circumstances (where applicable)	0
5)	2022/23 scale fees plus recurring fees	£72,640
6)	Audit fee adjustment to reflect the procurement outcome (uplift by 151%)	£109,686
Total scale fee for 2023/24		£182,326

* The categories of work we have included in our review of approved fee variations are: group accounts, pension valuation, PPE valuation, enhanced audit requirements in relation to public interest entities and major local audits, increased FRC challenge, PFI, and investment valuation (pension funds).

Additional information

Statement of responsibilities

47 The statement of responsibilities of auditors and audited bodies sets out the expectations on which scale fees are based. The statement effectively represents the terms of engagement between appointed auditors and audited bodies and summarises their respective responsibilities.

48 Scale fees are based on the expectation that audited bodies can provide the auditor with complete and materially accurate financial statements and supporting working papers within agreed timeframes. Local fee variations may be required where a body is unable to fulfil these requirements.

49 The statement of responsibilities also applies to auditors. Additional audit costs that arise due to auditors not meeting expectations in relation to their responsibilities are ineligible for a fee variation.

Value added tax

50 Individual audit fees under the 2023/24 fee scale do not include value added tax (VAT), which will be charged at the prevailing rate, currently 20 per cent, on all work done.

New contract management arrangements

51 We have strengthened contract management provisions in the 2022 audit services contracts to reflect the changed local audit market and to address feedback from opted-in bodies about audit delivery. It remains the case that, once appointed, auditors exercise their responsibilities independently under local audit legislation and the professional framework.

52 Our audit firms are contractually obliged to deliver the audits in accordance with the method statements outlined in their tender responses. Where this does not occur, we have mechanisms we can use to support performance improvement. These measures include:

- firms will be paid when they deliver on four predefined audit milestones (each attracting 25% of the scale fee), rather than on the basis of four quarterly payments as previously;
- we have introduced KPIs linked to the audit delivery lifecycle and a quarterly contract monitoring review process;
- there is a review procedure through which we can require a supplier at their own cost to amend its method statement, if it becomes clear that the current one does not satisfy its obligations under the contract; and
- there is a rectification plan process which we may invoke if the supplier fails to comply with its obligations under the contract.

53 We will revisit the actual milestones and KPIs if the expected backlog solution changes the framework. We also recognise that while we have strengthened the contract provisions to reflect changes in local audit, the ultimate sanction of being able to remove

auditors from appointments remains largely moot as there is no surplus capacity in the local audit market. PSAA is committed to working with all stakeholders to support the changes needed in the local audit system.

Next steps

54 We welcome comments from opted-in bodies and other stakeholders on the proposals outlined in this document. The closing date for comments is noon on Tuesday 10 October 2023.

55 Please respond to the consultation using the survey provided: https://www.surveymonkey.co.uk/r/ZS8YK3K

56 Information about this consultation and the 2023/24 fee scale is available on our website.

57 If you have any questions about the consultation please send them to: workandfeesconsultation@psaa.co.uk.

58 We will consider carefully the responses to this consultation in setting the 2023/24 fee scale, which we will publish by 30 November 2023.

59 If you have comments about the way the consultation has been conducted, these should be sent by email to generalenquiries@psaa.co.uk.

AZETS

Three Rivers District Council

External audit plan

Year ended 31 March 2024

November 2023

Contents

Your key team members

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Introduction

Adding value through the audit

All of our clients demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the Council through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the Council promote improved standards of governance, better management and decision making and more effective use of resources.

Purpose

This audit plan highlights the key elements of our proposed audit strategy and provides an overview of the planned scope and timing of the statutory external audit of Three Rivers District Council (‘the Council’) for the year ended 31 March 2024 for those charged with governance.

The core elements of our work include:

- An audit of the 2023/24 Statement of Accounts for the Council and its Group; and
- An assessment of the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources (our Value for Money work).

We will conduct our audit in accordance with International Standards on Auditing (ISAs) (UK), the Local Audit and Accountability Act 2014 (the ‘Act’), and the National Audit Office Code of Audit Practice. The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Act.

Auditor responsibilities

As auditor we are responsible for performing an audit, in accordance with the Local Audit and Accountability Act 2014, the Code of Audit Practice issued by the National Audit Office and ISAs UK. Our primary responsibility is to form and express an independent opinion on the Council’s (and its Group’s) financial statements, stating whether they provide a true and fair view and have been prepared properly in accordance with applicable law and the CIPFA Code of Practice on Local Authority Accounting in the UK (the ‘CIPFA Code).

We are also required to:

- Report on whether the other information included in the Statement of Accounts (including the Narrative Report and Annual Governance Statement) is consistent with the financial statements;
- Report by exception if the disclosures in the Annual Governance Statement are incomplete or if the Annual Governance Statement is misleading or inconsistent with our knowledge acquired during the audit;
- Report by exception any significant weaknesses identified in arrangements for securing value for money and a summary of associated recommendations;
- Report by exception on the use of our other statutory powers and duties; and
- Certify completion of our audit.

continued…..

Introduction

We will conduct our audit in accordance with International Standards on Auditing (ISAs) (UK), the Local Audit and Accountability Act 2014 (the 'Act'), and the National Audit Office Code of Audit Practice. The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Act.

This planning letter has been prepared for the sole use of those charged with governance and management and should not be relied upon by third parties. No responsibility is assumed by Azets Audit Services to third parties.

Auditor responsibilities *(….continued)*

We will issue our Audit Findings Report and an Auditors Annual Report to the Audit Committee setting out the findings from our work.
Under the Act we have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom. These include:

- Reporting matters in the public interest;
- Making written recommendations to the Council;
- Making am application to the court for a declaration that an item of account is contrary to law;
- Issuing and advisory notice; or
- Making an application for judicial review.

The Act also requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and consider any objection made to the accounts.

On completion of our audit work, we will issue an Audit Findings Report (prior to the approval of the financial statements), detailing our significant findings and other matters arising from the audit on the financial statements, together with an Auditor's Annual Report including our commentary on the value for money arrangements.

If, during the course of the audit, we identify any significant adverse or unexpected findings that we conclude should be communicated, we will do so on a timely basis, either informally or in writing.

The audit does not relieve management or the Audit Committee of your responsibilities, including those in relation to the preparation of the financial statements.

Council responsibilities

The Council has responsibility for:

- Preparing financial statements which give a true and fair view, in accordance with the applicable financial reporting framework and relevant legislation;
- Preparing and publishing, along with the financial statements, an annual governance statement and narrative report;
- Maintaining proper accounting records and preparing working papers to an acceptable professional standard that support its financial statements and related reports disclosures; and
- Ensuring the proper financial stewardship of public funds, complying with relevant legislation and establishing effective arrangements for governance, propriety and regularity.

Audit scope and general approach

This section of our letter sets out the scope and nature of our audit and should be considered in conjunction with the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments Limited (PSAA).

General approach

Our objective when performing an audit is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement and to issue an auditor's report that includes our auditor's opinion.

As part of our risk-based audit approach, we will:

- Perform risk assessment procedures including updating our understanding of the Council and its Group, including its environment, the financial reporting framework and its system of internal control;
- Review the design and implementation of key internal controls;
- Identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement level and the assertion level for classes of transaction, account balances and disclosures;
- Design and perform audit procedures responsive to those risks, to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion; and
- Exercise professional judgment and maintain professional scepticism throughout the audit recognising that circumstances may exist that cause the financial statements to be materially misstated.

We will undertake a variety of audit procedures designed to provide us with sufficient evidence to give us reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

We include an explanation in the auditor's report of the extent to which the audit was capable of detecting irregularities, including fraud and respective responsibilities for prevention and detection of fraud.

Audit scope and general approach

Materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements.

Judgments about materiality are made in the light of surrounding circumstances and are affected by our perception of the financial information needs of users of the financial statements, and by the size or nature of a misstatement, or a combination of both. **The basis for our assessment of materiality for the year is set out in Appendix I.**

Any identified errors greater than:

£46,500

will be recorded and discussed with you and, if not adjusted, confirmed as immaterial as part of your letter of representation to us.

Accounting systems and internal controls

The purpose of an audit is to express an opinion on the financial statements. We will follow a substantive testing approach to gain audit assurance rather than relying on tests of controls. As part of our work, we consider certain internal controls relevant to the preparation of the financial statements such that we are able to design appropriate audit procedures. However, this work does not cover all internal controls and is not designed for the purpose of expressing an opinion on the effectiveness of internal controls. If, as part of our consideration of internal controls, we identify significant deficiencies in controls, we will report these to you in writing.

Specialised skill or knowledge required to complete the audit procedures

We will use audit specialists to assist us in our audit work in the following areas:

- The audit of the actuarial assumptions used in the calculation of the defined benefit pension liability/asset; and
- The audit of investment or property valuations, should the need arise during the course of the audit.

We will consult internally with our Technology Risk team for them to support the audit team by assessing the information technology general controls (ITGC) of the following systems:

- General Ledger - eFinancials
- The Active Directory

Audit scope and general approach

Significant changes in the financial reporting framework

There have been no significant changes in the financial reporting framework this year, including the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the 'CIPFA Code). As permitted by the CIPFA Code the council has chosen to defer the implementation of IFRS 16 'Leases' until 2024/25.

Significant changes in the Council's (and Group's) functions or activities

There have been no significant changes to the functions and activities of the Council or its group structure. We have not been made aware of any significant changes in the functions or activities of the other components in the Council's group.

Our group audit scope and risk assessment is set out in Appendix II.

Going concern

Management responsibility

Management is required to make and document an assessment of whether the Council [and group] is a going concern when preparing the financial statements. The review period should cover at least 12 months from the date of approval of the financial statements. Management are also required to make balanced, proportionate and clear disclosures about going concern within the financial statements where material uncertainties exist in order to give a true and fair view.

Going concern

Auditor responsibility

Under ISA (UK) 570, we are required to consider the appropriateness of management's use of the going concern assumption in the preparation of the financial statements and consider whether there are material uncertainties about the Council [and group]'s ability to continue as a going concern that need to be disclosed in the financial statements.

In assessing going concern, we will consider the guidance published in the CIPFA Code and Practice Note 10 (PN10), which focusses on the anticipated future provision of services in the public sector rather than the future existence of the entity itself.

Audit scope and general approach

Related party transactions

ISA 550 requires that the audit process starts with the audited body providing a list of related parties to the auditor, including any entities under common control. During our initial audit planning you have informed us of the individuals and entities that you consider to be related parties. Please advise us of any changes as and when they arise.

Additional procedures for the NAO

The National Audit Office (the 'NAO') issues group audit instructions which set out additional audit requirements. We expect the procedures for this year to be similar to previous years.

The NAO audit team for the WGA request us to undertake specific audit procedures in order to provide them with additional assurance over the amounts recorded in WGA schedules. The extent of these procedures will depend on whether the Council has been selected by the NAO as a sampled component for 2023/24. As at the date of this report, the draft instructions have not yet been issued by the NAO and the NAO have not yet confirmed which entities will be sampled components.

We will seek to comply with the instructions and to report to the NAO in accordance with their requirements once instructions have been issued.

Auditor reporting delays for previous periods and the impact on our audit

Although we are planning to complete your audit for the year ended 31 March 2024 in line with the timetable set out in section 5, so that we can report our initial findings to your Audit Committee in November 2024, please note that we will not be able to fully complete our audit, issue our auditor's report and certify the closure of the audit until your predecessor auditor has completed their audit for the year ended 31 March 2023. Once the 2023 audit has been completed we will need to review the predecessor auditor's audit file to gain assurance over your opening balances as at 1 April 2023, and consider the impact on our audit of any modifications to their auditor's report.

Further, once the 2023 audit and earlier years, if necessary has been completed, we will revisit our planning procedures and audit plan to assess whether any additional procedures are required over and above those we have identified in this audit plan. Should additional procedures or changes to the plan be required, we will report these to you. The cost of additional work to revisit planning upon completion of the prior year audits will also be reported to you.

Significant risks of material misstatement

Significant risks are risks that require special audit consideration and include identified risks of material misstatement that:

- Our risk assessment procedures have identified as being close to the upper range of the spectrum of inherent risk due to their nature and a combination of the likelihood and potential magnitude of misstatement; or
- Are required to be treated as significant risks due to requirements of ISAs (UK), for example in relation to management override of internal controls.

Significant risks at the financial statement level

The table below summarises significant risks of material misstatement identified at the financial statement level. These risks are considered to have a pervasive impact on the financial statements as a whole and potentially affect many assertions for classes of transaction, account balances and disclosures.

Identified risk	Planned audit procedures
Management override of controls Auditing Standards require auditors to treat management override of controls as a significant risk on all audits. This is because management is in a unique position to perpetrate fraud by manipulating accounting records and overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Specific areas of potential risk including manual journals, management estimates and judgements and one-off transactions outside the ordinary course of the business. **Risk of material misstatement: Very High**	Procedures performed to mitigate risks of material misstatement in this area will include: • Documenting our understanding of the journals posting process and evaluating the design effectiveness of management controls over journals; • Analysing the journals listing and determining the criteria for selecting high risk and/or unusual journals; • Testing high risk and/or unusual journals posted during the year and after the draft accounts stage back to supporting documentation for appropriateness, corroboration and to ensure approval has been undertaken in line with the Council’s journals policy; • Gaining an understanding of the key accounting estimates and critical judgements made by management. We will also challenge assumptions and consider for reasonableness any indicators of bias which could result in material misstatement due to fraud; and • Evaluating the rationale for any changes in accounting policies, estimate or significant unusual transactions.

Significant risks of material misstatement

Identified risk	Planned audit procedures
Prior year opinion on the financial statements As at the date of writing, you have not been able to obtain an unmodified opinion from your predecessor auditor for the 2022/23 financial year. In addition, the opinions for the financial years 2021/22, 2020/21and 2019/20 have not yet been issued. There is therefore a risk that issues not yet identified in the open audit years arise in the completion of those audits which may impact the current (2023/24) audit year. **There is a further risk that, in the event an 'audit backstop' is implemented for 31 March 2024, the prior year period opinions may be qualified by a 'limitation of scope' or disclaimed in full.** **In this eventuality:** • there may be limited assurance available over the Council's opening balances, including those balances which involve higher levels of management judgement and more complex estimation techniques (e.g. defined benefit pensions valuations and property, plant and equipment valuations, amongst others). • significant transactions, accounting treatment and management judgements may not have been subject to audit for one or more years – or at all. This may include management judgements and accounting treatment in respect of significant new schemes (such as income strip or major capital initiatives), changes to group structures or other significant accounting treatments which came into effect during the qualified or disclaimed period, going back to 2019/20. **The potential absence of prior year assurance raises a significant risk of material misstatement at the financial statements level that may require additional audit procedures.** **Risk of material misstatement: High**	Procedures performed to mitigate risks of material misstatement in this area will include: • Considering the findings and outcomes of unfinished prior year audits and their impact on the 2023/24 audit; • Considering the impact on our work of the impact of qualified or disclaimed audit opinions, particularly regarding opening balances and 'unaudited' transactions and management judgements made in the previous years which continue into 2023/24; and • Considering the impact of any changes in Code requirements for financial reporting in previous and current audit years

Significant risks of material misstatement

Significant risks at the assertion level for classes of transaction, account balances and disclosures

The table below summarises significant risks of material misstatement at the assertion level for classes of transaction, account balances and disclosures.

Identified risk	Planned audit procedures
Fraud in revenue recognition and expenditure (rebutted) Material misstatement due to fraudulent financial reporting relating to revenue recognition is a **rebuttable presumed risk in ISA (UK) 240.** Having considered the nature of the revenue streams at the Council, we consider that the risk of fraud in revenue recognition can be rebutted on all income streams because: • there is little opportunity available to manipulate revenue recognition; • there is limited incentives to manipulate revenue recognition • the Council's existing income transactions do not provide a significant opportunity to manipulate income between years in any meaningful way or to adopt aggressive recognition policies. We have also considered Practice Note 10, which comments that for certain public bodies, the risk of manipulating expenditure could exceed the risk of the manipulation of revenue. We have therefore also considered the risk of fraud in expenditure at the Council, and we are satisfied that this is not a significant risk for the reasons set out above. **Inherent risk of material misstatement:** • **Revenue and expenditure recognition: Low**	Whilst we have rebutted the risk of fraud in income and expenditure, we will perform the below procedures based on their value within the financial statements: • Documenting our understanding of the Council's systems for income and expenditure to identify significant classes of transactions, account balances and disclosures with a risk of material misstatement in the financial statements • Evaluating the design of the controls in the key accounting systems, where a risk of material misstatement was identified, by performing a walkthrough of the systems; • Evaluating the Council's accounting policies for recognition of income and expenditure and compliance with the CIPFA Code. • Substantively testing material income and expenditure streams using analytical procedures and sample testing of transactions recognised for the year.

Significant risks of material misstatement

Identified risk	Planned audit procedures
Valuation of other land and buildings and investment property (key accounting estimate) Council and group The Council carries out a rolling programme of revaluations to ensure all property, plant and equipment required to be measured at fair value is revalued at least every five years and it undertakes a full revaluation of its investment property annually. Management engage the services of a qualified valuer, who is a Regulated Member of the Royal Institute of Chartered Surveyors (RICS) to undertake these valuations as at 31 March 2024. The valuations involve a wide range of assumptions and source data and are therefore sensitive to changes in market conditions. ISAs (UK) 500 and 540 require us to undertake audit procedures on the use of external expert valuers and the methods, assumptions and source data underlying the fair value estimates. This represents a key accounting estimate made by management within the financial statements due to the size of the values involved, the subjectivity of the measurement and the sensitive nature of the estimate to changes in key assumptions. We have therefore identified the valuation of land and buildings and investment property as a significant risk. We will further pinpoint this risk to specific assets, or asset types, on receipt of the draft financial statements and the year-end updated asset valuations to those assets where the in-year valuation movements falls outside of our expectations. **Inherent risk of material misstatement:** • **Land and buildings and investment property (valuation): Very High**	Procedures performed to mitigate risks of material misstatement in this area will include: • Evaluating management processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work; • Evaluating the competence, capabilities and objectivity of management's valuation expert; • Considering the basis on which the valuations are carried out and challenging the key assumptions applied; • Evaluating the reasonableness of the valuation movements for assets revalued during the year, with reference to market data. We will consider whether we require an auditor's expert; • For unusual or unexpected valuation movements, testing the information used by the valuer to ensure it is complete and consistent with our understanding; • Ensuring revaluations made during the year have been input correctly to the fixed asset register and the accounting treatment within the financial statements is correct; and • Evaluating the assumptions made by management for any assets not revalued during the year and how management are satisfied that these are not materially different to the current value.

Significant risks of material misstatement

Identified risk	Planned audit procedures
Valuation of the defined pension fund net liability/asset (key accounting estimate) Council and group An actuarial estimate of the net defined pension liability/asset is calculated on an annual basis under IAS 19 ‘Employee Benefits’, and on a triennial funding basis, by an independent firm of actuaries with specialist knowledge and experience. The triennial estimates are based on the most up to date membership data held by the pension fund and a roll forward approach is used in intervening years, as permitted by the CIPFA Code. The calculations involve a number of key assumptions, such as discount rates and inflation and local factors such as mortality rates and expected pay rises. The estimates are highly sensitive to changes in these assumptions and the calculation of any asset ceiling when determining the value of a pension asset. ISAs (UK) 500 and 540 require us to undertake audit procedures on the use of external experts (the actuary) and the methods, assumptions and source data underlying the estimates. This represents a key accounting estimate made by management within the financial statements due to the size of the values involves, the subjectivity of the measurement and the sensitive nature of the estimate to changes in key assumptions. We have therefore identified the valuation of the net pension liability/asset as a significant risk. **Inherent risk of material misstatement:** • **Defined pension fund net liability/asset (valuation): High**	Procedures performed to mitigate risks of material misstatement in this area will include: • Evaluating managements processes for the calculation of the estimate, the instructions issued to management’s expert (the actuary) and the scope of their work; • Evaluating the competence, capabilities and objectivity of the actuary; • Assessing the controls in place to ensure that the data provided to the actuary by the Council and their pension fund was accurate and complete; • Evaluating the methods, assumptions and source data used by the actuary in their valuations, with the support of an auditors’ expert; • Evaluating whether any asset ceiling was appropriately considered (if applicable) when determining the value of any pension asset included in the financial statements; • Assessing the impact of any significant differences between the estimated gross asset valuations included in the financial statements and the Council’s share of the investment valuations in the audited pension fund accounts’ and • Ensuring pension valuation movements for the year and related disclosures have been correctly reflected in the financial statements.

Other risks of material misstatement

Other identified risks

Other identified risks are those which, although not considered to be significant, will require specific consideration during the audit.

Identified risk	Planned audit procedures
Other risk 1: The Council has entered into a complex and financially significant income strip scheme. This requires the recognition of an asset, a significant finance lease liability and management judgement on accounting for various transactions related to this scheme.	Procedures performed to mitigate risks of material misstatement in this area will include: • Reviewing management's accounting treatment for this transaction, including revenue flows in year and the value of long and short term assets and liabilities associated with the scheme • Assessing management's accounting treatment against the requirements of the CIPFA Code and International Financial Reporting Standards.

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 those adopted for the risks identified in this report.

Value for Money arrangements

Under the Code of Audit Practice, we must satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (referred to here as “Value for Money”, or “VFM”).
NAO Auditor Guidance Note 03 ‘Auditors’ Work on Value for Money Arrangements’ (“AGN 03”) was updated and issued on 18 January 2023 and requires us to provide an annual commentary on arrangements, which will be published as part of the Auditor’s Annual Report. Such commentary will highlight any significant weaknesses in arrangements, along with recommendations for improvements.

When reporting on such arrangements, the Code of Practice requires us to structure our commentary under three specified reporting criteria:

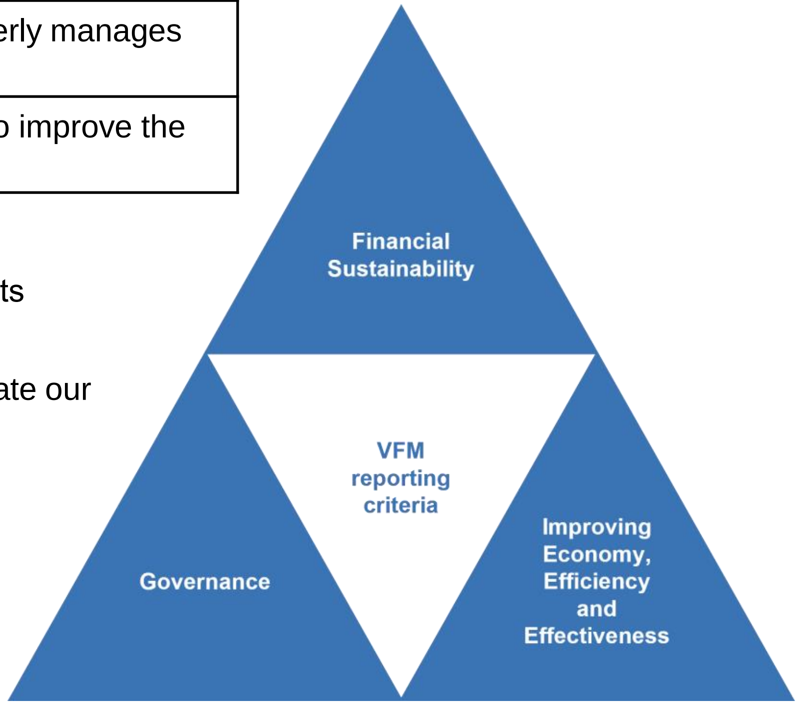
Financial sustainability	How the body plans and manages its resources to ensure it can continue to deliver its services
Governance	How the body ensures that it makes informed decisions and properly manages its risks
Improving economy, efficiency and effectiveness	How the body uses information about its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

As part of the planning process, we are required to perform procedures to identify potential risks of significant weaknesses in the Council’s arrangements to secure VFM through the economic, efficient and effective use of its resources.

We are required to re-evaluate this risk assessment during the course of the audit and, where appropriate, update our work to reflect emerging risks or findings that may suggest a significant weakness in arrangements.

Where we identify significant weaknesses in arrangements as part of our work, we are required to make recommendations setting out:

- Our judgement on the nature of the weakness identified;
- The evidence on which our view is based;
- The impact on the local body; and
- The action the body needs to take to address the weakness.



Value for Money arrangements

Risks of significant weakness in VFM arrangements

We have carried out an initial risk assessment to identify any risks of significant weakness in respect of the three specific areas of proper arrangements using the guidance contained in AGN 03. A significant weakness is a risk requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money.

We will re-evaluate this risk assessment during the course of the audit and, where appropriate, update our work to reflect emerging risks or findings that may suggest a significant weakness in arrangements.

When considering the Council's arrangements, we will have regard to the three reporting criteria set out in AGN03, as well as performing additional work in the areas identified below which are the potential areas of significant weaknesses, we have identified at the planning stage.

Criteria	Potential risk of significant weakness	Our risk based procedures and evaluation approach includes (but is not limited to)
Financial sustainability	None identified	Whilst we have not identified, at this stage, any risks of significant weakness, we will consider as part of our review the arrangements in place to monitor and mitigate the commercial, economic and other risks relating to the Council's significant income strip scheme.
Governance	None identified	We have not at this stage identified any risks of significant weakness that require specific audit procedures.
Improving economy, efficiency and effectiveness	None identified	We have not at this stage identified any risks of significant weakness that require specific audit procedures.

Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work in accordance with the Code of Audit Practice and may not be all that exist.

Audit team and logistics

Your audit team

Role	Name	Contact details
Key Audit Partner	Paul Grady	Paul.grady@azets.co.uk
Engagement Manager	Reshma Ravikumar	Reshma.Ravikumar@azets.co.uk
In-charge auditor	Thinga Mutati	Thinga.mutati@azets.co.uk

Timetable

Event	Date
Planning and risk assessment	Oct – Nov 2023
Reporting of plan to Audit Committee	Jan – Mar 2024
Interim audit	Jan - Mar 2024
Year end audit	Aug – Nov 2024
Reporting of Audit Findings (ISA260)	Nov 2024
Auditor's Annual Report (AAR)	Nov 2024
Target date of approval of accounts	Nov 2024
Accounts publication deadline (as specified in the Accounts and Audit Regulations 2015)	TBC (likely 30 November 2024)

Our expectations and requirements

For us to be able to deliver the audit in line with the agreed fee and timetable, we require the following:

- Draft financial statements to be produced to a good quality by the deadlines you have agreed with us. These should be complete including all notes, the Narrative Statement and the Annual Governance Statement;
- The provision of good quality working papers at the same time as the draft financial statements. These will be discussed with you in advance to ensure clarity over our expectations;
- The provision of agreed data reports at the start of the audit, fully reconciled to the values in the accounts, to facilitate our selection of samples for testing;
- Ensuring staff are available and on site (as agreed) during the period of the audit;
- Prompt and sufficient responses to audit queries within two working days (unless otherwise agreed) to minimise delays.

The audit process is underpinned by effective project management to ensure that we co-ordinate and apply our resources efficiently to meet your deadlines. It is therefore essential that the audit team and the Council's finance team work closely together to achieve this timetable.

Please note that we will be unable to complete our 2023/24 audit until your audits for all previous financial years have been completed by your predecessor auditors and auditor's reports covering both the financial statements audit and value for money work have been issued. The National Audit Office continues to explore ways to escalate the timely completion of all outstanding local government audits.

Independence, objectivity and other services provided

Auditor independence

We confirm that we comply with the Financial Reporting Council's (FRC) Ethical Standard and are able to issue an objective opinion on the financial statements. We have also complied with the NAOs Auditor Guidance Note 01, issued in September 2022, which contains supplementary guidance on ethical requirements for auditors of local public bodies. We have considered our integrity, independence and objectivity in respect of audit services provided and we do not believe that there are any significant threats or matters which should be bought to your attention

Other services

We have detailed in the table below any other services provided to the Council (and the Group), the threats to our independence these present and the safeguards we have put in place to mitigate these threats.

Service	Provided to	Fee	Threats identified and safeguards to mitigate threats to independence
Audit related: Certification of Housing Benefit Assurance Process (HBAP) claim (2023/24)	**Council**	£28,000 plus per diem rate for additional work required	**Self-interest:** Given this is likely to be a recurring fee, we consider a threat present. However, the fee is not significant to Azets Audit Services or Three Rivers District Council. The fee is fixed (apart from an additional £2,000 for each additional 40+ workbook) and not contingent in nature. **Self-review**: Whilst housing benefit revenue and expenditure streams are within the financial statements, we do not complete the claim form. The focus of our work is solely testing the data in the claim form prepared by the management. **Management:** As above, the claim form is completed by management and any adjustments or amendments identified to the form during the certification work are discussed and agreed by management prior to submission of the certification report. We therefore consider these risks sufficiently mitigated.

Fees

PSAA set a fee scale for each audit that assumes the audited body has sound governance arrangements in place, has been operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for audit. This fee scale is reviewed by PSAA each year and adjusted, if necessary, based on auditors' experience, new requirements, or significant changes to the audited body. The fee may be varied above the fee scale to reflect the circumstances and local risks within the audited body.

Our estimated fee (excluding VAT) is as follows:

Audit fee	2023/24 £
Base fee for the audit of the Council (and Group's) financial statements (as set out in the fee scales issued by PSAA)	137,006
New auditing standards: ISA315 and ISA240	20,551
Group accounts	12,550
Accounting for Income strip	18,000
Initial audit fee for Three Rivers District Council	**188,107**
Additional work arising from prior year audit outcomes	TBC
Proposed audit fee for Three Rivers District Council	**TBC**

This fee is estimated based on our understanding at this point in time and may be subject to change. Our planned fee is on the basis that our expectations set out on page 17 are met.

It is our policy to bill for overruns or scope extensions e.g., where we have incurred delays, deliverables have been late or of poor quality, where key personnel have not been available, or we have been asked to do extra work.

Our policy is to raise fees to account at appropriate stages of the audit such as during the audit planning, the interim visit, the final audit and once the financial statements have been signed.

The approximate total fees charged to the Council (and group) for the provision of services in 2023/24 is as follows:

Audit fee	2023/24 £
Audit of the Council (as above, excluding any additional work arising from prior year audit completion)	201,520
Certification of the HBAP Claim (excluding the per diem rate for additional workbooks)	28,000
Total fees for the Group (excluding any additional work arising from prior year audit completion, and any additional work on the HBAP claim)	**229,520**

Appendix I: Materiality

Whilst our audit procedures are designed to identify misstatements which are material to our audit opinion, we also report to those charged with governance and management any uncorrected misstatements of lower value errors to the extent that our audit identifies these. Under ISA (UK) 260 we are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. ISA (UK) 260 defines ‘clearly trivial’ as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

An omission or misstatement is regarded as material if it would reasonably influence the users of the financial statements. The assessment of what is material is a matter of professional judgement and is affected by our assessment of the risk profile of the Council and the needs of the users. When planning, we make judgements about the size of misstatements which we consider to be material, and which provide a basis for determining the nature and extent of our audit procedures. Materiality is revised as our audit progresses, should we become aware of any information that would have caused us to determine a different amount had we known about it during our planning.

Our assessment, at the planning stage, of materiality for the year ended 31 March 2024 was calculated as follows:

	Group £’000	Council £’000	Explanation
Overall materiality for the financial statements	TBC	930	2% of gross revenue expenditure based on the draft financial statements as at 31 March 2023. This will be reassessed upon receipt of the draft accounts. The financial statements are considered to be materially misstated where total errors exceed this value.
Performance materiality	TBC	558	60% of materiality. Audit work will be performed to capture individual errors at this level
Trivial threshold	TBC	46.5	5% of overall materiality for the Council and group. Individual errors above this threshold are communicated to those charged with governance.

In addition to the above, we consider any areas for specific lower materiality. We have determined that no specific materiality levels need to be set for this audit.

Appendix II: Group audit scope and risk assessment

As Group auditor under ISA (UK) 600 (Revised November 2019) we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Please note the below scope is indicative subject to our detailed review of the Council's proposed accounting treatment for the group structure.

Group audit scope

The Group consists of the following entities:

Component	Significant?	Level of response required	Planned audit approach
Three Rivers District Council	Yes	Comprehensive	Full scope statutory audit
Three Rivers Commercial Services (TRCS) Ltd	No	Analytical	We will carry out analytical procedures at a group level
Three Rivers Development LLP (joint venture with TRCS Ltd)	No	Analytical	We will carry out analytical procedures at a group level

Comprehensive The component is of such significance to the Group as a whole that an audit of the components financial statements is required for group reporting purposes.

Targeted The component is significant to the Group, audit evidence will be obtained by performing targeted audit procedures rather than a full audit.

Analytical The component is not significant to the Group and audit risks can be addressed sufficiently by applying analytical procedures at the Group level.

Risks at the component-level

The risks identified at the Council are set out in this external audit plan. There are no other risks identified in any of the other components above in respect of the Group audit.

Note that a component may require a statutory audit under UK or overseas company law irrespective of whether an audit is required for group reporting purposes. Management should therefore satisfy themselves that all UK and overseas company law requirements are adhered to on a company-by-company basis.

Involvement in the work of component auditors

The nature, timing and extent of our involvement in the work of component auditors will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the audit documentation and meeting with appropriate members of the audit team.

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AUDIT COMMITTEE – 28 SEPTEMBER 2023

PART I – DELEGATED

FINANCIAL AND BUDGETARY RISKS
(DoF)

Summary

1.1 This report advises the Committee on the latest position in respect of the evaluation of financial risks facing the Council for discussion and any recommendations or comments they wish to make.

Details

2.1 Since the last Audit Committee the pay award for 2023/24 has been agreed at the level included in the latest budget forecast. Inflation has also started to reduce with the result that the pay award risk has been lowered, although this does still remain significant fir future years. The interest rate risk has also been updated to reflect the fact the Council is forecast to remain cash positive and will benefit from higher interest rates whilst this position remains. Updates to the action plan have been provided where action has been taken or planned or further information has become available.

Options and Reasons for Recommendations

3.1 The recommendations allow the Committee to review the financial risks faced by the Council and record any comments it wishes to make in respect of individual risks.

Policy/Budget Reference and Implications

4.1 The recommendations in this report are within the Council's agreed policy and budgets.

Financial, Legal, Equal Opportunities, Staffing, Environmental, Community Safety, Public Health, Customer Services Centre, Communications & Website, Risk Management and Health & Safety Implications

5.1 None specific.

Recommendation

6.1 That the Committee review the risk register and make any comments it wishes to make against individual risks.

Report prepared by: Hannah Doney, Head of Finance

Data Quality

Data sources: Budget Monitoring Reports & Budget setting report (Liberal Democrat)

Data checked by: Head of Finance.

Data rating:

1	**Poor**	
2	**Sufficient**	
3	**High**	√

Background Papers

Impact of Inflation on the Council - paper to Policy & Resources Committee 18 July 2022

APPENDICES / ATTACHMENTS

Appendix 1 - Financial Risk Register

Date risk added to register	Risk ref	Risk owner	Category	Risk description	Comment	Likelihood score (inherent)	Impact score (inherent)	Inherent risk score	Risk controls	Risk control owners	Likelihood score (residual)	Impact score (residual)	Residual risk score	Risk direction	Action plan	Action plan owners	Action plan completion dates
Sep-15	FIN07	Director of Finance	Strategic	The Medium term financial position worsens.	In that the general fund balance falls below the minimum prudent threshold and capital funding is insufficient to meet the capital programme. This appears as item no.8 in the Council's strategic risk register.	4	4	16	The Council has a robust financial management framework which includes regular budget monitoring reports to committees; Budgetary and Financial Risk Register reviewed and updated as part of the budget monitoring process; identification of budgetary pressure when reviewing the medium term financial plan during the budget setting process; Audited Statement of Accounts, including Annual Governance Statement. Currently the 2019/20 annual accounts are awaiting sign off from the external auditors and 2020/21 annual accounts are well progressed.	Head of Finance	3	2	6	→	Regular budget monitoring reports to committees; Budgetary and Financial Risk Register reviewed and updated as part of the budget monitoring process; identification of budgetary pressure when reviewing the medium term financial plan during the budget setting process which includes a risk assessment for the prudent level of general balances and an assessment of financial resilience with reference to the CIPFA Financial resilience index.	Heads of Service/ Head of Finance	Continuous
Apr-06	FIN08	Director of Finance	Budgetary	The pay award exceeds estimates included in the MTFP resulting in unplanned and unsustainable use of reserves.	The Council's 3 year Medium term Financial Strategy includes forecast pay awards for the next three years. The 2023-24 pay award has now been agreed at the level included in the current budget monitoring. Inflation is beginning to come down reducing pressure on next years	3	3	9	Maintain reserves to guard against risk. Early identification of new pressures through Budget Monitoring.	Head of Finance	3	2	6	↓	The Council's 3 year Medium term Financial Strategy includes forecast pay awards for the next three years. The Council maintains reserves to guard against risk including setting a prudent minimum level for general balances. Early identification of new pressures through Budget Monitoring enable the Council to take steps to bring the budget back into balance.	Head of Finance	Continuous
Apr-06	FIN09	Director of Finance	Budgetary	Other inflationary increases exceed estimates included in the MTFP resulting in unplanned and unsustainable use of reserves.	Other than contractual agreements, budgets are cash limited where possible and budget managers are expected to manage increases within existing budgets.	3	3	9	Monitor future inflation projections. Actively manage budgets to contain inflation. Maintain reserves.	Service Heads/Head of Finance	3	2	6	→	Monitor future inflation projections. Actively manage budgets and contracts to contain inflation. The Council maintains reserves to guard against risk including setting a prudent minimum level for general balances. Early identification of new pressures through Budget Monitoring enable the Council to take steps to bring the budget back into balance.	Head of Finance	Continuous
Jan-15	FIN10	Director of Finance	Budgetary	Interest rates increase or decrease resulting in significant variations in estimated interest income (investments) or interest expense (borrowing)	The Council remains cash positive so is experiencing a short term benefit from higher interest rates. Over the longer term rates are expected to come down allowing the Council to borrow for future capital projects.	3	2	6	The Council has a Treasury Management Strategy which is reviewed annually. The Council is looking to lend out over a longer period to maximised the benefit from temporary higher rates..	Head of Finance	3	2	6	→	The Audit Committee receives two reports per year on Treasury Management activity and interest income and expenditure is moniored through the Budget Monitoring Report.	PIB	Continuous

Date risk added to register	Risk ref	Risk owner	Category	Risk description	Comment	Likelihood score (inherent)	Impact score (inherent)	Inherent risk score	Risk controls	Risk control owners	Likelihood score (residual)	Impact score (residual)	Residual risk score	Risk direction	Action plan	Action plan owners	Action plan completion dates
Apr-06	FIN11	Director of Finance	Budgetary	Inaccurate estimates of fees and charges income and / or estimates of cost of delivering chargeable services result in budgetary pressure.	A budget pressure is created due to income shortfalls or increased expenditure	3	2	6	Budget levels realistically set and closely scrutinised	Service Heads/Head of Finance	2	2	4	⇨	Fees and charges, including and surplus or loss are monitored through budget monitoring with key income streams reported to CMT.	Service Heads	Continuous
Apr-06	FIN12	Director of Finance	Budgetary	The Council loses the ability to recover VAT as a result of exceeding the partial expemption threshold resulting in budgetary pressure.	If the council's expenditure on functions for which it receives income that is exempt for VAT purposes exceeds 5% of its total vatable expenditure, then the Council may lose its ability to recover VAT on all of its exempt inputs. This is mitigated by close monitoring of exempt supplies and prudent VAT planning. The Council elects to tax on development schemes.	2	4	8	VAT Planning and opt to tax on schemes. VAT advisers employed.	Head of Finance	1	4	4	⇨	Partial Exemption Review is undertaken annually with support provided by the Council'sexternal tax advisors, PS Tax. The Council continue to opt to tax land where appropriate.	Head of Finance	Continuous
Dec-13	FIN13	Director of Finance	Budgetary	The estimated cost reductions and additional income gains set out in the MTFP are not achieved resulting in an unplanned and unsustainable use of reserves.	Savings identified and included in the budget will be monitored as part of the budget monitoring process. See fees and charges above. MTFS agreed for next three years.	2	3	6	Service Heads to take responsibility for achieving savings. Budget monitoring to highlight any issues to allow corrective action to be taken.	Service Heads/Head of Finance	2	2	4	⇨	Budget process to clearly identify savings to be achieved and ensure clarity over responsibility over delivery. Savings to be challenged.	Head of Finance	Continuous
Apr-06	FIN14	Director of Finance	Budgetary	The Council is faced with potential litigation and other employment related risks	The Council has no material outstanding litigation cases.	2	3	6	Council procedures are adhered to	Solicitor to the Council	1	3	3	⇨	Adherence to council procedures to be monitored and procedures maintained.	Solicitor to the Council	ongoing

x 1

Date risk added to register	Risk ref	Risk owner	Category	Risk description	Comment	Likelihood score (inherent)	Impact score (inherent)	Inherent risk score	Risk controls	Risk control owners	Likelihood score (residual)	Impact score (residual)	Residual risk score	Risk direction	Action plan	Action plan owners	Action plan completion dates
Dec-13	FIN18	Director of Finance	Budgetary	Business Rates Retention fluctuates impacting on the amount of funding received by the Council.	From April 2020 the system was due to be subject to reset and increase to 75% retention resulting in a loss of growth. This has been further postponed to 2025/26. However, the significant revaluations for 2023 introduce additional risk of appeals which could result in a reduction to income.	3	4	12	Maintain reserves against risk.	Head of Finance	3	3	9	→	Hertfordshire CFOs continue to work with LG Futures to assess the impact on individual Councils in Hertfordshire and the impact on the ability to create a business rate pool for 2024/25. The scale of appeals is still unknown but this is likley to become clearer over the next 24 months as transitional relief reduces for businesses impacted by the increases in rateable value.	Director of Finance	Continuous
Jul-16	FIN20	Director of Finance	Budgetary	Failure of ICT systems	The Council's integrated Financial Management System (FMS) is held on an ICT platform. If this were to fail then potentially there will be a loss of functionality occurring during any downtime.	3	2	6	System migrated to latest version. Payments system updated.	Head of Finance	1	2	2	→	Monitor reliability	Head of Finance	Continuous
Mar-18	FIN21	Director of Finance	Budgetary	Property Investment	The Property Investment Board manage its property portfolio in order to secure additional income to support its general fund.	2	3	6	Portfolio to be actively managed to maintain income levels. Income to be reviewed regularly when MTFP is updated.	Head of Property Services	1	3	3	→	PIB to assume responsibility for ongoing oversight.	Head of Property Services	Continuous
Sep-18	FIN23	Director of Finance	Budgetary	Commercial Investment	The Council has limited options to further improve self sustainability through commercial investment following changes to the the Prudential Code for Capital Finance and changes to PWLB borrowing regulations. Currently there is a	3	2	6	Oversight mechanisms to be put in place to ensure oversight by PIB or similar mechanism. Council to determine approach to risk and level of income dependency within budget.	Head of Finance	2	2	4	→	Monitor new developments. Investments overseen by the cross party Shareholder and Commercial Ventures Panel.	Head of Property Services	Continuous
Nov-19	FIN 24	Director of Finance	Service	Loss of Key Personnel	As the Council becomes more complex in its financial arrangements, key skills become more important.	3	4	12	Improve depth of skills and knowledge. Bring in temporary additional resources as necessary.	Head of Finance	1	3	3	→	Following a revision of job descriptions, minor amendments to the structure, and a successful recruitment campaign during 2022/23, the Finance team is currently fully staffed. All staff have an annual Personal Development Review which contains smart objectives including objectives related to career development and identification of training needs and opportunities.	Chief Executive/ Director of Finance	Continuous

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AUDIT COMMITTEE – 30 NOVEMBER 2023

PART I – DELEGATED

. COMMITTEE'S WORK PROGRAMME
(DoF)

1 Summary

1.1 This report sets out the Audit Committee's latest Work Programme to enable the Committee to make updates as required.

2. Details

2.1 The Audit Committee meets five times per financial year between 1 April and 31 March. The work programme is presented at each meeting of the Committee to enable any changes to be made and to provide Members with updated information on future meetings.

2.2 The work programme includes a rolling annual training programme which is delivered prior to each committee. The following topics form the programme:

- Role of the Audit Committee
- Statement of Accounts
- Treasury Management
- Internal Audit
- Risk Management

2.3 Additional 'deep dive' training is arranged for members of the committee ahead of approval of the audited Statement of Accounts.

2.4 The following items are standing items on the agenda and are presented at each meeting of the Committee:

- Internal Audit Report – SIAS Audit Client Manager
- Financial and Budgetary Risks – Head of Finance
- Committee Work Programme

2.5 The programme of ad hoc reports scheduled to be presented to this Committee in the next 12 months is shown in the table below:

Financial Year 2023/24		
Date	**Report**	**Officer Responsible**
30 November 2023	TRAINING: Treasury Management • Treasury Management Mid-Year Report 2023/24 • Draft Capital Strategy and Treasury Management Strategy Statement 2024/25 • External Auditor Plan 2023/24 • Standing Items	Director of Finance Director of Finance Director of Finance External Auditors
21 March 2024	TRAINING: Internal Audit • Accounting Policies 2023/24 • Risk Management Framework • Standing Items	Client Audit Manager Director of Finance Emergency Planning and Risk Manager
Financial Year 2024/25		
May 2024	TRAINING: Statement of Accounts • Treasury Management Annual Report 2023/24 • SIAS Annual Assurance Statement & Internal Audit Annual Report • Approval of the draft Statement of Accounts 2023/24 and Annual Governance Statement • Standing Items	Director of Finance Director of Finance Client Audit Manager Director of Finance
July 2024	TRAINING: Role of the Audit Committee • Fraud Annual Report • SIAS Board Annual Report • Standing Items	Director of Finance Fraud Manager Client Audit Manager

September 2024	TRAINING: Risk Management • Approval of the audited Statement of Accounts 2023/24 • Standing Items	Emergency Planning and Risk Manager Director of Finance and External Auditors

3 Options/Reasons for Recommendation

3.1 The recommendation allows the Committee to determine its work programme.

4 Policy/Budget Implications

4.1 The recommendations in this report are within the Council's agreed policy and budgets.

5 Financial, Legal, Equal Opportunities, Staffing, Environmental, Community Safety, Customer Services Centre, Website and Risk Management Implications

5.1 None specific.

6 Recommendation

6.1 That the Committee consider and makes necessary changes to its Work Programme.

Background Papers

Reports and minutes – Audit Committee

Report prepared by: Hannah Doney – Head of Finance

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