

**NORTH HERTFORDSHIRE DISTRICT COUNCIL**



1 March 2024

Our Ref Finance, Audit and Risk Committee 13  
March 2024  
Contact. Committee Services  
Direct Dial. (01462) 474655  
Email. [committee.services@north-herts.gov.uk](mailto:committee.services@north-herts.gov.uk)

To: Members of the Committee Councillors: Sean Nolan (Chair), Terry Tyler (Vice-Chair), Terry Hone, Chris Lucas, Tom Plater, Mandi Tandi and Tamsin Thomas

Substitute Councillors: Matt Barnes, Clare Billing, Sam Collins, Adam Compton, Juan Cowell and Daniel Marsh

Independent Member: John Cannon *Non-voting advisory role*

**NOTICE IS HEREBY GIVEN OF A**

**MEETING OF THE FINANCE, AUDIT AND RISK COMMITTEE**

to be held in the

**COUNCIL CHAMBER, DISTRICT COUNCIL OFFICES, GERNON  
ROAD, LETCHWORTH GARDEN CITY, SG6 3JF**

On

**WEDNESDAY, 13TH MARCH, 2024 AT 7.30 PM**

Yours sincerely,

Jeanette Thompson  
Service Director – Legal and Community

**\*\*MEMBERS PLEASE ENSURE THAT YOU DOWNLOAD ALL AGENDAS AND REPORTS VIA THE MOD.GOV APPLICATION ON YOUR TABLET BEFORE ATTENDING THE MEETING\*\***

## **Agenda** **Part I**

<b>Item</b>		<b>Page</b>
<b>1. APOLOGIES FOR ABSENCE</b>	Members are required to notify any substitutions by midday on the day of the meeting.  Late substitutions will not be accepted and Members attending as a substitute without having given the due notice will not be able to take part in the meeting.	
<b>2. MINUTES - 31 JANUARY 2024</b>	To take as read and approve as a true record the minutes of the meeting of the Committee held on the 31 January 2024	(Pages 5 - 12)
<b>3. NOTIFICATION OF OTHER BUSINESS</b>	Members should notify the Chair of other business which they wish to be discussed at the end of either Part I or Part II business set out in the agenda. They must state the circumstances which they consider justify the business being considered as a matter of urgency.  The Chair will decide whether any item(s) raised will be considered.	
<b>4. CHAIR'S ANNOUNCEMENTS</b>	Members are reminded that any declarations of interest in respect of any business set out in the agenda, should be declared as either a Disclosable Pecuniary Interest or Declarable Interest and are required to notify the Chair of the nature of any interest declared at the commencement of the relevant item on the agenda. Members declaring a Disclosable Pecuniary Interest must withdraw from the meeting for the duration of the item. Members declaring a Declarable Interest, wishing to exercise a 'Councillor Speaking Right', must declare this at the same time as the interest, move to the public area before speaking to the item and then must leave the room before the debate and vote.	
<b>5. PUBLIC PARTICIPATION</b>	To receive petitions, comments and questions from the public.	
<b>6. SAFS ANTI-FRAUD PLAN 2023-24 PROGRESS UPDATE REPORT OF THE SHARED ANTI-FRAUD SERVICE</b>	To review the progress of the Shared Anti-Fraud Services (SAFS) Anti-Fraud Plan 2023-24.	(Pages 13 - 20)

7. **SAFS PROPOSED ANTI-FRAUD PLAN 2024-25** (Pages  
REPORT OF THE SHARED ANTI-FRAUD SERVICE 21 - 34)
- To review and approve the Shared Anti-Fraud Services (SAFS) Anti-Fraud Plan 2024-25.
8. **SIAS PROGRESS REPORT 2023-24** (Pages  
REPORT OF THE SHARED INTERNAL AUDIT SERVICE 35 - 48)
- To receive the SIAS Progress Report for the Internal Audit Plan 2023-24 as of 26 February 2024.
9. **SIAS PROPOSED INTERNAL AUDIT PLAN 2024-25** (Pages  
REPORT OF THE SHARED INTERNAL AUDIT SERVICE 49 - 78)
- To review and approve the Shared Internal Audit Service Plan for 2024-25.
10. **LOCAL CODE OF CORPORATE GOVERNANCE 2024 AND ANNUAL GOVERNANCE STATEMENT ACTION PLAN UPDATE 2023/24** (Pages  
REPORT OF THE POLICY AND COMMUNITIES MANAGER 79 - 96)
- For the Finance, Audit & Risk Committee to approve the Local Code of Corporate Governance for 2024; and to review the progress of the Annual Governance Statement (AGS) Action plan for 2023/24.
11. **CLEARING THE EXTERNAL AUDIT BACKLOG** (Pages  
REPORT OF THE SERVICE DIRECTOR – RESOURCES 97 - 116)
- To provide an update of the External Audit Backlog and to provide a detail schedule for this to be resolved.
12. **THIRD QUARTER INVESTMENT STRATEGY (CAPITAL AND TREASURY) REVIEW 2023/24** (Pages  
REPORT OF THE SERVICE DIRECTOR – RESOURCES 117 - 146)
- To receive an update on progress with delivering the capital and treasury strategy for 2023/24, as at the end of December 2023.
13. **THIRD QUARTER REVENUE BUDGET MONITORING 2023/24** (Pages  
REPORT OF THE SERVICE DIRECTOR – RESOURCES 147 - 158)
- To consider the Third Quarter Revenue Budget Monitoring report for 2023/24.
14. **POSSIBLE AGENDA ITEMS FOR FUTURE MEETINGS**  
The Chair to lead a discussion regarding possible agenda items for future meetings.

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# Public Document Pack Agenda Item 2

## BLISH NORTH HERTFORDSHIRE DISTRICT COUNCIL

### FINANCE, AUDIT AND RISK COMMITTEE

MEETING HELD IN THE COUNCIL CHAMBER, DISTRICT COUNCIL OFFICES, GERON ROAD, LETCHWORTH GARDEN CITY, SG6 3JF  
ON WEDNESDAY, 31ST JANUARY, 2024 AT 7.30 PM

#### MINUTES

**Present:** *Councillors: Sean Nolan (Chair), Terry Hone, Tom Plater, Mandi Tandi and Tamsin Thomas.*

*John Cannon (Independent Person) Non-voting advisory role.*

**In Attendance:** *Ian Couper (Service Director - Resources) and Sjanel Wickenden (Committee, Member and Scrutiny Officer).*

**Other Presenters:** *Chris Wood (Head of Assurance Services (HCC) & Client Audit Manager (NHDC)).*

**Also Present:** *Councillor Ian Albert was also present.*

#### 20 APOLOGIES FOR ABSENCE

*Audio recording – 1 minute 52 seconds*

Apologies for absence were received from Councillor Terry Tyler.

An apology for absence was received on behalf of Councillor Tamsin Thomas who would be arriving late.

*N.B Apologies were received from Councillor Chris Lucas via email at 19:46, however these were not provided during the meeting itself.*

#### 21 MINUTES - 13 DECEMBER 2023

*Audio Recording – 2 minutes 14 seconds*

Councillor Sean Nolan, as Chair, proposed and Councillor Terry Hone seconded and, following a vote, it was:

**RESOLVED:** That the Minutes of the Meeting of the Committee held on 13 December 2023 be approved as a true record of the proceedings and be signed by the Chair.

#### 22 NOTIFICATION OF OTHER BUSINESS

*Audio recording – 3 minutes 4 seconds*

There was no other business notified.

## 23 CHAIR'S ANNOUNCEMENTS

*Audio recording – 3 minutes 9 seconds*

- (1) The Chair advised that, in accordance with Council Policy, the meeting would be audio recorded.
- (2) The Chair drew attention to the item on the agenda front pages regarding Declarations of Interest and reminded Members that, in line with the Code of Conduct, any Declarations of Interest needed to be declared immediately prior to the item in question.
- (3) The Chair advised that section 4.8.23(a) of the Constitution did not apply to this meeting.

## 24 PUBLIC PARTICIPATION

*Audio recording – 3 minutes 58 seconds*

There was no public participation at this meeting.

## 25 SIAS PROGRESS REPORT 2023-24

*Audio recording – 4 minutes 4 seconds*

The Head of Assurance presented the report entitled 'SIAS Progress Report 2023- 2024' and drew attention to the following, that:

- The final reports had been issued on the Freedom of Information, Safer Recruitment and the Digital Strategy audits as highlighted in Table 2.2.
- Independent examiner statements had been issued on the King George V Playing Field and the Workman Hall, copies were available to the Committee.
- The high priority recommendation on Risk Training had been implemented.
- The Disaster Recovery high priority recommendation had a revised implementation date of 31 January 2024.
- The audit projects were 46% completed and 61% of audit days had been delivered, which was still behind the planned delivery profile.
- The appendices showed the audits that had commenced and highlighted any delay reasons.
- There had been capacity challenges with delivering the audit, both within SIAS, largely earlier in the financial year, and within the Council.
- Some teams had been continuously audited throughout the year and this had led to audit fatigue and caused delays in mobilising evidence.
- Previously advised that they were cautiously optimistic regarding delivery of the KPIs but noted that now this may be more challenging, quarter 4 could however change this.
- When a project was delayed or moved to a different quarter the SIAS staffing resource gets redeployed, in some instances this had led to resourcing delays.
- There had been an exit meeting on the Critical Application audit on 31 January 2024 and the audit report was imminent.
- There was confidence that sufficient work would be delivered to support the annual assurance opinion due to be delivered in June 2024, as the majority of the audit work would be finalised by that point, the current delays were due to capacity and resourcing.
- The Council had a red resourcing risk, which was being mirrored across Hertfordshire, and underpins the challenges supporting some audits in a timely way.
- Work was ongoing at SIAS to review how work was delivered, but there were no concerns that an intervention was required at this time.
- SIAS were working with Officers on rectifying the timeline of the Audit Plan.

The following Members asked questions:

- Councillor Terry Hone
- Councillor Sean Nolan
- Independent Person John Cannon

In response to questions the Head of Assurance stated that:

- The audit plan was being processed for completion in June 24, there was confidence that enough work would be completed to support an assurance opinion.
- There were enough resources available within SIAS and support from North Herts Officers to complete the audits.
- The two recent Client satisfaction scores had remained at 50%. The feedback had been reviewed and work was ongoing to resolve the low rate of return based on the number issued. The issues had been highlighted in employee performance reviews.
- Had an additional point be awarded in one of the completed client satisfaction surveys, then the most recent satisfaction score would have been 100% with both surveys being satisfactory overall, as some areas had higher scoring data. The low scores related to resources and their effective usage.
- The feedback was being reviewed and it was a challenge to get the right people in the right places.
- An external delivery partner, BDO UK had been engaged since 2011 for resilience with the fluctuating workload of SIAS. Work had been allocated to them at the beginning of this year and occasionally they were allocated additional work, however this came at a cost and it was more viable for SIAS to recruit their own staff.
- North Herts had no major issues with implementing internal audit recommendations with high and medium priority risks being reported and available to review on Ideagen.

In response to a question from Councillor Hone, the Service Director – Resources stated that there was confidence in SIAS to deliver and complete the audits, but this would be closely monitored.

Councillor Tom Plater proposed and Councillor Terry Hone seconded and, following a vote, it was:

**RESOLVED:** That the Committee:

- (1) Noted the SIAS Progress Report for the period to 12 January 2024.
- (2) Noted the implementation status of the reported high priority recommendations.
- (3) Noted the plan amendments to the 2023/24 Annual Audit Plan.

## **26 INVESTMENT STRATEGY (INTEGRATED CAPITAL AND TREASURY)**

*Audio recording – 21 minutes 25 seconds*

The Service Director – Resources presented the report entitled 'Investment Strategy (Integrated Capital and Treasury)' and highlighted that:

- The strategy covered the capital programme and determined the value of cash available to invest as part of the Treasury Management Strategy.
- At the budget workshops in November, proposals were put forward for the revenue and capital budgets for 2024-25.
- There were three items that Cabinet considered following these workshops and these were detailed at 5.1 of the report.

- A verbal update was presented to Cabinet in January regarding new areas for capital investments and this was highlighted at 5.2 of the report.
- There was an increase to the capital allocation for waste vehicles, which was currently an estimate due to the ongoing contract procurement.
- There would be revenue income savings from the capital funding of the leisure contractor.
- The anticipated income from the Royston learner pool project would be required to offset the capital cost of the project for it to be viable.
- The outcome of a bid from the Public Sector Decarbonisation Fund should cover the majority of costs for the decarbonisation of leisure centres, but the Council would still need to make a significant contribution.
- The funding for new bins was discussed at the Cabinet meeting in December.
- The current capital programme was highlighted in section 7 of the report and provided a starting point for the capital spend in future years.
- A full programme of capital schemes planned for 2024-25 was detailed in Appendix A1.
- Capital receipts were highlighted in Table 10 and indicated delays to expected capital receipts which were being spent faster than they could be replaced. It was anticipated that next year the Council would run out of capital receipts.
- There had been some capital receipts forecasted this year, but these had been reduced and were likely to occur in future years and were due to resourcing needs and the current housing market.
- With the decline of capital receipts, borrowing would be required at a low level. This could be funded externally but this would be subject to interest or internally, by borrowing against the cash in the Council reserves.
- The option to borrow internally would only be viable in the short term, and would result in lost interest income, but would cost less than external borrowing.
- It was hoped that should the Council need to borrow externally the interest rate would have lowered.
- Any borrowing would incur a revenue charge, and this would be spread over the lifespan of the asset that the borrowing related to and was explained in section 8.7 of the report.
- Cash amounts available for investments were detailed in Table 17.
- For investment limit purposes an average value would be used rather than an end of year balance, this was detailed in section 8.8 of the report, along with the amendments from previous years.
- The processes for investing were detailed in sections 8.10 to 8.15 of the report.

*N.B Councillor Tom Plater left the Council Chamber at 19:56 and returned at 19:59 and Councillor Tamsin Thomas entered the Council Chamber at 20:00.*

The following Members asked questions:

- Councillor Terry Hone
- Councillor Sean Nolan
- Independent Person John Cannon

In response to questions, the Service Director – Resources stated:

- That the Council would be borrowing by using the cash from their revenue reserves. There would be a need to borrow externally when there was a cashflow requirement to do so. This is different to the recommended minimum General Fund level.
- The Council would finance initial borrowing from revenue reserves and any further financing above that limit would come from external sources.
- Work was ongoing to develop a strategy to ensure the use of longer-term borrowing rates and a spread of maturity dates.
- The Waste and Leisure assets would be capitalised. The waste vehicles were already capitalised as the Council retains the benefit of these.



- There was uncertainty regarding whether it was more beneficial to provide up front funding for waste vehicles and this was being reviewed as part of the new contract procurement.
- It was anticipated that once a detailed plan for the regeneration of Churchgate was developed then the requirement of the Council to borrow could increase. This would be offset by expected future income.
- The minimum revenue provision was an estimate and took into account the outcome if the current capital programme was fully spent, and a charge to capital spend would be required the following year. Any capital slippage would affect this provision.
- The valuation of Churchgate was an external valuation.
- Should the Public Sector Decarbonisation Fund bid be unsuccessful then the Solar Thermal and Solar PV projects would still go ahead but the Heat Pump project would be delayed.
- In Table 14 the item with a maturity date of Jan 2031 should read as £25,000 and not £25,0000.
- There were concerns that the loan to Stevenage Leisure Ltd for the purchase of fitness equipment may not be repaid. This had been anticipated, and during the pandemic a bad debt provision had been created. The Committee could receive updates on the progress of this matter.
- There was a minimum value for the general fund recommended at £2.4M. Should the Council be forecast to go below this level it would be likely that a section 114 notice would be issued.
- If the revenue saving failed to reach their target, then the revenue costs of the Capital Programme could contribute towards the Council going below that minimum.

*N.B Councillor Tamsin Thomas left the Council Chamber at 20:12 and returned at 20:13.*

Councillor Tom Plater proposed and Councillor Tamsin Thomas seconded and, following a vote, it was:

**RESOLVED:** That the Finance, Audit and Risk Committee provided comments on and recommended the Investment Strategy (Integrated Capital and Treasury) to Cabinet.

**RECOMMENDATIONS TO CABINET:**

That Cabinet recommends to Council that they:

- (1) Approve the adoption of the Investment Strategy (as attached at Appendix A), including the capital programme and prudential indicators. This incorporates the changes referenced in paragraphs 5.1 to 5.3.
- (2) That Council approve the adoption of the four clauses in relation to the Code of Practice on Treasury Management (as detailed in paragraphs 8.10 to 8.16).

**REASONS FOR RECOMMENDATIONS:**

- (1) To ensure that the capital programme meets the Council's objectives and officers can plan the implementation of the approved schemes.
- (2) To ensure the Council's compliance with CIPFA's code of practice on Treasury Management, the Local Government Act 2003, statutory guidance from the Department of Levelling Up, Housing and Communities (DLUHC) and the CIPFA Prudential Code. As well as determining and managing the Council's risk appetite in respect of investments.

## 27 REVENUE BUDGET 2024/25

*Audio recording – 47 minutes 42 seconds*

The Service Director – Resources presented the report entitled 'Revenue Budget 2024-25' and highlighted that:

- Recommendations were made to Cabinet in December following Member workshops, regarding which proposals to take forward. This report provided more detail on the risks and consequences of these.
- The draft budget was reviewed by Cabinet in January and some additional details had been added to the capital report highlighted at 8.3 of the report. The majority of the additions were capital related, which had implications to the revenue budget, there were also some additional revenue items.
- There was an announcement last week about raising the core spending funding to 4% and this was noted at 8.5 of the supplement.
- The additional value of the core spending fund was still to be released but an assumption of £173K had been made whilst waiting for confirmation. It was hoped that this would be received in time for Full Council in February 2024.
- There was an estimated general funding forecast in Table 2, the details were the best estimates for future years.
- It was anticipated that in future years there would be less funding available and therefore the Council would come under greater financial pressure. The projections for the next five years were detailed in Appendix D.
- The impact of other sources of funding was highlighted in Table 3 and detailed how these would impact on the general fund.
- Specific reserves for funding various projects were shown in Table 4.
- The minimum level of the general balance was formulated from a percentage of net revenue expenditure, a percentage of budget income and specific risk as detailed at 8.20 of the report. Full details of specific risks and the risk level could be found in Appendix A.
- Table 7 detailed the updated budget position of 2023-24 as at the end of November.
- Careline had made a positive impact on the income of the Council.
- Parking income had reached a plateau and was not expected to recover to pre Covid levels.
- A Section 25 Report was included as Appendix D, which included estimates and assumptions on items that affected the budget and their certainties.
- Appendix C showed the impact for future years and highlighted the level of savings that were likely to be required to achieve a balanced budget.

The following Members asked questions:

- Councillor Terry Hone
- Councillor Sean Nolan
- Independent Person John Cannon

In response to questions the Service Director – Resources stated:

- The services provided by Careline were fully funded by Herts County Council and their social care clients and by private clients.
- There was a zero cost to North Herts Council for Careline, and it was providing some contribution towards overheads.
- There were savings set out in the 2024-25 budget and Careline had been included in those savings. Looking forward to future years, work was ongoing on the funding gaps including any implications of the new waste contract and any inflation impacts.

- The new Leisure contractor had a structure that provided VAT and Business Rate efficiency, similar to the current contractor and the impact of those efficiencies had been built into the contract price.
- The post May 2024 administration would need to work quickly to consider proposals that would need to be agreed for budget setting in February 2025 and to keep the Council in a sustainable position, which would involve difficult decisions.
- As part of the additional funding 4% Core Spending Power increase there would be a requirement to provide a return to the Department for Levelling up, Housing and Communities on Council efficiency. The details of this were not yet known.
- The quarterly monitoring report detailed the impact of risks including those that did not have a notional allocation as part of the recommended minimum balance calculation. The year end monitoring report would highlight the actual results of the risks against the risk forecast.
- An adjustment for the recently approved Members Allowances Scheme would need to be provided for the version of this report to be presented to Full Council.

Councillor Tom Plater proposed and Councillor Tamsin Thomas seconded and, following a vote, it was:

**RESOLVED:** That the Finance, Audit and Risk Committee provided comments on and recommended the Revenue Budget 2024/25 to Cabinet.

**RECOMMENDATIONS TO CABINET:**

- (1) That Cabinet approves the decrease in the 2023/24 working budget of £301k, as detailed in table 7.

That Cabinet recommends to Council that it:

- (2) Notes the position on the Collection Fund and how it will be funded.
- (3) Notes the position relating to the General Fund balance and that due to the risks identified a minimum balance of £2.48 million is recommended.
- (4) Notes the net revenue savings that are likely to be required in future years, combined with the Chief Finance Officer's section 25 report (Appendix D) which provides a commentary on the risks and reliability of estimates contained in the budget.
- (5) Approves the revenue savings and investments as detailed in Appendix B.
- (6) Approves a net expenditure budget of £20.265m, as detailed in Appendix C.
- (7) Approves a Council Tax increase of 2.99%, which is in line with the provisions in the Medium Term Financial Strategy.

**REASON FOR RECOMMENDATIONS:** To ensure that all relevant factors are considered in arriving at a budget and Council Tax level for 2024/25. To ensure that the budget is aligned to Council priorities for 2024/25 as set out in the Council Plan

**28 POSSIBLE AGENDA ITEMS FOR FUTURE MEETINGS**

*Audio recording – 1 hour 9 minutes 40 seconds*

The Chair led a discussion on future agenda items and confirmed that the Churchgate item requested by Councillor Terry Hone had already noted.

**Wednesday, 31st January, 2024**

Councillor Hone stated that it would be prudent to monitor the new Waste and Leisure contracts and any impacts these might have on future budgets.

The Service Director – Resources stated that more detailed information could be provided on the Councils investment in the Leisure contract when implemented in 2024-25. The waste contract was still in the procurement stage.

The meeting closed at 8.42 pm

Chair



## **North Herts Council**

### **Finance Audit & Risk Committee**

#### **Progress with delivering the 2023/24 Anti-Fraud Plan**

## Purpose

1. This report provides details of the work undertaken to protect the Council against the threat of fraud and the Council's 2023/24 Anti-Fraud plan. The Committee is asked to note this work.

## Recommendation

2. **The Committee is RECOMMENDED to;**
  - I. **note the progress made by the Shared Anti-Fraud Service on delivering the 2023/2024 Anti-Fraud Plan.**

## Background

3. North Herts Council is a founding member of the Shared Anti-Fraud Service (SAFS). This Committee has received detailed reports previously about the creation of SAFS, and how this service works closely with the Shared Internal Audit Service (SIAS). SAFS works across the whole Council dealing with many aspects of fraud, from deterrence & prevention to investigation & prosecution.
4. Recent reports on fraud and corruption have been shared with Council officers and are used by SAFS to ensure that the Council is aware of its fraud risks and finding ways to mitigate or manage these effectively wherever possible.
5. Some of the most significant recent reports include:
  - ***Fighting Fraud and Corruption Locally a Strategy for the 2020's.*** This strategy focuses on the governance and 'ownership' of anti-fraud and corruption arrangements. The Strategy also identifies areas of best practice and includes a 'Checklist' to compare against actions taken by the Council to deter/prevent/investigate fraud. The checklist is maintained and reviewed by SAFS and officers.
  - ***Tackling Fraud in the Public Sector 2020.*** In 2019 CIPFA commissioned a survey and round table events for senior managers in local government to establish what local authorities were doing to tackling fraud. The survey was conducted by an independent body with the support of LGA and MHCLG.
  - ***UK Fraud Strategy 'Stopping Scams and Protecting the Public.*** The Government launched its latest strategy in 2023 aimed at bringing government and the private sector together to tackle fraud, the pursuit and punishment of fraudsters, providing more recognition of fraud and how to avoid it.
  - ***Lost Homes, Lost Hope.*** This paper, published by the Fraud Advisory Panel & Tenancy Fraud Forum in April 2023 uses previous data and research to estimate the current cost to local government of tenancy fraud along with the volume of fraud across the sector. The SAFS Partners have adopted the value of fraud loss used in this academic piece when reporting 'tenancy fraud'.

## Report

### Anti-Fraud Activity 2023/24

#### Staffing & Resources

6. In March 2023 this Committee approved the 2023/24 Anti-Fraud Plan for the Council and KPIs for the SAFS. See [Agenda for Finance, Audit and Risk Committee on Wednesday, 8th March, 2023, 7.30 pm | North Herts Council \(north-herts.gov.uk\)](#) for details of the Plan and **Appendix A** for progress with delivery and KPI Performance.
7. The SAFS Team this year is composed of 23 accredited and trained counter fraud staff and is based at Hertfordshire County Council's offices in Hertford.
8. Each SAFS Partner receives dedicated support and response through a number of 'operational' days where SAFS staff are allocated to various cases, projects, training or other anti-fraud functions at the Council. Providing the Service in this manner allows officers to develop working relationships with Council staff, and also provides improved resilience and flexibility across the Partnership as a whole. SAFS Officers have access to Council offices, officers, systems & data to conduct their enquiries.
9. The SAFS allocated 285 operational days exclusively for the Council in 2023/24, this includes SAFS Management, fraud risk assessment & Executive Reports, reactive/proactive investigations, data-matching & data-analytics (NFI etc), face to face and virtual learning sessions for staff, financial investigations, application of sanctions and supporting prosecutions.

#### Fraud Awareness and Prevention

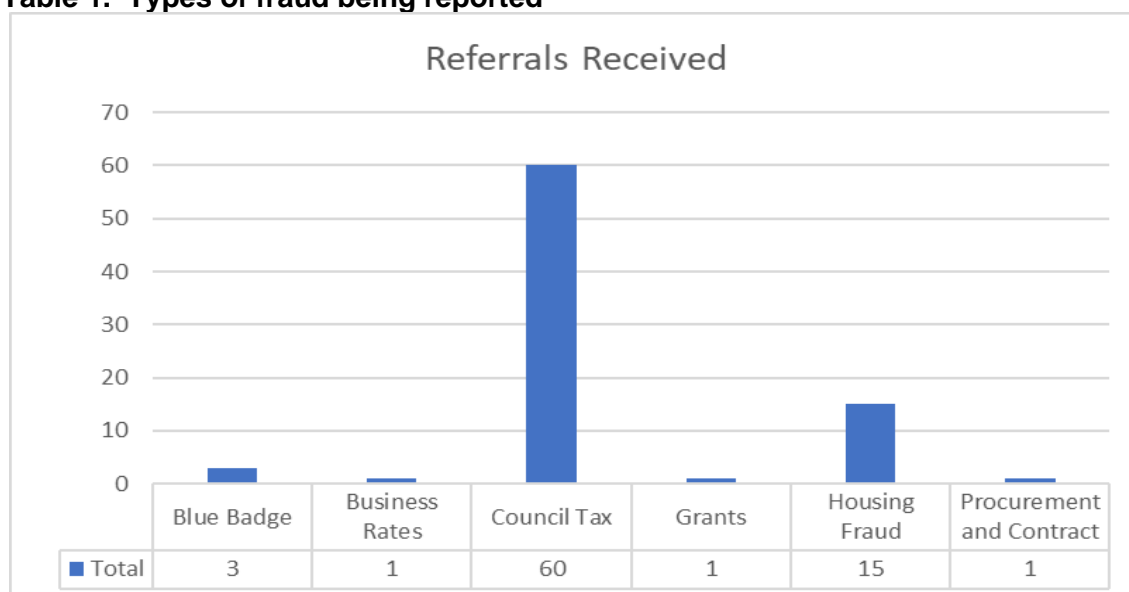
10. A key objective for the Council is to develop the existing anti-fraud culture; ensuring senior managers and members consider the risk of fraud when developing policies or processes; helping to prevent fraud occurring; deterring potential fraud through external communication; encouraging all officers to report fraud where it is suspected; and providing public confidence in the Councils stance on fraud and corruption.
11. The Council took part in the International Fraud Awareness Week in November 2023 with planned activity utilising social media and national/international resources. Campaigns such as this encourage residents to report fraud and provide assurance that the Council takes fraud seriously and acts on those reports.
12. The SAFS webpage – [www.hertfordshire.gov.uk/reportfraud](http://www.hertfordshire.gov.uk/reportfraud) includes an online reporting tool, confidential fraud hotline (0300 123 4033) and a secure email account for reporting fraud – [fraud.team@hertfordshire.gov.uk](mailto:fraud.team@hertfordshire.gov.uk) These contact details are also available via the Councils own website <https://www.north-herts.gov.uk/report-fraud> and on the Councils intranet for staff. None of these functions replace the Council's own Whistleblowing reporting procedures.
13. Working with the Councils HR team SAFS maintains the delivery of its e-training package for staff to raise awareness of fraud, bribery, and money laundering. This

training package is hosted on the Councils intranet and is available for all staff, the modules on anti-fraud/bribery/corruption is being reviewed at present.

## Counter Fraud Activity & Reported Fraud

14. Between April and December 2023 SAFS received 81 'referrals' or allegations of fraud affecting Council services. Allegations received in 2023/24 have remained consistent with previous years both in volume and 'type'.

**Table 1. Types of fraud being reported**



*'Council Tax'-includes Housing Benefit/Council Tax Reduction Scheme/ Single Person Discounts*

15. Of the 81 referrals received 40 came from members of the public and 39 from Council staff. The two other referrals came from proactive work.
16. SAFS carried forward 13 live cases from 2022/23, with a further 23 at referral stage. A number of new cases raised for investigation are still in the early stages (17) and of 13 cases were under investigation at the end of December the estimated fraud loss/savings for these cases exceeds £242k.
17. 10 'reactive' investigations have been closed so far this year, and a further 33 low level reviews undertaken, with fraud losses/savings combined of just over £42k reported.

**'Fraud Loss' is where a fraud has occurred resulting in a debt that can be recovered through civil/statutory routes. 'Fraud Savings' reflect attempted frauds that have been prevented or an ongoing 'Loss' that has been stopped.**

18. A number of cases continue to be delayed where SAFS works with other agencies, in particular the Department for Work and Pension (DWP), where staff are now being redeployed to deal with an increase in fraud in the Universal Credit system.
19. A report from the Fraud Advisory Panel in 2023, Lost Homes Lost Hope, estimates that the cost of social housing fraud to local councils could exceed £42k for every property that is being illegally sub-let. SAFS response to this fraud threat is to work more closely with the Councils Housing Service as well as with registered housing



providers across the County, to assist in the investigation and recovery of properties where illegal sub-letting or 'key-selling', succession and right to buy fraud is identified.

20. Several cases of 'tenancy fraud' are currently being investigated within the Councils boundaries with the intention that, once recovered, these properties will be made available to families from the Councils housing register, including those in temporary accommodation. One case of tenancy fraud have already been proven for Settle Housing and the property was recovered and allocated to a family from the Councils Housing Register .
21. SAFS concluded its investigation and prosecution, conducted by Hertfordshire County Council, of a person who had defrauded the Councils Covid Grant schemes of £60,000. The individual concerned was sentenced to 20 months imprisonment and SAFS are now seeking recovery of the loss via proceeds of crime legislation. [Ex-Letchworth BID manager Chris Wilson jailed for fraud | The Comet](#)

#### Proactive and Prevention Activity

22. SAFS provides alerts of new and emerging fraud from our network of partners including Cabinet Office, CIFAS, CIPFA, National Fraud Intelligence Bureau (NFIB), Herts Police- OWL, National Cyber Security Centre (NCSC) and NAFN.
23. SAFS continues to work nationally and regionally with other counter fraud services and to share best practice and initiatives as well as requesting support and guidance from the South-East Counter Fraud Group, London Fraud Forum (LFF), London Borough Fraud Investigators Group (LBFIG) and the Home Counties Tenancy Fraud Forum (TFF).
24. SAFS officers work in partnership with the DWP to share data and evidence where fraud impacts on local welfare schemes, such as Council Tax Support or Housing Benefit, and national schemes, such as Income Support and Job Seekers Allowance or Universal Credit. But, as mentioned already many cases are delayed due to DWP staff still being redeployed.
25. SAFS is working with Council officers to review the outcome from the National Fraud Initiative (NFI) by providing resources and support to deal with reports/matches received in February 2023. To date of 667 matches, 545 have been reviewed, 17 discrepancies identified, and loss/savings in excess of £69k reported. These outcomes are outstanding and reflect a huge effort by SAFS and Council officers to review matches and correct data.
26. The Council subscribes to the Hertfordshire FraudHub. This project operates using the same legal framework as main NFI exercise but allows data to be matched more frequently helping to prevent fraud or detecting it sooner. In Quarters 1-3 2,661 matches have been reported of which 261 high risk cases have been reviewed, identifying savings of £17k.
27. SAFS have provided a number of reports to the Councils senior management about fraud risks identified from investigations, both at the Council and other SAFS Partners, with recommendations on how the Council can better manage/mitigate

these risks in future. Where recommendations relate directly to Council services we have shared our reports with Internal Audit to help inform future audit planning.

#### **List of Background Papers - Local Government Act 1972, Section 100D**

- (a) Councillors Workbook on Bribery & Fraud Prevention (LGA 2017)*
- (b) Fighting Fraud and Corruption Locally - A Strategy for the 2020's (CIPFA/CIFAS/LGA 2020)*
- (c) Tackling Fraud in the Public Sector (CIPFA 2020)*
- (d) Code of Practice – Managing the Risk of Fraud and Corruption (CIPFA 2014)*
- (e) Fighting Fraud – Breaking the Chain (Report of Session 2022-2023 House of Lords)*
- (f) HMG Counter Fraud Standards (Cabinet Office 2021)*
- (g) HMG Fraud Strategy – Stopping Scams, Protecting the Public (May 2023)*
- (h) Lost Homes, Lost Hope. (FAP April 2023)*

#### **Appendices**

**Appendix A – SAFS KPI Performance NHC 2023/24- Q3.**

## APPENDIX A. SAFS KPIs - 2023/ 2024

KPI	Measure	Target 2023/24	Performance to December 2023
1	Return on investment from SAFS Partnership.	Demonstrate that the Council is receiving a financial return on investment from membership of SAFS and that this equates to its financial contribution. A. Meetings to take place with the Councils Service Director-Resources and Service Director-Customers. B. Service Director-Resources will sit on the SAFS Board that meets quarterly. C. Regular meetings to take place with Service Leads to agree and update local work plans.	A. SAFS Mgt have meetings planned throughout the year with Director-Resources and Service Director-Customers B. Service Director-Resources, invited to attend all SAFS Board meetings in 23/24 and has attended Board meetings in June/September/December with a 4 <sup>th</sup> meeting planned for March 2024 C. Meetings with service leads are taking place on regular basis.
2	Provide an investigation service.	A. 285 Days of counter fraud activity including proactive and reactive investigation work, data-analytics, training and fraud risk management (Supported by SAFS Intel/Management). B. 3 Reports to Finance Audit and Risk Committee. C. SAFS attendance at corporate governance, 'service champion' meetings, local management team meetings.	A. <b>181 Days reported in Q1-Q3 combined – 64%.</b> More work is planned in Q4 to support NFI outcomes and use of Data to support NDR. We are also aware that some officers assigned to work on NHC projects have been under-reporting their time spent on these matters. B. Reports to FAR Committee in September and December 2023 and third report planned for March 2024. C. SAFS has close working with relationship with R&B & Housing Services and regular liaison is taking place. SAFS takes part in the Councils Corporate Enforcement Group.
3	Action on reported fraud.	A. All urgent/ high risk cases will be responded to within 24 hours. B. All other cases 2 Days, on Average.	A. <b>SAFS CMS currently unable to recognise urgent from non-urgent</b> , we are still working with the CMS provider to rectify this. B. At present we are responding to <b>ALL</b> referrals for NHC within 24 hours on average.
4	Added value of SAFS membership.	A. Membership of NAFN & PNLD B. Membership of CIPFA Counter Fraud Centre and access to CIFAS/NCSC/AF/FFCL alerts, trends, best practice C. NAFN Access/Training for relevant Council Staff D. 5 Training events for staff/Members in year. (To be agreed with Service leads and HR)	A. SAFS have procured licenses to NAFN and PNLD for Council staff. B. SAFS Mgt are members of the CF Centre. HCC has membership of CIFAS. C. Council staff have access to NAFN training & support. D. Training events are still being developed with HR, including a review of the E-Learning modules on fraud/bribery/AML.
5	Allegations of fraud received & Outcomes recorded.	A. All reported fraud (referrals) will be logged and reported to officers by type & source. B. All cases investigated will be recorded and the financial value, including loss/recovery/ savings of each will be reported to officers. C. SAFS will work with social housing providers across the District.	A. This is happening daily as referrals are received. B. The SAFS CMS allows the reporting of granular detail on each referral received, every case investigated, and the MI from this is, is used to manage workflow and workloads. C. SAFS have investigated a number of tenancy fraud matters and we are awaiting the outcomes of notice/court procedures to recover further properties.
6	Making better use of data to prevent/identify fraud.	A. Support the output from NFI 2022/23 Council services. B. Membership and VFM from the Herts FraudHub in 2023/24.	A. Access to NFI data and relevant systems arranged for SAFS officers. Output and matches reviewed are being reported. This work is progressing very well. B. Contracts with C/O signed for the Council to take part in the Herts FHUB in 23/24. Data-upload and dissemination of matches in place. We are now working with officers to begin clearing matches.

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**North Herts Council**

**Finance Audit & Risk Committee**

**2024/25 Anti-Fraud Plan**

## Purpose

- 1 This report provides members with details of the Councils Anti-Fraud Plan for 2024/25.

## Recommendations

- 2 **The Committee is RECOMMENDED to:**
  - I. **Review and approve the Anti-Fraud Plan for 2024/25.**

## Background

- 3 Recent reports have been provided to officers and are being used by SAFS to ensure that the Council is aware of its fraud risks and finds ways to mitigate or manage these effectively wherever possible.

These reports include:

***Fighting Fraud and Corruption Locally a Strategy for the 2020's.*** This document replaces the previous 2016-2019 Strategy on which all current Anti-Fraud Plans are based however, much of the format/themes/content of the previous document are retained with key changes being around the governance and 'ownership' of anti-fraud and corruption arrangements.

***The Public Sector Fraud Authority 2022/23: Building for Success.*** The government has created the Public Sector Fraud Authority to transform the way that the government manages fraud. The PSFA works with departments and public bodies to better understand and reduce the impact of public sector fraud.

***UK Fraud Strategy 'Stopping Scams and Protecting the Public.*** The Government launched its latest strategy in 2023 aimed at bringing government and the private sector together to tackle fraud, the pursuit and punishment of fraudsters, providing more recognition of fraud and how to avoid it.

***Lost Homes, Lost Hope.*** This paper, published by the Fraud Advisory Panel & Tenancy Fraud Forum in April 2023 uses previous data and research to estimate the current cost to local government of tenancy fraud along with the volume of fraud across the sector. The SAFS Partners have adopted the value of fraud loss used in this academic piece when reporting 'tenancy fraud'.

- 4 According to reports from CIPFA, National Audit Office (NAO), Cabinet Office, and the Private Sector, fraud risk across local government in England continue to increase and more needs to be done to protect the public purse.
- 5 The Cabinet Office, Ministry for Housing Communities and Local Government, National Audit Office, and CIPFA have issued advice, and best practice guidance, to support local councils in the fight to reduce the risk of fraud and prevent loss to the public purse. This advice includes the need for vigilance in recognising fraud risks and the investment of sufficient resources in counter fraud activities.

- 6 It is essential that the Council has in place a robust framework to prevent and deter fraud, including effective strategies and policies, as well as plans to deal with the investigation and prosecution of identified fraud.
- 7 North Herts Council is a founding member of the Hertfordshire Shared Anti-Fraud Service (SAFS). This Committee has previously received detailed reports about the creation of SAFS, and how this service works closely with the Shared Internal Audit Service (SIAS). SAFS works across the whole Council dealing with many aspects of fraud, from deterrence & prevention to investigation & prosecution.

## Report

### **Anti-Fraud Plan 2024/25**

- 8 The reports and papers mentioned at section 3 above and guidance from National Audit Office (NAO) and the Department for Levelling Up Housing and Communities (DLUHC) recommend that organisations have effective and robust counter fraud and corruption measures. These measures require the acknowledgement of fraud and corruption as a tangible risk, policies and procedures to deter and prevent fraud and resources to investigate fraud and recover losses. Above all an organisation should have a plan outlining how it will protect itself against fraud and corruption.
- 9 Council officers and SAFS management develop and agree an **Anti-Fraud Plan** each year and the proposed plan for 2024/25 is presented at **Appendix A**.

### **The Plan and Fighting Fraud and Corruption Locally**

- 10 The Anti-Fraud Plan has been designed to meet the recommendations of the Fighting Fraud and Corruption Locally Strategy (FFCL) by adopting the five 'pillars' of Protect, Govern, Acknowledge, Prevent and Pursue. The plan identifies officers and members who are charged with delivering it.
- 11 The plan identifies officers/members who will have a role in delivering it and SAFS will work with all concerned to ensure they fully understand their role in delivering the Plan and supporting the FFCL strategy.
- 12 Members will note in the Plan that this Committee has a role in ensuring that the Council meets its objectives.
- 13 The Plan includes KPIs for SAFS that will be monitored across the year.

### **Counter Fraud Funding and Resources 2024/25**

- 14 At pages 4 – 7 of the main body of the Plan (**Appendix A**) details are provided of all funding on counter fraud in 2024/25 and how this will be divided across service areas.
- 15 We have worked closely with those service areas where we perceive the highest risk of fraud to be and agreed projects and work-pans that reflect the specific fraud risks raised by senior managers in those areas and SAFS management.

- 16 Page 8/ schedule B of the Plan references SAFS KPIs and the Standards of Service agreed with Council officers.
- 17 SAFS will maintain its relationship with third party specialist providers and national networks to keep the Council informed of new and emerging fraud threats or changes to best practice that assist in deterring/preventing fraud and corruption.
- 18 SAFS will continue to work closely with Council officers working in those services mentioned in the Plan.

## **Appendices**

- 19 The following appendices are attached to this report:-

**Appendix A – North Herts Council Anti-Fraud Plan 2024/25.**

### **List of Background Papers - Local Government Act 1972, Section 100D**

- (a) ***Councillors Workbook on Bribery & Fraud Prevention (LGA 2017)***
- (b) ***Fighting Fraud and Corruption Locally - A Strategy for the 2020's (CIPFA/CIF9AS/LGA 2020)***
- (c) ***Tackling Fraud in the Public Sector (CIPFA 2020)***
- (d) ***Code of Practice - Managing the Risk of Fraud and Corruption (CIPFA 2014)***
- (e) ***Fighting Fraud - Breaking the Chain (Report of Session 2022-2023 House of Lords)***
- (f) ***HMG Fraud Strategy - Stopping Scams, Protecting the Public (May 2023)***
- (g) ***Lost Homes, Lost Hope (Fraud Advisory Panel 2023)***



**North Herts Council**

**Anti-Fraud Plan 2024-2025**

**In partnership with**

**The Hertfordshire Shared Anti-Fraud Service**



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## **Introduction**

This plan supports the Council's **Fraud Prevention Policy** (including fraud, corruption, money-laundering, bribery and tax evasion) by ensuring that the Council, working in partnership with the Shared Anti-Fraud Service (SAFS), has in place effective resources and controls to prevent and deter fraud as well as investigate those matters that do arise.

The **Fraud Prevention Policy** applies to all staff, elected members, agency staff, temporary staff, volunteers, consultants, contractors and partners and states;

### **That staff and others must:**

- **Be aware of the definitions in relation to fraudulent and related activity, including the various criminal offences they include.**
- **Not commit any of the offences detailed.**
- **Report any suspicions of these offences being committed.**
- **Develop (where applicable to role) and fully comply with policies and processes to reduce the risk of these offences being committed.**
- **Disclose any gifts and hospitality that you receive, in line with other policies.**

This plan includes objectives and key performance indicators that support the Councils Policy and follows the latest best practice/guidance/directives from the Department for Levelling Up Housing and Communities (DLUHC), National Audit Office (NAO), Local Government Association (LGA) and the Chartered Institute for Public Finance and Accountancy (CIPFA).

## **National Context.**

In 2013 the National Fraud Authority stated that the scale of fraud against local government “is large, but difficult to quantify with precision”. Since 2013 a number of reports have been published including by CIPFA, NAO and Fraud Advisory Panel indicating that the threat of fraud against local government is both real, causing substantial impact (including reputational, service as well as financial) and should be prevented wherever possible.

In 2022 the Public Sector Fraud Authority (Cabinet Office) published a report stating that in 2021/22 the public sector had experienced more than 5 million acts of fraud, that more than £33bn in public money was lost to fraud each year and that fraud against the Covid-19 Financial Support packages alone had cost £19bn. These figures are more recent, but still dated with the overall financial impact on local government between 2020 and 2024, they do however reflect the ongoing significant risk of fraud that local authorities face.

The *Fighting Fraud and Corruption Locally, A Strategy for the 2020's*, published in March 2020 and supported by CIPFA, the LGA, SOLCACE and External Auditors provides a framework for the Council to adopt in developing its counter fraud activity and this Anti-Fraud Plan follows the guidance and recommendations of the *Strategy*. A copy of the *Strategy* can be found at <https://www.cipfa.org/services/cipfa-solutions/fraud-and-corruption/fighting-fraud-and-corruption-locally>

The *Strategy* compliments work undertaken in 2019 by CIPFA, NAO and Cabinet Office as well as the *Code of practice on managing the risk of fraud and corruption* CIPFA 2015 including the four ‘Pillars’ of **Govern Acknowledge, Prevent, Pursue** with an overarching aim of **Protect**:

**For the Council this includes protecting public funds it administers and protecting the Council and its residents against fraud and cybercrime.**



## **Anti-Fraud Plan 2024-2025**

The Councils Anti-Fraud Plan will be managed by the Hertfordshire Shared Anti-Fraud Service (SAFS), but officers at all levels across the Council will have responsibility for ensuring that the plan is delivered and the Council protected against acts of fraud and corruption.

The Anti-Fraud Plan highlights specific areas of work to protect the Council against fraud and corruption. The Council also has a duty to protect the public and it does this through its work across all services and in particular by sharing information and knowledge. The Council has frameworks and procedures in place to prevent fraud and encourage staff and the public to report suspicions of fraud.

The Anti-Fraud Plan for 2024-2025 follows the guidelines and checklists contained in the *Fighting Fraud and Corruption Locally Strategy* and progress against this will be reported to senior management and the Councils Audit and Governance Committee. A break-down of work included in the Plan can be found at **Appendix A** along with the officers with responsibility for ensuring the plan is delivered.

## **SAFS Resources 2024-2025**

### **Anti-Fraud Arrangements**

North Herts Council is a founding member of the Hertfordshire Shared Anti-Fraud Service (SAFS) and this service has provided the majority of the anti-fraud arrangements for the Council since April 2015. The SAFS Partnership, as well as North Herts Council, includes Stevenage Borough Council, Broxbourne Borough Council, Hertfordshire County Council, Luton Borough Council, Hertsmere Borough Council, East Herts Council and Welwyn and Hatfield Council. The SAFS also provides services to other public sector bodies across Hertfordshire.

The SAFS Core Service is made up of 22 full time equivalent staff for 2024/25. All staff are trained and accredited specialising in fraud prevention, fraud investigation, fraud awareness, fraud risk assessment as well as proceeds of crime, anti-bribery and anti-money laundering. All staff are required to members of the Counter Fraud Profession- or working toward this via professional qualification or apprenticeships.

The SAFS Team has been nominated for and/or won awards for the services it provides including the ***Tackling Economic Crime Awards*** (TECAS), the ***Institute of Revenue Rating and Valuation Awards*** (IRRV), the ***Public Finance Awards*** (PFA), and most recently in February 2023 the ***Public Sector Counter Fraud Awards***.

SAFS is a Partnership with each organisation paying an annual fee for Hertfordshire County Council for a contracted service for all Partners. SAFS, as a service, has a number of key objectives developed by its Management Board (the Board) and every Partner has a seat on that Board. For the North Herts Council the Service Director: Resources is the Board representative.

Although SAFS will provide much of the Councils operational counter fraud work Council officers are responsible for ensuring the policies, procedures, training and appropriate resources are in place to protect the Council from fraud, corruption and bribery.

### **Budget**

In December 2023 the SAFS Board agreed fees for all Partners from April 2024. The Board also received assurance from financial modelling that the service would be sustainable, in its current form, for the next three years. A service review is currently underway with an external organisation looking at the whole service for the SAFS Board and new contracts will be developed for all Partners over the next two years.

Fees for North Herts Council for 2024-2025 have been agreed at £94,530+ VAT- this is an increase of 6% from 2023-2024

## Staffing

The full complement for SAFS in 2024-2025 is planned to be 22 FTE for its Core Service.

The Council will have access to 267 days of counter fraud work, access to intelligence functions of the service, all data-matching services being offered through the SAFS Data-Hub and Herts *FraudHub* (hosted by Cabinet Office) and can call on SAFS management for liaison meetings, management meetings and three reports per annum to the Audit and Standards Committee. An Accredited Financial Investigator is available to assist in money laundering or proceeds of crime investigations.

SAFS has access to specialist IT forensics, covert surveillance and national counter fraud intelligence services provided via third parties and criminal litigation services to support the Councils legal team.

SAFS will provide alerts (local and national) to Council officers and senior management of new and emerging fraud risks through its membership of anti-fraud forums and specialist providers including the Fighting Fraud and Corruption Locally Board (FFCLB) the Credit Industry Fraud Avoidance Service (CIFAS), Certified Institute of Public Finance and Accountancy (CIPFA) Finance, National Fraud Intelligence Bureau (NFIB), Fraud Advisory Panel (FAP) and the National Anti-Fraud Network (NAFN).

## Workplans & Projects 2024-2025

As well as an agreed programme of work (see **Appendix A**) SAFS will work in the following areas delivering specific activity agreed with service managers. Progress with this work will be reported to the relevant head of service/managers on a quarterly basis.

Service Area	Agreed Projects
<b>Cross Cutting Corporate Initiatives</b>	<p>Three Reports to Finance Audit and Risk Committee.</p> <p>SAFS attendance at Corporate Governance Groups and management meetings.</p> <p>Assisting with any review of the Councils existing anti-fraud policies.</p> <p>Money Laundering Reporting Officer (MLRO) role.</p> <p>Assist with NFI Output and Herts FraudHub- across all service areas.</p> <p>Assisting with Payroll fraud matters including disciplinary investigations.</p> <p>Identify new fraud risks and fraud alerts across all Council services- providing a resource to support any investigation, reporting or risk assessment required from any emerging fraud or corruption.</p> <p><b>Training.</b></p> <p>Five fraud training/awareness events for staff/members in year delivered face to face/virtually/hybrid.</p> <p>Review and re-release of an I-Learn training package on fraud/bribery/money laundering – accessible via the Councils intranet.</p> <p>Roll out of NAFN training and registration for appropriate services/officers.</p> <p><b>Procurement.</b></p> <p>Work with internal procurement service developing a bespoke risk assessment for fraud in procurement/contracts.</p>
<b>Revenues and Benefits</b>	<p>This work will be arranged with the Revenue and Benefit Service.</p> <p>Proactive training and awareness for management and front-line staff.</p> <p>Reactive investigations for housing benefit, council tax support/discount and business rate fraud.</p> <p>Support for single person discount review utilising 3<sup>rd</sup> party framework.</p> <p>Identify systems/processes/new developments to assist in recovery of debt created by fraud.</p> <p>Use of data-analytics to identify fraud/evasion of business rate liability and collection.</p> <p>Joint working with DWP where council tax support and other ‘national’ benefits are in payment.</p>

<b>Housing Services</b>	<p>This work will be arranged with the Councils housing services and in partnership with Settle Housing Group, the Peabody Trust, B3Living and other housing providers with stock within the Councils area. Work with the various social housing providers will focus on the misuse of stock within the Councils boundaries- misuse can include illegal sub-letting, key-selling, abandonment, succession fraud and money laundering or fraud within the Right to Buy/Acquire system.</p> <p>Proactive training and awareness for management and front-line staff.</p> <p>Reactive investigations for Housing Application, and misuse of temporary accommodation.</p> <p>Provide a focus on fraud risks affecting temporary accommodation costs.</p> <p>Review housing register to identify fraud risks and, where appropriate, investigate these.</p> <p>Use of NFI services to identify fraud/error in the Housing Register.</p>
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## **SAFS Key Performance Indicators (KPI) & Standards of Service.**

SAFS will work to a set of KPIs agreed with senior officers and these targets will assist in delivering the Council's Anti-Fraud Plan. The KPI's can be found at **Appendix B** and will be reported to senior officers and Audit and Standards Committee throughout the year.

### **SAFS - Standards of Service.**

SAFS will provide the Council with the following anti-fraud services.

1. 24/7 Access to a fraud hotline, email and online solution for public reporting.
2. Process for Council staff to report suspected fraud to SAFS via email/phone/weblinks.
3. Training in: Fraud Awareness (management/staff/members), Fraud Prevention, Identity Fraud and Money Laundering.
4. A Money Laundering Reporting Officer service as laid out in the relevant Council policies.
5. Assistance in the design/review of Council policies, processes, and documents to deter/prevent fraud.
6. SAFS will design shared/common anti-fraud strategies and policies or templates to be adopted by the Council.
7. SAFS will continue to develop with the Cabinet Office and Council officers a data-matching solution (NFI- Herts *FraudHub*) to assist in the early identification and prevention of fraud.
  - The FraudHub will be funded by the Council.
  - The FraudHub will be secure and accessible only by nominated SAFS and Council Staff.
  - Data will be collected and loaded in a secure manner.
  - SAFS will design and maintain a data-sharing protocol for all SAFS Partners to review and agree annually.
  - SAFS will work with Council officers to identify datasets (and frequency) of the upload of these.
  - SAFS will work with Council officers to determine the most appropriate data-matching.
8. All SAFS Staff will be qualified, trained and/or accredited to undertake their duties lawfully.
9. All SAFS investigations will comply with legislation including DPA, GDPR, PACE, CPIA, HRA, RIPA\* and relevant Council policies.
10. Reactive fraud investigations.
  - Any high profile, high value, high risk cases or matters reported by senior managers will receive a response within 24 hours of receipt.
  - All cases reported to SAFS will be reviewed within 2 days of receipt and decision made on immediate action including selection of cases for further review, no action, investigation, or referral to 3<sup>rd</sup> parties including police, DWP, Action Fraud.
  - The Council will be informed of all reported fraud affecting its services.
  - SAFS will allocate an officer to each case.
  - SAFS officers will liaise with nominated officers at the Council to access data/systems to undertake investigations.
  - SAFS officers will provide updates on cases and a summary of facts and supporting evidence on conclusion of the investigation for Council officers to review and make any decisions.
  - Where criminal offences are identified SAFS will draft a report for Council officers to decide on any further sanctions/prosecutions.
11. Where sanctions, penalties or prosecutions are sought SAFS will work with the Council to determine the appropriate disposal in line with the Council's policies.
12. SAFS will provide Alerts to the Council, of suspected fraud trends or reports/guidance from government and public organisations that are relevant to fraud.
13. SAFS will provide reports to senior management on the progress with delivery of this Plan and any other relevant activity planned or otherwise.
14. SAFS will provide reports through the SAFS Board and to the Council's Audit Committee as agreed in the SAFS Partnership Contract.

*\*Data Protection Act, General Data Protection Regulation, Police and Criminal Evidence Act, Criminal Procedures and Investigations Act, Human Rights Act, Regulation of Investigatory Powers Act, Investigatory Powers Act.*

## Appendix A.

NHC / SAFS Action Plan 2024/2025			
FFCL Pillars	Objectives	Activities	Responsible Officer
Governance	Having robust arrangements and executive support to ensure anti fraud, bribery and corruption measures are embedded throughout the organisation.	Ensure the Councils Anti-Fraud and Corruption Strategy & Fraud Response Plan and associated policies to deter, prevent, investigate and punish acts of fraud or corruption are reviewed against latest best practice. Review and update the Councils Money Laundering/ Bribery/ Cyber-Crime Policies	Managing Director / Monitoring Officer / Service Director-Resources
		The Councils Finance Audit and Risk Committee will receive reports during the year about the arrangements in place to protect the Council against fraud and the effectiveness of these.	Head of SIAS /Head of SAFS
		The Finance Audit and Risk Committee and its Chairman, along with the senior management team, will ensure compliance with the latest best practice in the Councils anti-fraud arrangements including that published by CIPFA, NAO and LGA.	AC Chair/ Service Director-Resources / Monitoring Officer
		System/process weaknesses or risks revealed by instances of actual fraud will be fed back to departments/services with recommendations to manage/mitigate these risks. Reports will be shared with senior managers or the Shared Internal Audit Service (SIAS) to review outcomes and management response to recommendation.	Head of SIAS / Head of SAFS
		SAFS will assist the Council in providing its Fraud Data for the Transparency Code annually	Head of SAFS
		The Council will make it clear through its policies and codes of conduct for staff and Members that fraud and corruption will not be tolerated.	Service Director-Resources / HR Services Manager/ Monitoring Officer
ACKNOWLEDGE	Accessing and understanding fraud risks.  Committing the right support .  Demonstrating a robust anti-fraud response.  Communicating the risks to those charged with Governance.	Inclusion of Fraud Risks and actions to manage/mitigate/reduce this in its Annual Governance Statement.	Head of SIAS /Service Director-Resources/ Monitoring Officer
		The Councils Communication Team will publicise anti-fraud alerts/awareness/campaigns to staff and residents about its work to prevent/deter fraud.	Head of SAFS/ Communications Mgr
		The Council and SAFS will provide fraud awareness & specific anti-fraud training across all Council services and review its E-Learning training for staff.	Service Director- Resources / Head of SAFS
		The Council is a member of the Hertfordshire Shared Anti-Fraud Service (SAFS). Council Officers will ensure that the contract with the Cabinet Office is in place for 2024/25 and the data required uploaded to the FraudHub at least once each quarter.	Service Director-Resources
		SIAS will take into account known or emerging fraud risks provided by SAFS or others when audit panning takes place. The SIAS will share the details of all suspected fraud to senior management and SAFS for review/action.	Head of SIAS
PREVENT	Making the best use of information and technology.  Enhancing fraud controls and processes.  Developing a more effective anti-fraud culture.  Communicating activity and successes.	SAFS will provide fraud alerts and new and emerging fraud threats to be disseminated to appropriate officers/staff/services.	Head of SAFS
		SAFS will work with all Council services to make best use of 3rd party providers such as NAFN, PNLD, CIPFA, CIFAS.	Head of SAFS
		Develop the Councils use of the Herts FraudHub and support Council officers with the output from NFI 2024/2025 Exercise	Head of SAFS/ Service Director-Customers
		The Council and SAFS will work with other organisations, including private sector, to improve access to data and data-services that will assist in the detection or prevention of fraud.	Head of SAFS/ Service Director-Resources
		The SAFS Mgt will provide reports to the SAFS Board on anti-fraud activity across the Partnership and any learning will be shared with all Partners	Head of SAFS
		The Council will review data sharing agreements/protocols to ensure compliance with DPA & GDPR(UK) to maximise the use of sharing data with others to help prevent/identify fraud.	Monitoring Officer
PURSUE	Prioritising fraud recovery and use of civil sanctions.  Developing capability and capacity to punish offenders.  Collaborating across geographical and sectoral boundaries.	SAFS will work with the LGA and Cabinet Office to support the work of the Public Sector Fraud Authority and the Fighting Fraud Locally Board.	Head of SAFS
		All fraud reported to the Council will be captured via SAFS fraud reporting tools (web/phone/email) for staff, public and elected Members. SAFS will work with officers to promote the reporting of suspected fraud by officers and the public.	Head of SAFS
		All investigations will comply with relevant legislation and Council Policies. Investigations will include civil, criminal and disciplinary disposals	Head of SAFS
		SAFS will use its case management system to record and report on all fraud referred, investigated and identified.	Head of SAFS
		Legal Service and debt recovery teams will seek to 'prosecute' offenders, apply sanctions and recover financial losses- supported by relevant policies.	Monitoring Officer/ Service Director- Customers
		SAFS and the Councils R&B Service will work with DWP to deliver joint investigations where fraud affects both council tax and housing benefit or other 'national' 'benefits'	Head of SAFS/ Service Director-Customers
PROTECT	Recognising the harm that fraud can cause in the community.  Protecting the Council and residents from fraud.	All SAFS staff will be fully trained and accredited. SAFS will continue to work with the Cabinet Office to support the Counter-Fraud Profession.	Head of SAFS
		SAFS will use its in-house expertise as well as external partners when considering the use of POCA, NAFN services, Surveillance or IT Forensics.	Head of SAFS
		SAFS will provide reports and data to Fraud Champions on all anti-fraud activity as required by Council officers.	Head of SAFS
		Regular reports for the Finance Audit and Risk Committee on all Counter Fraud activity at the Council.	Head of SAFS / Service Director-Resources
		The Council has in place measures to protect itself against cyber crime, malware and other potential attacks aimed at its IT infrastructure, with training for staff and elected members	Service Director- Customers
		SAFS will work with bodies including MHCLG/LGA/CIPFA/FFLB to develop anti-fraud strategies at a national level that support fraud prevention in local government	Head of SAFS



## Appendix B.

### SAFS KPIs - 2024/ 2025- NHC

KPI	Measure	Objectives	Reason for KPI
1	Return on investment from SAFS Partnership.	Demonstrate that the Council is receiving a financial return on investment from membership of SAFS and that this equates to its financial contribution. A. Meetings to take place with the Councils <b>Service Director-Resources</b> and Service Director-Customers. B. <b>Service Director-Resources</b> will sit on the SAFS Board that meets quarterly. C. Regular meetings to take place with Service Leads to agree and update local work plans. D.	Transparent evidence to Senior Management that the Council is receiving a service matching its contribution.
2	Provide an investigation service.	A. <b>Target to deliver 90%-110% of the funded 267 Days</b> of counter fraud activity including proactive and reactive investigation work, data-analytics, training and fraud risk management (Supported by SAFS Intel/Management). B. <b>3 Reports</b> to Finance Audit and Risk Committee. C. SAFS attendance at corporate governance, 'service champion' meetings, local management team meetings.	Ensure ongoing effectiveness and resilience of the Councils Anti-fraud arrangements.
3	Action on reported fraud.	A. All <b>urgent/ high risk</b> cases will be responded to within <b>24 hours</b> . B. All other cases <b>2 Days</b> , on Average.	Ensure that all cases of reported fraud are triaged within agreed timescales.
4	Added value of SAFS membership.	A. Membership of NAFN & PNLD B. Access to CIFAS/NCSC/AF/FFCL alerts, trends, best practice C. NAFN Access/Training for relevant Council Staff D. <b>5 Training sessions</b> for staff/Members in year. (To be agreed with Service leads and HR)	Deliver additional services that will assist in the Council in preventing fraud across all services and in the recovery of fraud losses.
5	Allegations of fraud received. & Success rates for cases investigated.	A. All reported fraud (referrals) will be logged and reported to officers by type & source. B. All cases investigated will be recorded and the financial value, including loss/recovery/ savings of each will be reported to officers. C. SAFS will work with social providers across the Borough.	This target will measure the effectiveness of the service in promoting the reporting of fraud & measure the effectiveness in identifying cases worthy of investigation.
6	Making better use of data to prevent/identify fraud.	A. Support the output from <b>NFI 2024/25</b> Council services. B. Membership and VFM from the <b>Herts FraudHub</b> in 2024/25.	Build a data hub that will allow the Council to access and share data to assist in the prevention/detection of fraud.

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## INTERNAL AUDIT PROGRESS REPORT

### NORTH HERTS COUNCIL

FINANCE, AUDIT AND RISK COMMITTEE

13 March 2024

#### RECOMMENDATIONS

- Note the SIAS Progress Report for the period to 26 February 2024.
- Note the implementation status of the reported high priority recommendations.
- Note the plan amendments to the 2023/24 Annual Audit Plan.

## Contents

- 1 Introduction and Background
  - 1.1 Purpose
  - 1.2 Background
- 2 Audit Plan Update
  - 2.1 Delivery of Audit Plan and Key Findings
  - 2.3 High Priority Recommendations
  - 2.5 Proposed Amendments
  - 2.6 Performance Management

## Appendices

- A Progress against the 2023/24 Audit Plan
- B 2023/24 Audit Plan Start Dates Agreed with Management
- C Assurance and Finding Definitions 2023/24
- D Implementation Status of High Priority Recommendations

# 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 Internal Audit Plan for 2023/24 as at 26 February 2024.
- b) In-Year Audit Plan review and proposed plan amendments.
- c) An update on performance indicators as at 26 February 2024.

## Background

- 1.2 The 2023/24 Internal Audit Plan was approved by the Finance, Audit and Risk Committee (the FAR Committee) on 8 March 2023.
- 1.3 The Committee receives periodic updates of progress against the Annual Internal Audit Plan. This is the fifth report giving an update on the delivery of the 2023/24 Internal Audit Plan.
- 1.4 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.

## 2. Audit Plan Update

### Delivery of Audit Plan and Key Audit Findings

- 2.1 As at 26 February 2024, 73% of the 2023/24 Audit Plan days had been delivered.
- 2.2 There have been no final internal audit reports issued as part of the approved 2023/24 Internal Audit Plan since the papers were issued for the 31 January 2024 FAR Committee meeting:

Audit Title	Assurance Opinion	Recommendations
N/A	N/A	N/A

### High Priority Recommendations

- 2.3 Members will be aware that a Final Audit Report is issued when it has been agreed by management; this includes an agreement to implement the recommendations that have been made. It is SIAS's responsibility to bring to Members' attention the implementation status of high priority recommendations; it is the responsibility of officers to implement the recommendations by the agreed date.
- 2.4 The high priority recommendation on Business Continuity Planning is now considered to be implemented Please see Appendix D for further detail.

## Proposed Amendments

- 2.5 There has been one plan amendment agreed with management within this reporting period. The Strategic Planning (Local Plan) advisory work has been renamed Planning Applications and will be a data driven assurance engagement focusing on testing the key controls behind the underlying processes and examining the quality of data and checks involved in the Council's reporting of planning indicators.

## Performance Management: Reporting of Audit Plan Delivery Progress

- 2.6 To help the Committee assess the current progress of the projects in the Audit Plan, we have provided an overall progress update of delivery against planned commencement dates at Appendix B. The table below shows that summary of performance based in the latest performance information reported at Appendix A.

Status	No of Audits at this Stage	% of Total Audits	Profile to 26 February 2024
Draft / Final Report Issued	12	50%	16 (67%)
In Fieldwork / Quality Review	9	38%	7 (29%)
Terms of Reference Issued / In Planning	3	12%	1 (4%)
Not Yet Started	0	0%	0 (0%)

- 2.7 Annual performance indicators and associated targets were approved by the SIAS Board in March 2023. As at 26 February 2024, actual performance for North Herts Council against the targets that can be monitored in year was as shown in the table below:

Performance Indicator	Annual Target	Profiled Target to 26 February 2024	Actual to 26 February 2024
<b>1. Planned Days</b> - Percentage of actual billable days against planned chargeable days completed (excludes unused contingency)	95%	82% (209 / 255 days)	73% (186 / 255 days)
<b>2. Planned Projects</b>			
Percentage of audit plan delivered to draft report stage by 31 March 2024	90%	67% (16 /24 projects)	50% (12 / 24 projects)
Percentage of audit plan delivered to final report stage as reported within the CAE Annual Assurance and Opinion report.	100%	50% (12 projects)	38% (9 projects)

<b>3. Client Satisfaction -</b> Percentage of client satisfaction questionnaires returned at 'satisfactory' level.	100%	100%	50% for those returned. (2 returned from 18 issued)
<b>4. Number of High Priority Audit Recommendations agreed %</b> Percentage of critical and high priority recommendations accepted by management.	95%	100%	100%

- 2.8 In respect of delivery of Planned Days, performance is behind the profiled target. Based on the original profiling, it was anticipated that fieldwork and / or reporting would have been able to commence, be further advanced or complete on the two remaining second quarter audits (Houses in Multiple Occupation (HMO) and Churchgate Landlord Compliance) and three of the third quarter audits (MSU Transactions, Project Management and Estates). There has been strong progress though on some of the audits scheduled / rescheduled for commencement in quarter four that has facilitated an improvement in audit plan delivery since the position reported to FAR Committee on 31 January 2024.
- 2.9 In respect of Planned Projects, it was anticipated that draft reports would have been issued for the HMO, Churchgate Landlord Compliance, Estates and MSU Transactions audits based on original scheduling at the start of the year. Fieldwork is significantly progressed on the MSU Transactions audit, and the Churchgate Landlord Compliance audit is in quality review prior to reporting. The HMO audit was deferred to quarter 4 at the Council's request and a revised start date is being arranged, while the Estates audit will be carried over to quarter one of 2024/25 to accommodate capacity challenges within the Council's team.
- 2.10 The 2023/24 Internal Audit Plan was always heavily back ended with eight projects scheduled for commencement in quarter four under original profiling. There was thus an inherent, although not necessarily insurmountable, challenge in meeting delivery targets at the start of the year. This has been exacerbated by the HMO, MSU Transactions and Project Management audits being subsequently deferred to the fourth quarter too. The first two were at Council management request, while the latter formed part of a prioritisation discussion between the Chief Audit Executive and Service Director (Resources) and will be completed in quarter one of 2024/25.
- 2.11 Factors relating to the Council and SIAS (particularly at the start of the year) that have contributed to internal audit delivery being behind the original profile were described in detail in the progress update to the 31 January 2024 FAR Committee meeting. These remain relevant but have not been repeated in this update.
- 2.12 Some in-year change is always anticipated as the Audit Plan needs to be dynamic and flexible within reason to respond to both new risks and audits, as well as changes in circumstance. Where audits are deferred in-year, all parties work to ensure that this is minimised or mitigated as far as possible, and another audit will ideally be brought forward in its place. This is not always possible at short notice though and allocated resource may then be redeployed to other SIAS partners.

- 2.13 SIAS have allocated resource to all remaining projects in the 2023/24 Internal Audit Plan and start dates have already been scheduled or in are in the process of being agreed with the relevant service areas. SIAS appreciate the co-operation and goodwill of Council staff and value the relationships it has fostered over an extended period. These are crucial in ensuring successful delivery of the Plan and delivering sufficient work to support the annual assurance opinion.
- 2.14 No new customer satisfaction surveys have been received since the last FAR Committee. As previously reported, the one customer satisfaction survey not at 'Satisfactory' level was marginally below the required scoring and scored reasonably strongly in some areas. All learning points are shared with the relevant member of internal audit team through their regular appraisal process and personal and professional development plans.
- 2.15 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:
- **5. 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.
  - **6. Head of Assurance's Annual Report** – presented at the Audit Committee's first meeting of the civic year.



## APPENDIX A – PROGRESS AGAINST THE 2023/24 AUDIT PLAN AS AT 26 FEBRUARY 2024

### 2023/24 SIAS Audit Plan

AUDITABLE AREA	LEVEL OF ASSURANCE	RECOMMENDATIONS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS / COMMENTS
		C	H	M	L				
High Priority Audits (48 days)									
Churchgate – Project Governance Framework	Reasonable	0	0	1	1	15	BDO	15	Final Report Issued
Churchgate Landlord Compliance						11	SIAS	9	Quality Review
Churchgate – Ongoing Project Assurance						11	BDO	3.5	In Fieldwork
Council Tax Reduction Scheme						11	SIAS	6	In Fieldwork
Medium Priority Audits (79 days)									
Freedom of Information	Reasonable	0	0	2	3	8	SIAS	8	Final Report Issued
Safer Recruitment	Reasonable	0	0	3	5	9	SIAS	9	Final Report Issued
Houses in Multiple Occupation						9	SIAS	2.5	In Fieldwork – Deferred to Q4
Estates						9	SIAS	2.5	In Fieldwork
Ombudsman Complaints						9	SIAS	8.5	Draft Report Issued
Project Management						9	SIAS	0.5	In Planning
MSU Transactions						8	SIAS	6	In Fieldwork
Agency Staffing						9	SIAS	5	In Fieldwork
Emergency Planning						9	SIAS	2	ToR Issued
IT Audits (32 days)									
Software Licensing						10	BDO	9.5	Draft Report Issued
Critical Applications						10	BDO	9.5	Draft Report Issued

## APPENDIX A – PROGRESS AGAINST THE 2023/24 AUDIT PLAN AS AT 26 FEBRUARY 2024

AUDITABLE AREA	LEVEL OF ASSURANCE	RECOMMENDATIONS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS / COMMENTS
		C	H	M	L				
IT Disaster Recovery and Business Continuity						12	BDO	9	In Fieldwork
<b>Consultancy and Advisory (30 days)</b>									
Strategic Planning (Local Plan) (Renamed Planning Applications)						10	SIAS	2	ToR Issued
Harkness Court	N/A	0	0	2	0	10	BDO	10	Final Report Issued
Digital Strategy	N/A	0	0	2	0	10	BDO	10	Final Report Issued
<b>Grant Claims / Charity Certification (8 days)</b>									
King George V Playing Fields						1.5	SIAS	1.5	Final Report Issued
Workman's Hall						1.5	SIAS	1.5	Final Report Issued
Miscellaneous Grants						5	SIAS		Through year
<b>Contingency (5 days)</b>									
Contingency						5			
<b>Client Management - Strategic Support (38 days)</b>									
CAE Annual Opinion report						3	SIAS	3	Complete
Audit Committee						8	SIAS	8	Through Year
Performance Monitoring						7	SIAS	6	Through Year
Client Liaison						7	SIAS	6	Through Year
Audit Planning 2023/24						8	SIAS	8	Complete
SIAS Development						5	SIAS	5	Through Year
<b>2022/23 Carry Forward (20 days)</b>									
Completion of outstanding 2022/23 projects		0	1	24	23	20	SIAS	20	Complete
<b>Total - North Herts D.C.</b>		<b>0</b>	<b>1</b>	<b>34</b>	<b>32</b>	<b>260</b>		<b>186</b>	

## **APPENDIX A – PROGRESS AGAINST THE 2023/24 AUDIT PLAN AS AT 26 FEBRUARY 2024**

### **Key / Notes**

Not Assessed = No assurance opinion provide as the project was either consultancy based or validation for compliance

C = Critical Priority, H = High Priority, M = Medium Priority, L = Low Priority

BDO = SIAS Audit Partner

N/a = Not Applicable

Audit Plan Days are a guide only and are not formally allocated. This is as per the approved 2023/24 Internal Audit Plan.

## APPENDIX B – 2023/24 AUDIT PLAN START DATES AGREED WITH MANAGEMENT

	<u>Quarter 1</u>	<u>Quarter 2</u>	<u>Quarter 3</u>	<u>Quarter 4</u>
<b>H</b>	Churchgate - Project Governance Framework <b>(Final Report Issued)</b>	Churchgate Landlord Compliance <b>(In Fieldwork)</b>		Churchgate – Ongoing Project Assurance <b>(In Fieldwork)</b>
				Council Tax Reduction Scheme <b>(In Fieldwork)</b>
<b>M</b>	Freedom of Information <b>(Final Report Issued)</b>	Safer Recruitment <b>(Final Report Issued)</b>	Estates <b>(In Fieldwork)</b>	Agency Staffing <b>(In Fieldwork)</b>
		Houses in Multiple Occupation (HMO) <b>(In Fieldwork – deferred to Q4 at management request)</b>	Ombudsman Complaints <b>(Draft Report Issued)</b>	Emergency Planning <b>(ToR Issued)</b>
			Project Management <b>(In Planning - deferred to Q4 in discussion with management)</b>	
			MSU Transactions <b>(In Fieldwork – deferred to Q4 at management request)</b>	
<b>IT</b>		Software Licensing <b>(Draft Report Issued)</b>	Critical Applications <b>(Draft Report Issued)</b>	IT Disaster Recovery and Business Continuity <b>(In Fieldwork)</b>
<b>C</b>	Harkness Court <b>(Final Report Issued)</b>			Strategic Planning (Local Plan) <b>(ToR Issued)</b>
	Digital Strategy <b>(Final Report Issued)</b>			
<b>G/C</b>				King George V Playing Fields <b>(Final Report Issued)</b>
				Workman's Hall <b>(Final Report Issued)</b>

## APPENDIX B – 2023/24 AUDIT PLAN START DATES AGREED WITH MANAGEMENT

O	2022/23 Carry Forward Audits (Complete)			
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### Key:

H – High Priority: Most closely linked to the Council's Delivery Plan and Risk Register

M – Medium Priority.

IT – IT Audits

C – Consultancy: Assignments will be delivered as part of the audit plan

G/C – Grant or charity certification to be completed as part of the audit plan

O - Other

## APPENDIX C – ASSURANCE AND FINDINGS DEFINITIONS 2023/24

Audit Opinions		
Assurance Level		Definition
Assurance Opinions	<b>Substantial</b>	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
	<b>Reasonable</b>	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.
	<b>Limited</b>	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.
	<b>No</b>	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.
	<b>Not Assessed</b>	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 Certification	<b>Unqualified</b>	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.
	<b>Qualified</b>	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.
	<b>Disclaimer Opinion</b>	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.
	<b>Adverse Opinion</b>	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.
Finding Priority Levels		
Priority Level		Definition
Corporate	<b>Critical</b>	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.
	<b>High</b>	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.
Service	<b>Medium</b>	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.
	<b>Low</b>	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.

## APPENDIX D – IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

Audit Title	Action Description	Original Due Date	Status and Notes
<b>Business Continuity Planning (February 2023)</b>	<p><b>Limited evidence of IT disaster recovery procedures and outdated policies</b></p> <p><u>SIAS Recommendation</u> All Business Continuity Plans should be reviewed periodically, with details of when the next review will be undertaken, in order to remain relevant to the current environment.</p> <p>IT services should have a more detailed IT plan regarding business continuity including all the procedures in place to prevent and recover from an incident and what those procedures depend on. These procedures should be reviewed regularly and made available for all relevant staff to ensure they are aware of their roles.</p> <p><u>Management Response</u> Business continuity plans are currently being reviewed (January 2023) and will be updated to reflect the changes to the environment when laptop V3 is finalised. (April 2023)</p> <p>IT are currently engaged with external consultants to review, and further develop the detailed IT plan, to include Business Continuity, Cyber Security and communications.</p>	30 April 2023	<p><b>Implemented.</b></p> <p><b>September FAR Committee Update</b> Rollout of V3 laptops is almost complete. Consultation with external suppliers on the detailed IT plan completed. Documents are being accepted and distributed. The revised forecast completion date is now end of August 2023.</p> <p><b>November FAR Committee Update</b> We have reviewed the current plans and identified the improvements required. We have implemented a new Back-Up procedure (different technology) and are currently documenting the recovery processes from that back-up. The revised completion date for this recommendation is 15 December 2023.</p> <p><b>January FAR Committee Update</b> Good progress towards implementing this recommendation continues to be made. The target date for formalised ICT readiness for business continuity has now been amended to 31 January 2024 to allow us to update relevant controls to reflect lessons learned from the major incident experienced on 11 January 2024.</p> <p><b>March FAR Committee Update</b> The service confirmed that this action is complete and their BCP has now been updated.</p>

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## INTERNAL AUDIT PLAN 2024/25

### NORTH HERTS COUNCIL

FINANCE, AUDIT AND RISK COMMITTEE

MARCH 2024

#### RECOMMENDATION

Members are recommended to approve the proposed North Herts Council Internal Audit Plan for 2024/25

# **Contents**

## **1. Introduction and Background**

## **2. Audit Planning Process**

2.1 Planning Principles

2.2 Approach to Planning

2.11 Planning Context

2.14 Internal Audit Plan 2024/25

## **3. Performance Management**

3.1 Update Reporting

3.3 Performance Indicators

## **Appendices**

A Proposed North Herts Council Audit Plan 2024/25

B Audit Start Dates Agreed with Management

C Risk Register Mapping to Internal Audit Plan

D Glossary of Terms

# 1. Introduction and Background

- 1.1 The mission of Internal Audit is “to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight”. The Public Sector Internal Audit Standards (PSIAS) encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF). These Standards note that a professional, independent, and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector.
- 1.2 The SIAS Board reviewed the SIAS Internal Audit Strategy in 2023, and this strategy outlines how SIAS will achieve the mission of Internal Audit and ensure ongoing compliance with the PSIAS. The following report follows the key principles within the Strategy related to Audit Planning and Resourcing, with the Strategy document itself being available to Members upon request.
- 1.3 The PSIAS set out how SIAS must approach audit planning. The specific standards that SIAS must adhere to are as follows:

Standard	Description
2010	A risk-based plan, setting out audit priorities consistent with the goals of the organisation.
2010	Linked to annual opinion need and Internal Audit Charter
2010.A1	Based on documented risk assessment, updated at least yearly and consulting Senior Management and Members
2010.A2	Reflect expectations of Senior Management, Members, and other stakeholders
2020	Communicated to Senior Management for review and to Members for approval
2030	Ensure internal audit’s resources are fit and effectively used
2030	Must explain how resource adequacy assessed, and set out results of any limits

- 1.4 The Council’s Internal Audit Plan sets out the programme of internal audit work for the year ahead, and forms part of the Council’s wider assurance framework. It supports the requirement to produce an audit opinion on the overall internal control environment of the Council, as well as a judgement on the robustness of risk management and governance arrangements, contained in the Chief Audit Executive’s Annual Opinion Report.
- 1.5 The Shared Internal Audit Service’s (SIAS) Audit Charter was presented to the June 2023 meeting of this Committee, and it shows how the Council and SIAS work together to provide a modern and effective internal audit service. This approach complies with the requirements of the United Kingdom Public Sector Internal Audit Standards (PSIAS) which came into effect on 1 April 2013 and revised on 1 April 2017. An updated version of the SIAS Internal Audit Charter will be brought to the June 2024 FAR Committee meeting for Member approval.
- 1.6 Section 2 of this report details how SIAS complies with these requirements.

## 2. **Audit Planning Process**

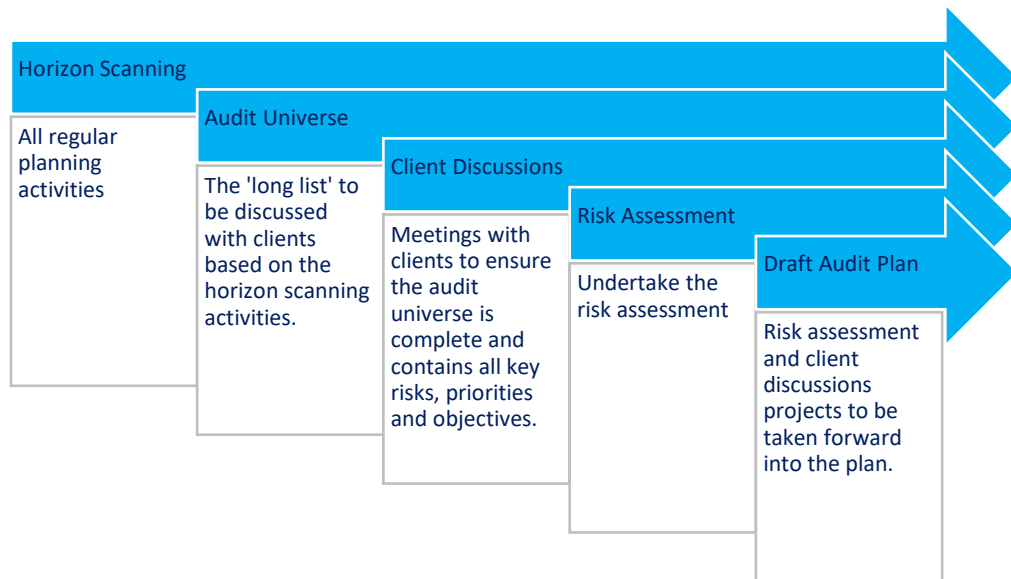
### **Planning Principles**

2.1 SIAS audit planning is underpinned by the following principles:

- a) Focus of assurance effort on the Council's obligations, outcomes and objectives, critical business processes and projects and principal risks. This approach ensures coverage of both strategic and key operational issues.
- b) Maintenance of an up-to-date awareness of the impact of the external and internal environment on the Council's control arrangements.
- c) Use of a risk assessment methodology to determine priorities for audit coverage based, as far as possible, on management's view of risk.
- d) Dialogue and consultation with key stakeholders to ensure an appropriate balance of assurance needs. This approach includes recognition that in a resource-constrained environment, all needs cannot be met.
- e) Identification of responsibilities where services are delivered in partnership.
- f) In-built flexibility to ensure that new risks and issues are accommodated as they emerge.
- g) Capacity to deliver key commitments including governance work.
- h) Capacity to respond to management requests for assistance with special investigations, consultancy, and other forms of advice.

## Approach to Planning

- 2.2 SIAS has developed an approach to annual planning that ensures ongoing compliance with the requirements of the PSIAS. SIAS applies the following methodology at its partners:



### Horizon Scanning and Audit Universe

- 2.3 SIAS conducts horizon scanning to ensure that it is aware of the key issues and risks locally and nationally as well as the corporate and service objectives of the Council. To do this, SIAS undertakes the following activities:



- 2.4 Following the horizon scanning work, SIAS creates an Audit Universe based on all auditable areas and entities. The Audit Universe forms the basis of discussions with Senior Managers.

## Client Discussions

- 2.5 SIAS undertook detailed discussions with senior managers and other key officers within the Council to confirm auditable areas and elicit high level detail of the scope of audits. This process incorporates the following steps to assist in the prioritisation of proposed internal audit projects:

### *Risk Assessment*

Senior Managers and SIAS agree the level of risk associated with an identified auditable area and prioritise this accordingly.

### *Other sources of Assurance*

Senior Managers are asked whether assurance in the auditable area is obtained from other assurance providers e.g., external audit or the Health and Safety Executive. This approach ensures that provision of assurance is not duplicated.

### *Significance*

Senior Managers assess how significant the auditable area is in terms of the achievement of corporate or service objectives and priorities.

### *Timings*

Senior Managers identify when an audit should be undertaken to add most value.

## Risk Assessment

- 2.6 The overarching risk that SIAS bases planning against is the risk that audit work completed does not provide sufficient coverage and significance for SIAS to provide a robust annual assurance opinion. Therefore, SIAS risk assesses each auditable area to ensure that their resources are directed appropriately.
- 2.7 The risk assessment behind the development of the 2024/25 Internal Audit Plan was strongly correlated to the Council's Delivery Plan and associated Council monitoring through risk assessments, KPI's and project progress.
- 2.8 SIAS also include considerations of financial materiality, corporate significance, vulnerability and change and management concerns, as part of the risk assessment, including alternative sources of assurance through the Four Lines (of Defence) model.

## Draft Audit Plan

- 2.9 The results of the risk assessment and discussions with Senior Mangers provides a draft Internal Audit Plan. SIAS has presented this draft plan to the Senior Leadership Team to seek their views on the assessments completed and to provide any further updates or comments. The outcome is now presented to Members as part of this report for their approval of the Draft Internal Audit Plan 2024/25.

## **The Planning Context**

2.10 The context within which local authorities provide their services remains challenging:

- Demand for services is still rising, driven a range of factors including the growing and ageing population, and challenges in the healthcare system. Combined with the cost of living, local authorities will have to continue to be more innovative and commercially minded.
- Macro-economic uncertainty continues, driven by factors such as inflation, interest rates, energy costs and a range of geo-political tensions. Resulting significant cost pressures and government funding make financial planning a key component of local government finance.
- Cyber and data security remains a consistent threat to organisations and there are a growing number of local authorities that have been subjected to successful cyber-attacks. Continued vigilance and risk management remain key to protecting local authority assets and services.
- Local authorities are facing significant challenges in relation to talent management, both in terms of recruitment and retaining staff meaning ability to remain resilient and deliver high quality services may continue to be an increasing concern.
- Many local authorities have declared a Climate & Ecological Emergency and made public commitments relating to carbon reduction and becoming Net Zero.

2.11 The resultant efficiency and transformation programme that councils are in the process of implementing and developing continues to profoundly alter each organisation's nature. Such developments are accompanied by potentially significant governance, risk management and internal control change.

2.12 The challenge of giving value in this context, means that Internal Audit needs to:

- Meet its core responsibilities, which are to provide appropriate assurance to Members and senior management on the effectiveness of governance, risk management and control arrangements in delivering the achievement of Council objectives.
- Identify and focus its effort on areas of significance and risk, assisting the organisation in managing change effectively, and ensuring that core controls remain effective.
- Give assurance which covers the control environment in relation to new developments, using leading edge audit approaches such as

use of technology to achieve 'whole population testing' and new insights over sampling or 'continuous assurance' where appropriate.

- Retain flexibility in the audit plan and ensure the plan remains current and relevant as the financial year progresses, this is particularly key given the current challenges and risks and the impact this has had on audit activity.

### **Internal Audit Plan 2024/25**

2.13 The draft plan for 2024/25 is included at Appendix A and contains a high-level proposed outline scope for each audit; Appendix B details the agreed start months. The number of days purchased in 2024/25 is confirmed as 260 days.

2.14 The table shows the estimated allocation of the total annual number of purchased audit days for the year.

	<b>2024/25 Days</b>	<b>%</b>
General audits	98	38
IT Audits	22	8
Consultancy Assignments / Assurance Mapping	59	23
Grants or Charity Certification	8	3
Strategic Support*	38	14
Contingency	5	2
Completion of 2022/23 Projects	30	12
<b>Total allocated days</b>	<b>260</b>	<b>100%</b>

\* This covers supporting the Audit Committee, monitoring delivery of the audit plan, client liaison and planning for 2025/26

2.15 Any significant audit plan changes agreed between Management and SIAS will be brought before this committee for noting through the usual plan update reporting cycle. The postponement or cancellation of any audits will require approval from the Service Director (Resources). It should be noted that the Internal Audit Plan is intended to be flexible and responsive to changing risks and matters arising during the year.

2.16 Members will note the inclusion of a provision for the completion of projects that relate to 2023/24. The structure of Internal Audit's programme of work is such that full completion of every aspect of the work in an annual plan is not always possible, especially given the high dependence on client officers during a period where local government faces significant resourcing risks.

2.17 Members should also note that there is provision under Strategic Support for service development relating to conformance with the new Global Internal Audit Standards issued on 9 January 2024 and due for full implementation by January 2025. Details on this will be provided to



the SIAS Board through the quarterly Board updates and to FAR Committee as appropriate and relevant. The new Standards address key aspects of internal auditing such as:

- Domain I - Purpose of Internal Auditing e.g. what internal audit is and how it should operate.
- Domain II - Ethics and Professionalism e.g., conduct and professional performance.
- Domain III - Governing the Internal Audit Function e.g., direction and responsibilities for audit committees and senior leaders.
- Domain IV - Managing the Internal Audit Function e.g., strategic planning, resourcing, performance and quality.
- Domain V - Performing Internal Audit Services e.g., conducting day to day internal audit work.

Changes which have an impact on the role of Finance, Audit and Risk Committee Members will be highlighted as the year progresses.

- 2.18 The nature of assurance work is such that enough activity must have been completed in the financial year, for the Chief Audit Executive to give an overall opinion on the Authority's internal control, governance and risk management framework. In general, the tasks associated with the total completion of the plan, which includes the finalisation of all reports and negotiation of the appropriate level of agreed mitigations, is not something that adversely affects delivery of the overall opinion. The impact of any outstanding work is monitored closely during the final quarter by SIAS in conjunction with the Section 151 Officer / Service Director (Resources).

#### Resources

- 2.19 The Standard 2030 requires SIAS to consider our resources, how these will be effectively used and any limitations of the adequacy of resources.
- 2.20 Achievement of our role and objectives is predicated on the matching of audit needs to available resources through our work allocation processes. This is accomplished through the delivery of internal audit activities by a range of suitably qualified and experienced team members working flexibly in a matrix structure to maximise the value to all our partners and clients. SIAS resources are calculated based on the chargeability of each member of the team and the structure was designed to ensure sufficient chargeability to deliver all plans.
- 2.21 SIAS will utilise our internal audit delivery partner to provide service resilience and access to specialist skills not currently available within the service, or which are not economically viable to recruit and retain on a permanent basis.

- 2.22 SIAS staff are provided training and development across the year to support service delivery at our partners. In addition, SIAS provides funding for professional qualifications and currently has five team members studying towards their professional qualifications.
- 2.23 The service will be adequately resourced to deliver the number of planned internal audit days commissioned by North Herts Council. There are currently no limitations on the adequacy of resources in place to deliver the North Herts Council Internal Audit Plan 2024/25.

### 3. **Performance Management**

#### **Update Reporting**

- 3.1 SIAS is required to report its work 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. Progress against the agreed plan for 2024/25 and any proposed changes will be reported to this Committee four times in the 2024/25 civic year.
- 3.2 SIAS will report on the implementation of agreed high priority recommendations as part of the update reporting process.

#### **Performance Indicators**

- 3.3 Annual performance indicators were approved at the SIAS Board and are reviewed annually by the Board. Details of the targets set for 2024/25 are shown in the table below. Actual performance against target will be included in the regular update reports to this Committee.

Performance Indicator	Performance Target	Reporting Frequency
<b>1. Public Sector Internal Audit Standards</b> – the service conforms with the standards	Yes	Annually
<b>2. Internal Audit Annual Plan Report</b> – approved by the March Audit Committee or the first meeting of the financial year should a March committee not meet	Yes	Annually
<b>3. Annual Internal Audit Plan Delivery</b> – the percentage of the Annual Internal Audit Plan delivered (measured in audit days)	95%	Quarterly
<b>4. Project Delivery</b> – Percentage of audit plan projects delivered to draft report stage by 31 March 2025	90%	Quarterly
Percentage of audit plan projects delivered to final report stage as reported within the CAE Annual Assurance and Opinion report.	100%	Quarterly

<b>5. Client Satisfaction*</b> – percentage of client satisfaction questionnaires returned at ‘satisfactory overall’ level (minimum of 39/65 overall)	100%	Quarterly
<b>6. Chief Audit Executive’s Annual Assurance Opinion and Report</b> – presented at the first Audit Committee meeting of the financial year	Yes	Annually

## APPENDIX A – PROPOSED NORTH HERTS COUNCIL AUDIT PLAN 2024/25

### General Internal Audits (98 days)

<u>Audit Title</u>	<u>Purpose of the Audit</u>	<u>Quarter</u>	<u>Audit Sponsor</u>
Churchgate - Project Assurance  (Risk Register and Council Delivery Plan)	<p>Two audits were completed on the Churchgate project as part of the 2023/24 Internal Audit Plan, with both providing assurance at specific milestones or moments in time. A change of approach will be adopted in 2024/25 whereby internal audit will join the project board / steering group to provide ongoing and continuous assurance throughout the next phase of the project life cycle using an embedded approach.</p> <p>Providing a view of how a project is progressing is known as project assurance and is the ultimate responsibility of the project board or steering group. Internal audit will report a view on project governance, risk management and control, including other assurance arrangements such as:</p> <ul style="list-style-type: none"> <li>a) Checking that the project remains viable in terms of costs and benefits (business assurance),</li> <li>b) Checking that the users' requirements are being met (user assurance),</li> <li>c) Ensuring procedures and rules are being followed (compliance assurance) and</li> <li>d) The project is delivering a suitable solution (specialist or technical assurance).</li> </ul>	1-4	Service Director (Commercial)

## APPENDIX A – PROPOSED NORTH HERTS COUNCIL AUDIT PLAN 2024/25

<p>New Finance System (Requested by S151 Officer)</p>	<p>The Council are already in the process of implementing our new combined income management and financial management system to replace Integra and Civica.</p> <p>During 2024/25, internal audit will join the project board / steering group to provide ongoing and continuous (embedded) assurance through the remaining project life cycle phases.</p> <p>It is proposed that internal audit will be involved in data testing as part of the embedded assurance process.</p>	<p>1-2</p>	<p>Service Director (Resources)</p>
<p>Public Sector Decarbonisation Scheme (Salix Grant) (Risk Register)</p>	<p>The Public Sector Decarbonisation Scheme provides grants for public sector bodies to fund heat decarbonisation and energy efficiency measures. This audit is linked to the risks in the risk register regarding Solar PV on Leisure Centres and Royston Leisure Centre Solar Thermal.</p> <p>During 2024/25, internal audit will join the project board / steering group to provide ongoing and continuous (embedded) assurance through the project life cycle phases arising this financial year using an embedded approach.</p>	<p>1-4</p>	<p>Service Director (Place)</p>

## APPENDIX A – PROPOSED NORTH HERTS COUNCIL AUDIT PLAN 2024/25

<p>Training, Awareness and Induction</p> <p>(Annual Governance Statement (AGS))</p>	<p>The last two AGSs have contained actions as follows:</p> <ul style="list-style-type: none"> <li>a) Ethical awareness training – increased staff/member uptake of the Anti-bribery e-learning module. (Learning &amp; Development)</li> <li>b) Increase uptake of ethical awareness training, increase staff/member uptake of the Antibribery and Fraud Awareness e-learning modules, noting uptake levels through the Civic year. (Leadership Team; Learning &amp; Development; Committee Services).</li> <li>c) Review and develop a member training programme for commencement after the May 2024 local election. (Leadership Team; Committee Services; Learning and Development)</li> </ul> <p>DLUHC's Draft 'Best Value Standards and Intervention guidance identifies a key risk to achieving best value being a lack of engagement with and/or poor quality or non-existent member and officer training and development offer.</p> <p>On this basis, and bearing in mind the current remote working context, to examine the Council's mandatory training, awareness and induction programme for members and officers, including some benchmarking against other local authorities.</p>	<p>2</p>	<p>Service Director (Resources)</p>
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## APPENDIX A – PROPOSED NORTH HERTS COUNCIL AUDIT PLAN 2024/25

<p>Local Authority Trading Companies</p> <p>(Requested by the Monitoring Officer)</p>	<p>DLUHC's Draft 'Best Value Standards and Intervention – A statutory guide for best value authorities' contains seven best value themes, including several references to local authority companies such as:</p> <p>a) "There is proper member oversight (as shareholders) of companies and partnership bodies, in accordance with the Local Authority Company Review Guidance and their existence is regularly and independently reviewed."</p> <p>b) "Failure to manage the risks associated with companies."</p> <p>In this context, the Monitoring Officer has statutory duties around governance arrangements to effectively scrutinise arrangements for current and future Council-owned trading companies.</p> <p>The audit will look to examine any current and proposed governance around local authority trading companies and seek any shared learning that can be obtained from other Councils.</p>	2	<p>Service Director (Legal and Community) / Monitoring Officer</p>
<p>Project Prioritisation</p> <p>(Risk Register and requested by the S151 Officer / Risk Group)</p>	<p>Recognising the resourcing risk in the Risk Register, to examine the process for identifying and prioritising projects in the Council's Delivery Plan, as well as ongoing monitoring and review by political and officer leadership to ensure that limited resources are appropriately allocate to best effect.</p>	2	<p>Service Director (Resources) on behalf of Leadership Team</p>

## APPENDIX A – PROPOSED NORTH HERTS COUNCIL AUDIT PLAN 2024/25

<p>UK Shared Prosperity Fund (UKSPF)</p> <p>(Risk Register / Requested by the Monitoring Officer)</p>	<p>To ensure that the Council complies with the aims of the UKSPF, including:</p> <ul style="list-style-type: none"> <li>a) Guidance on what to use the funding for,</li> <li>b) Delivery of the fund,</li> <li>c) The funding places will receive,</li> <li>d) Development of an appropriate invest plan process, and</li> <li>e) Measurement of impact.</li> </ul> <p>The audit will look to examine any governance, partnerships and investment already in place, review any challenges and learning that has arisen and seek any shared learning that can be obtained from other local authorities.</p>	3	Service Director (Legal and Community) / Monitoring Officer and Service Director (Resources)
<p>Operational Building Compliance</p> <p>(Shared Learning from SIAS Partnership)</p>	<p>To provide independent assurance that the Council is meeting its statutory and mandatory compliance safety requirements relevant to its operational buildings.</p> <p>Inclusion of the audit in the Internal Audit Plan is based on conveying shared learning from high and medium priority findings and recommendations from other SIAS partners and ensuring that the Council has robust controls, risk management and governance over these areas.</p>	3	Service Director (Resources)
<p>Homelessness (including Rough Sleepers)</p> <p>(Risk Register)</p>	<p>To provide assurance over work completed / ongoing work identified in the risk register for managing increased levels of homelessness and associated costs.</p>	4	Service Director (Housing and Environmental Health)



## APPENDIX A – PROPOSED NORTH HERTS COUNCIL AUDIT PLAN 2024/25

### IT Internal Audits (22 days)

<u>Audit Title</u>	<u>Purpose of the Audit</u>	<u>Quarter</u>	<u>Audit Sponsor</u>
Cyber Security – Cyber Governance and Culture  (Risk Register and Horizon Scanning)	<p>To conduct a review of cyber governance and culture within Council.</p> <p>The National Cyber Security Centre (NCSC) describes cyber governance as how you control and direct your organisation's approach to cyber security and effectively coordinate the cyber risk activities of your organisation. Good cyber security governance enables the flow of cyber security information and decisions around the whole of your organisation.</p> <p>Cyber security culture refers to the attitudes, knowledge, assumptions, norms, and values of the workforce of an organisation with respect to cyber security.</p> <p>Cyber Risk was last audited in detail as part of the 2022/23 Internal Audit Plan, although 2023/24 audits on Critical Applications and IT Disaster Recovery have covered aspects of cyber security.</p>	3	Service Director (Customers)
Cyber Security – Supply Chain Management  (Risk Register and Horizon Scanning)	<p>The NCSC states that most organisations rely upon external suppliers to deliver at least some IT products, systems, and services. Effectively securing the supply chain can be hard because vulnerabilities can be inherent or introduced and exploited at any point in the supply chain. A vulnerable supply chain can cause damage and disruption.</p> <p>A series of high profile, very damaging attacks on organisations has demonstrated that attackers have both the intent and ability to exploit vulnerabilities in supply chain security. This trend is real and growing, so the need to act is clear.</p>	4	Service Director (Customers)

## APPENDIX A – PROPOSED NORTH HERTS COUNCIL AUDIT PLAN 2024/25

	<p>The audit will likely cover the following aspects proportionate to an organisation of the Council's size:</p> <ul style="list-style-type: none"> <li>a) Understanding the risks (what needs to be protected and why, what risks are posed to the Council, know your suppliers and their security arrangements),</li> <li>b) Establishing control (Set and communicate minimum security requirements for your suppliers, ensuring this is built into contracting arrangements)</li> <li>c) Checking supply chain arrangements (building assurance into supply chain management), and</li> <li>d) Continuous improvement (encouragement within the supply chain relationship).</li> </ul>		
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### Consultancy Assignments / Assurance Mapping (59 days)

<u>Assignment Title</u>	<u>Assignment Purpose</u>	<u>Quarter</u>	<u>Assignment Sponsor</u>
<p>Assurance Mapping</p> <p>(Global Internal Audit Standards / Good governance and risk management practice)</p>	<p>To work with the Performance and Risk Officer and the Controls, Risk and Performance Manager to complete an assurance map of the corporate risks identified in the Council's risk register. This will start with identified red risks in the risk register, which at the time of planning included 'Financial Sustainability/Balancing our Budget', Churchgate, Waste Depots, Increased Levels of Homelessness, Resourcing and Cyber Risk.</p> <p>See Glossary of Terms at Appendix D for further detail on assurance mapping.</p>	1-4	Service Director (Resources)
FAR Committee Review	The last two AGSs have contained actions as follows:	1	Service Director (Resources) on behalf of Leadership Team

## APPENDIX A – PROPOSED NORTH HERTS COUNCIL AUDIT PLAN 2024/25

(Annual Governance Statement (AGS))	<p>a) Targeted peer support for Overview &amp; Scrutiny and Finance Audit and Risk committee from the Local Government Association (LGA): identify areas for development and from an action plan from recommendations. [Leadership Management Team].</p> <p>b) Implement the action plan, once agreed with the relevant Committees and Cabinet, which is being proposed to Overview &amp; Scrutiny and Finance, Audit, and Risk Committees from June 2023. (Leadership Team / Overview &amp; Scrutiny and Finance, Audit and Risk Committees to monitor).</p> <p>The review will utilise established methodologies and assessments such as those appended to the CIPFA Audit Committee Guidance 2022 and take account of requirements contained in the new Global Internal Audit Standards. Consideration will be given to who will conduct the review to ensure suitable independence.</p>		
<p>Equality / Equity, Diversity and Inclusion (EDI) Maturity Assessment</p> <p>(Annual Governance Statement (AGS))</p>	<p>The last two AGSs have contained actions as follows:</p> <p>a) The Inclusion Group to establish a procedure for developing recommendations and delivering these to Leadership Team. (Inclusion Group; Human Resources; Policy)</p> <p>b) Implement recommendations of Inclusion Group for 2022/23, where practical. (HR Manager, Inclusion Group and Learning and Development)</p> <p>Using this as a backdrop, it is deemed appropriate to conduct an EDI maturity assessment that will encompass the following themes:</p> <ul style="list-style-type: none"> <li>a) Tone from the top,</li> <li>b) Governance, compliance and strategy,</li> <li>c) Structure, committees, networks, forums and resources,</li> <li>d) Policies, procedures, training / awareness and development, and</li> <li>e) Measurement, accountability and continuous improvement.</li> </ul>	2	Service Director (Resources) on behalf of Leadership Team

## APPENDIX A – PROPOSED NORTH HERTS COUNCIL AUDIT PLAN 2024/25

### Grant Claims / Charity Certification (8 days)

<u>Grant / Charity Title</u>	<u>Purpose</u>
King George V Playing Fields	To certify the accounts relating to the King George V Playing Fields.
Workman's Hall	To certify the accounts relating to the Workman's Hall.
Miscellaneous Grants	To certify any grant claims required during the year

### Contingency (5 days)

Available time for ad hoc work as required.

### Strategic Support (38 days)

<u>Title</u>	<u>Purpose</u>
Chief Audit Executive Annual Opinion Report	To prepare the Chief Audit Executive Opinion 2023/24.
Audit Committee	To provide services linked with the preparation, agreement and presentation of Finance, Audit and Risk Committee reports, as well as any training requirements.
Performance Monitoring	Audit plan monitoring against agree KPIs.
Client Liaison	Meetings with the S151 Officer, preparation and attendance at the Risk Group and other groups or meetings as required.

## APPENDIX A – PROPOSED NORTH HERTS COUNCIL AUDIT PLAN 2024/25

Audit Planning 2023/24	Provision of services to prepare, agree and report the 2024/25 Annual Audit Plan.
SIAS Development	Included to reflect the Council's contribution to developing the partnership.

### 2023/24 Carry Forward (30 days)

Available time for completion of 2023/24 projects – includes projects below which did not commence or complete as scheduled.

<u>Assignment Title</u>	<u>Assignment Purpose</u>	<u>Quarter</u>	<u>Assignment Sponsor</u>
Business Continuity and Emergency Planning	To provide embedded assurance (and possibly using surveys) with a focus on training, awareness and learning across both BC and EP. Involvement commenced in 2023/24 and crosses the financial year end.	1	Service Director (Resources)
Project Management	Following on from the project management framework audit in 2022/23, to provide assurance that a sample of projects are following good practice principles, including ensuring that lessons learned are transferred to future projects.	1	Service Director (Resources)
Houses in Multiple Occupation	To provide assurance that the Council is fulfilling its duties in terms of its HMO policy, including the conduct of periodic inspections of HMOs to ensure that the premises are properly managed and maintained.	1	Service Director (Legal and Community)
Estates	To provide assurance that rent reviews and lease renewals are conducted in a timely and efficient manner when they fall due, as well as prioritised by significance and value for money to the Council. Work may also cover any historic backlogs and improvement plans where relevant.	1	Service Director (Commercial)

## APPENDIX A – PROPOSED NORTH HERTS COUNCIL AUDIT PLAN 2024/25

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### Reserve List

<u>Title</u>	<u>Purpose</u>
Multi-Factor Authentication (MFA)  (Risk Register, Audit Universe and Horizon Scanning)	Multi-Factor Authentication is the practice of using two or more authentication messages in unison to verify a user's identity and permissions to access system accounts and resources. With increasing cyber risks, the significance of enhanced authentication mechanisms like MFA cannot be overstated.  To provide assurance around the use and adoption of MFA controls in operation.
Asset Data	To provide assurance that asset data is complete, accurate and reliable and controls exist to ensure consistent recording between asset registers held by service areas, e.g., Accounts, Estates and Property Services.

## APPENDIX B – AUDIT START DATES AGREED WITH MANAGEMENT

<u>Type</u>	<u>Quarter 1</u>	<u>Quarter 2</u>	<u>Quarter 3</u>	<u>Quarter 4</u>
<b>General Audit</b>	Churchgate – Project Assurance (through year)	Churchgate – Project Assurance (through year)	Churchgate – Project Assurance (through year)	Churchgate – Project Assurance (through year)
	Public Sector Decarbonisation Scheme (Salix Grant) (through year)	Public Sector Decarbonisation Scheme (Salix Grant) (through year)	Public Sector Decarbonisation Scheme (Salix Grant) (through year)	Public Sector Decarbonisation Scheme (Salix Grant) (through year)
	New Finance System	New Finance System		
		Local Authority Trading Companies	UK Shared Prosperity Fund (UKSPF)	
		Project Prioritisation	Operational Building Compliance	
		Training, Awareness and Induction		Homelessness
<b>IT Audit</b>			Cyber Security – Cyber Governance and Culture	Cyber Security – Supply Chain Management
<b>Advisory &amp; Consultancy</b>	FAR Committee Review	Equality / Equity, Diversity and Inclusion (EDI) Maturity Assessment		
<b>Assurance Mapping</b>	Assurance Mapping	Assurance Mapping	Assurance Mapping	Assurance Mapping
<b>Grant / Charity</b>				Workman's Hall

## APPENDIX B – AUDIT START DATES AGREED WITH MANAGEMENT

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				King George V Playing Fields
<b>Carry Forward</b>	2023/24 Carry Forward Audit Completion <ul style="list-style-type: none"><li>- Emergency Planning</li><li>- Estates</li><li>- Project Management</li><li>- HMO</li><li>- Report Finalisation</li></ul>			



## APPENDIX C – RISK REGISTER MAPPING TO INTERNAL AUDIT PLAN

Corporate Risks - Risk Register	Internal Audit Coverage 2020/21 – 2023/24	Internal Audit Coverage 2024/25
<b>Financial Sustainability/Balancing our Budget (Red)</b>	Income Generation Integra / Integra Automation / Centros Financial System Revenues / Revenues Discounts and Exemptions / Resilience in Revs and Bens Treasury Management Medium Term Financial Strategy Breathing Space (Debt Recovery) / Debt Management Follow-up Council Tax Reduction Scheme Financial Resilience of Suppliers Payroll Processing Discretionary Housing Payments	No
<b>Churchgate (Red)</b>	Churchgate – Project Governance Framework Churchgate Ongoing Project Assurance Churchgate Landlord Compliance	Churchgate Project (Embedded) Assurance
<b>Waste and Street Cleansing Contract Procurement (Red)</b>	Waste Contract Follow-up Waste Contract	No
<b>Waste Depots (Red)</b>	No	No
<b>Increased Levels of Homelessness (Red)</b>	Housing Allocations Temporary Accommodation	Homelessness
<b>Cyber Risks (Red)</b>	Critical Applications IT Disaster Recovery / Disaster Recovery Cyber Risk Phishing Cloud Computing Other Technology audits	Cyber Security – Cyber Governance and Culture Cyber Security – Supply Chain Management
<b>Resourcing (Red) – crosses numerous risks</b>	High priority recommendation in Climate Emergency audit	No
<b>Charnwood House (Amber)</b>	No	No
<b>Museum Storage (Amber)</b>	No	No

## APPENDIX C – RISK REGISTER MAPPING TO INTERNAL AUDIT PLAN

<b>New Ways of Delivering Housing on Council Land (Amber)</b>	No	No
<b>Pursue commercial leasing opportunity for Royston Town Hall Annexe (Amber)</b>	Commercial Strategy Income Generation	No
<b>Master Planning (Amber)</b>	Planning Applications Development Management Follow Up	No
<b>Local Plan Delivery and Review (Amber)</b>	See above	No
<b>Town Centre Strategies (Amber)</b>	No	No
<b>Royston Leisure Centre Solar Thermal (Amber)</b>	No	Public Sector Decarbonisation Scheme (Salix Grant)
<b>Solar PV on Leisure Centres (Amber)</b>	No	Public Sector Decarbonisation Scheme (Salix Grant)
<b>Leisure Contract Procurement (Amber)</b>	Leisure Contract Leisure Services	No
<b>Resident/Public EV Charging in our Car Parks (Amber)</b>	No	No
<b>Shared Prosperity Fund (Amber)</b>	No	UK Shared Prosperity Fund
<b>Town Centre Recovery (Green)</b>	No	No
<b>Health Inequalities (Green)</b>	No	No
<b>Cycling Network (Green)</b>	No	No
<b>Finalise Pay on Exit Parking Review (Green)</b>	MSU Transactions (incl. PCN's and Car Park Income) Parking Strategy and Enforcement	No
<b>Empty Homes Strategy (Green)</b>	No	No
<b>Create and Communicate a Place Narrative for North Herts (Green)</b>	Green Space Providers	
<b>Enterprise Strategy (Green)</b>	Commercial Strategy	No
<b>Oughtonhead Common Weir (Green)</b>	No	No
<b>Playground Renovation Programme (Green)</b>	No	No
<b>Local Authority Housing Fund (Green)</b>	No	No

The Corporate Risk Register is closely connected to the Council's Delivery Plan. The Risk Register used above was the most recent in place (November 2023) at the time of internal audit planning and is subject to regular review and update that means both

## APPENDIX C – RISK REGISTER MAPPING TO INTERNAL AUDIT PLAN

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the risks and risk scores will have changed over time. Good examples of this are the Pandemic and Climate Change risks, both now removed, which were subject to previous internal audit coverage.

Assurance mapping in 2024/25 will assist in showing both the strength and gaps in alternative assurance within the Four Lines (of Defence) Model.

We note not all risks have internal audit coverage against them. The Council has a large volume of identified risks, and our audit plan is constrained. We will monitor these risks and flexibly adapt our audit plan as appropriate and if required to cover these risks. We also note management's own actions seek to mitigate these risks.

## APPENDIX D – GLOSSARY OF TERMS

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### **Assurance mapping**

An assurance map is a structured way of identifying and presenting the sources of assurance over how risks are being managed. It is an essential element of mature risk management practices. An assurance map identifies the many sources of assurance that the Leadership team and FAR Committee rely on in their oversight role and can also include information on the frequency and quality of the assurance provided.

The key benefit for the organisation is the effective and efficient use of resources to provide assurance. An assurance map is also a practical tool for chief audit executives (CAEs) to use on two levels; demonstrating the depth/gaps in assurance and to plan audit activity.

The new Global Internal Audit Standards (Standard 9.5 Co-ordination and Reliance) requires the CAE to co-ordinate with internal and external assurance providers and consider relying on their work. Co-ordination minimises duplication of work, highlights gaps in coverage of key risks and enhances the overall value of all assurance providers. The way to achieve this requirement is with an assurance map.

### **Control Risk (Self) Assessment (CRSA / CRA)**

Control risk (self)-assessment is a process or method by which management and staff work with internal audit to identify and evaluate operational risks and the effectiveness of controls. The objective is to provide reasonable assurance that all business objectives will be met. CRA is an empowering and iterative process that integrates risk management practices and culture into the way staff undertake their jobs.

### **Data analytics / Data analysis**

Data analytics is a multidisciplinary field that employs a wide range of analysis techniques, including maths, statistics, and computer science, to draw insights from data sets. Data analytics is a broad term that includes everything from simply analysing data to theorising ways of collecting data and creating the frameworks needed to store it. Data analysis is a subcategory of data analytics that deals specifically with extracting meaning from data.

The top benefits of using data analytics and data-led audits include greater levels of assurance, greater audit coverage and enhanced efficiency. The top barriers to fully embracing data analytics include lack of skills, lack of resources and lack of time to implement.

### **Health Check**

## APPENDIX D – GLOSSARY OF TERMS

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It is a focused review that addresses specific areas of interest or concern and provides actionable insights and recommendations. The health check helps to identify and address critical gaps in processes and controls. They can also be 'light touch' reviews to establish and confirm the operation of controls and processes, providing a 'high-level' assurance without the depth of a full, evidence-based internal audit.

### **Maturity assessment**

Used to develop a 'snapshot' view of how an organisation is progressing against a measurable scale in the embedding of a change or transformation.

### **Project (Embedded) Assurance**

A typical approach to project management reviews is for the internal audit to join a project board/steering group or team with the inclusion of time in the audit plan for meetings. This often involves a considerable time commitment. There are advantages and disadvantages with this approach:

#### Advantages

1. It enables internal audit to be at the heart of what is happening and have the opportunity to communicate issues as soon as they are identified. In a fast-moving project this may be the only opportunity.
2. If done well it raises the standing of internal audit within the business as a trusted advisor.
3. You can help ensure appropriate controls are installed and risks are being adequately mitigated, based on a timely appreciation of changing variables as highlighted by the management of the project.

#### Disadvantages

1. Internal audit involvement can compromise independence. This could apply when internal audit assesses programme/project management or audit the process or activity that was the basis of the project.
2. Internal audit attendance can also be interpreted as 'audit approval' or audit sign-off'. The implication being that everything is satisfactory and on course.
3. Project board/steering group meetings often include detailed discussion about the adequacy of risk responses and the nature of specific controls to justify the presence of internal audit, but this can slow down, even delay progress. Internal audit may not need to be part of project board meetings to provide advice through their consultancy role.

## APPENDIX D – GLOSSARY OF TERMS

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Internal audit involvement should have a specific assurance or advisory purpose that is discussed, documented and agreed with senior management (as part of the terms of reference). Internal audit should not be part of the management sign-off process or be part of the decision making.

An alternative approach would be for the internal auditor to schedule attendance at one or two selected meetings during the audit of a project to consider specific issues such as the management of risk, validation of progress and to observe that appropriate information is being received, scrutinised and challenged.

**FINANCE, AUDIT & RISK COMMITTEE**  
**13 March 2024**

**\*PART 1 – PUBLIC DOCUMENT**

**TITLE OF REPORT: LOCAL CODE OF CORPORATE GOVERNANCE 2024 AND ANNUAL GOVERNANCE STATEMENT ACTION PLAN UPDATE 2023/24**

**REPORT OF:** POLICY AND COMMUNITIES MANAGER

**EXECUTIVE MEMBER:** [NON-EXECUTIVE FUNCTION]

**COUNCIL PRIORITY:** PEOPLE FIRST, SUSTAINABILITY, BRIGHTER FUTURE TOGETHER.

**1. EXECUTIVE SUMMARY**

- 1.1. For the Finance, Audit & Risk Committee to approve the Local Code of Corporate Governance for 2024; and to review the progress of the Annual Governance Statement (AGS) Action plan for 2023/24

**2. RECOMMENDATIONS**

- 2.1. Approve the Local Code of Corporate Governance 2024 (Appendix A).
- 2.2. Note the current position with the AGS Action Plan (Appendix B)

**3.0 REASONS FOR RECOMMENDATIONS**

- 3.1 It is recommended practice to review the Local Code of Corporate Governance each year to ensure it remains up to date and relevant.
- 3.2 Reviewing the AGS Action Plan during 2023/24 provides the Committee with assurances that NHDC is following through with recommended changes and/or improvements to its governance arrangements.

**4.0 ALTERNATIVE OPTIONS CONSIDERED**

- 4.1 There are no alternative options to be considered.

**5.0 CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS**

- 5.1. No other external or Member consultation has been undertaken on the content of the report. With regards to the Action Plan, the Council's external auditors and Shared Internal Audit Service (SIAS) were given the opportunity to comment on the AGS 2023/24. Finance, Audit, and Risk Committee Members were also given the opportunity to comment on the draft AGS and Action Plan at Committee before this was finalised. The AGS referred to assurances provided from various sources for the 2023/24 period. The Action Plan was based on recommended action and planned review procedures by SIAS, Leadership Team (comprised of the Managing Director and Service Directors) and relevant Service Managers.

**6.0 FORWARD PLAN**

- 6.1 This report does not contain a recommendation on a key Executive decision and has not been referred to in the Forward Plan.

## **7.0 BACKGROUND**

### *Local Code of Corporate Governance:*

- 7.1 It is recommended good practice for the Local Code of Corporate Governance ('the Local Code') to be reviewed annually. It was last updated in March 2023. It was based on the (2016) CIPFA/ SOLACE Framework Delivering Good Governance in Local Government Framework 2016 Edition principles. This remains the basis for an assessment of governance arrangements for the 2023/24 period. The Council's vision and objectives for the period 2022-2027 (approved in September 2021) have been added in at Section 4 of Appendix A.

- 7.2 If the Code is approved by this Committee, it will be placed on the NHC Corporate Governance internet page. Confirmation of the updated Code shall be provided to Members through the MIS process and to employees via the *Insight* monthly staff briefing.

- 7.3 The Code and the CIPFA/SOLACE Framework will then provide the effective scheme against which the AGS operational governance compliance will be measured.

### *Action Plan:*

- 7.4 The last AGS (2022/23) was approved at the Finance, Audit and Risk Committee on 13<sup>th</sup> September 2023. This included an Action Plan to be reviewed bi-annually. The updated position is provided in Appendix B.

## **8.0 RELEVANT CONSIDERATIONS**

- 8.1. The Local Code 2024 is at Appendix A.

## **9.0 LEGAL IMPLICATIONS**

- 9.1 The Accounts and Audit (Amendment) Regulations 2022 extended the deadline for the audit of accounts to no later than the 30<sup>th</sup> September for 2023 to 2027. Otherwise, the legal implications are set out under section 7 above.

- 9.2.1 The Terms of Reference of this Committee under 10.1.5(i) are: "*To ensure that an annual review of the effectiveness of internal controls (accounting records, supporting records and financial) systems is undertaken and this review considered before approving the Annual Governance Statement.*" Review and approval of the AGS is a non-executive function and falls within the Committee's remit.

## **10.0 FINANCIAL IMPLICATIONS**

- 10.1 There are no direct financial implications arising from this report.

## **11.0 RISK IMPLICATIONS**

- 11.1 Good risk management supports and enhances the decision-making process, increasing the likelihood of the Council meeting its objectives and enabling it to respond quickly and effectively to change. When taking decisions, risks and opportunities must be considered.



- 11.2 Ineffective corporate governance arrangements have a number of inherent risks in the context of organisational management, the use of resources and service delivery. Approving a Local Code of Corporate Governance based on the national CIPFA/ SOLACE Framework is a means of mitigating potential risks.

## **12.0 EQUALITIES IMPLICATIONS**

- 12.1 In line with the Public Sector Equality Duty, public bodies must, in the exercise of their functions, give due regard to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.
- 12.2 There are no direct equality implications of this report. Where relevant, the Council's arrangements have been assessed against the 2016 Framework Principles. In respect of those arrangements, the SMT AGS self-assessment identifies the procedures in place and any outcomes. Council reports include any equality implications and are assessed by the Corporate Policy Team. Where appropriate an impact assessment will be undertaken, and mitigation measures identified by the report author and Policy team. The Corporate Policy team undertake an Annual Cumulative Equality Impact Assessment of these and publishes it on the Council's website<sup>1</sup>.

## **13.0 SOCIAL VALUE IMPLICATIONS**

- 13.1 The Social Value Act and "go local" policy do not apply to this report.

## **14.0 ENVIRONMENTAL IMPLICATIONS**

- 14.1 There are no known Environmental impacts or requirements that apply to this report.

## **15.0 HUMAN RESOURCE IMPLICATIONS**

- 15.1 There are no direct human resource implications relating to this report.

## **16.0 APPENDICES**

- 16.1 Appendix A – Local Code of Governance 2024  
16.2 Appendix B – AGS Action Plan Update

## **17. CONTACT OFFICERS**

- 17.1 Georgina Chapman, Policy & Strategy Team Leader:  
Email: [georgina.chapman@north-herts.gov.uk](mailto:georgina.chapman@north-herts.gov.uk) 01462 474121.

### **Contributors:**

- 16.2 Ian Couper Service Director – Resources:  
Email: [ian.couper@north-herts.gov.uk](mailto:ian.couper@north-herts.gov.uk) 01462 474243
- 16.3 Jeanette Thompson Service Director – Legal and Community Monitoring Officer:  
Email: [jeanette.thompson@north-herts.gov.uk](mailto:jeanette.thompson@north-herts.gov.uk) 01462 474370
- 16.4 Tim Everitt, Performance & Risk Officer:  
Email: [tim.everitt@north-herts.gov.uk](mailto:tim.everitt@north-herts.gov.uk) 01462 474646

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<sup>1</sup> <https://www.north-herts.gov.uk/sites/northherts-cms/files/Cumulative%20EiA%20assessment%20201920%20FINAL.pdf>

16.5 Reuben Ayavoo, Policy and Communities Manager:  
Email: [reuben.ayavoo@north-herts.gov.uk](mailto:reuben.ayavoo@north-herts.gov.uk) 01462 474212

16.6 Ellie Hollingsworth, Policy & Strategy Trainee:  
Email: [ellie.hollingsworth@north-herts.gov.uk](mailto:ellie.hollingsworth@north-herts.gov.uk) 01462 474420

**17. BACKGROUND PAPERS**

17.1 The [Finance, Audit & Risk Report](#) and Appendix A (March 2023)

17.2 The [Local Code of Governance](#), updated in March 2023

## LOCAL CODE OF CORPORATE GOVERNANCE

### 1. INTRODUCTION

- 1.1 North Herts District Council is committed to achieving good corporate governance and this Local Code of Corporate Governance confirms its ongoing commitment to do so.
- 1.2 This Code outlines North Herts District Council's (NHDC's) approach towards corporate governance and the principles against which its arrangements will be measured.

### 2. WHAT IS CORPORATE GOVERNANCE?

- 2.1. The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Government Chief Executives (SOLACE) set the standard for local authority governance in the UK through their Framework principles and published a new set in April 2016. These principles *are themselves* derived from the International Framework: Good Governance in the Public Sector (CIPFA/IFAC, 2014) (the 'International Framework'). NHDC's Code is therefore based on these principles:



- 2.2. The 2016 Framework defines governance as comprising of: "...***the arrangements (including political, economic, social, environmental administrative, legal, and other arrangements) put in place to ensure that the intended outcomes for stakeholders are defined and achieved.***"

2.3. The CIPFA/Solace Framework states: that “**To achieve good governance, each local authority should be able to demonstrate that its governance structures comply with the core and sub-principles contained in this Framework. It should therefore develop and maintain a local code of governance/governance arrangements reflecting the principles set out.**”

2.4. These principles and sub-principles are:

<b>Principles in bold. Sub-principles in italics.</b>
<b>Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law</b>
<b>Local government organisations are accountable not only for how much they spend, but also for how they use the resources under their stewardship. This includes accountability for outputs, both positive and negative, and for the outcomes they have achieved. In addition, they have an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies. It is essential that, as a whole, they can demonstrate the appropriateness of all their actions and have mechanisms in place to encourage and enforce adherence to ethical values and to respect the rule of law.</b>
<b>1) Behaving with integrity</b>
<i>i) Ensuring Members and officers behave with integrity and lead a culture where acting in the public interest is visibly and consistently demonstrated thereby protecting the reputation of the organisation.</i>
<i>ii) Ensuring Members take the lead in establishing specific standard operating principles or values for the organisation and its staff and that they are communicated and understood. These should build on the Seven Principles of Public Life (the Nolan Principles).</i>
<i>iii) Leading by example and using these standard operating principles or values as a framework for decision making and other actions.</i>
<i>iv) Demonstrating, communicating and embedding the standard operating principles or values through appropriate policies and processes which are reviewed on a regular basis to ensure that they are operating effectively.</i>
<b>2) Demonstrating strong commitment to ethical values</b>
<i>i) Seeking to establish, monitor and maintain the organisation’s ethical standards and performance.</i>
<i>ii) Underpinning personal behaviour with ethical values and ensuring they permeate all aspects of the organisation’s culture and operation.</i>
<i>iii) Developing and maintaining robust policies and procedures which place emphasis on agreed ethical values.</i>
<i>iv) Ensuring that external providers of services on behalf of the organisation are required to act with integrity and in compliance with high ethical standards expected by the organisation.</i>
<b>3) Respecting the rule of law</b>
<i>i) Ensuring members and staff demonstrate a strong commitment to the rule of the law as well as adhering to relevant laws and regulations.</i>

<sup>1</sup> Delivering good governance in Local Government Framework (2016 Edition)

ii) *Creating the conditions to ensure that the statutory officers, other key post holders and members are able to fulfil their responsibilities in accordance with legislative and regulatory requirements.*

iii) *Striving to optimise the use of the full powers available for the benefit of citizens, communities and other stakeholders.*

iv) *Dealing with breaches of legal and regulatory provisions effectively.*

v) *Ensuring corruption and misuse of power are dealt with effectively.*

### **Principle B. Ensuring openness and comprehensive stakeholder engagement.**

**Local government is run for the public good; organisations therefore should ensure openness in their activities. Clear, trusted channels of communication and consultation should be used to engage effectively with all groups of stakeholders, such as individual citizens and service users, as well as institutional stakeholders.**

#### **1) Openness**

i) *Ensuring an open culture through demonstrating, documenting and communicating the organisation's commitment to openness.*

ii) *Making decisions that are open about actions, plans, resource use, forecasts, outputs and outcomes. The presumption is for openness. If that is not the case, a justification for the reasoning for keeping a decision confidential should be provided.*

iii) *Providing clear reasoning and evidence for decisions in both public records and explanations to stakeholders and being explicit about the criteria, rationale and considerations used. In due course, ensuring that the impact and consequences of those decisions are clear.*

iv) *Using formal and informal consultation and engagement to determine the most appropriate and effective interventions/courses of action.*

#### **2) Engaging comprehensively with institutional stakeholders**

i) *Effectively engaging with institutional stakeholders to ensure that the purpose, objectives and intended outcomes for each stakeholder relationship are clear so that outcomes are achieved successfully and sustainably.*

ii) *Developing formal and informal partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively.*

iii) *Ensuring that partnerships are based on:*

- trust*
- a shared commitment to change*
- a culture that promotes and accepts challenge among partners and that the added value of partnership working is explicit.*

#### **3) Engaging stakeholders effectively, including individual citizens and service users**

i) *Establishing a clear policy on the type of issues that the organisation will meaningfully consult with or involve individual citizens, service users and other stakeholders to ensure that service (or other) provision is contributing towards the achievement of intended outcomes.*

ii) *Ensuring that communication methods are effective, and that members and officers are clear about their roles with regard to community engagement.*

*iii) Encouraging, collecting and evaluating the views and experiences of communities, citizens, service users and organisations of different backgrounds including reference to future needs.*

*iv) Implementing effective feedback mechanisms in order to demonstrate how their views have been taken into account.*

*v) Balancing feedback from more active stakeholder groups with other stakeholder groups to ensure inclusivity.*

*vi) Taking account of the interests of future generations of taxpayers and service users.*

### **Principle C. Defining outcomes in terms of sustainable economic, social, and environmental benefits**

**The long-term nature and impact of many of local government's responsibilities mean that it should define and plan outcomes and that these should be sustainable. Decisions should further the authority's purpose, contribute to intended benefits and outcomes, and remain within the limits of authority and resources. Input from all groups of stakeholders, including citizens, service users, and institutional stakeholders, is vital to the success of this process and in balancing competing demands when determining priorities for the finite resources available.**

#### **1) Defining outcomes**

*i) Having a clear vision which is an agreed formal statement of the organisation's purpose and intended outcomes containing appropriate performance indicators, which provides the basis for the organisation's overall strategy, planning and other decisions.*

*ii) Specifying the intended impact on, or changes for, stakeholders including citizens and service users. It could be immediately or over the course of a year or longer.*

*iii) Delivering defined outcomes on a sustainable basis within the resources that will be available.*

*iv) Identifying and managing risks to the achievement of outcomes.*

*v) Managing service user's expectations effectively with regard to determining priorities and making the best use of the resources available.*

#### **2) Sustainable economic, social and environmental benefits**

*i) Considering and balancing the combined economic, social and environmental impact of policies, plans and decisions when taking decisions about service provision.*

*ii) Taking a longer-term view with regard to decision making, taking account of risk and acting transparently where there are potential conflicts between the organisation's intended outcomes and short-term factors such as the political cycle or financial constraints.*

*iii) Determining the wider public interest associated with balancing conflicting interests between achieving the various economic, social and environmental benefits, through consultation where possible, in order to ensure appropriate trade-offs.*

*iv) Ensuring fair access to services.*

### **Principle D. Determining the interventions necessary to optimise the achievement of the intended outcomes**

**Local government achieves its intended outcomes by providing a mixture of legal, regulatory, and practical interventions. Determining the right mix of these courses of action**

is a critically important strategic choice that local government has to make to ensure intended outcomes are achieved They need robust decision-making mechanisms to ensure that their defined outcomes can be achieved in a way that provides the best trade-off between the various types of resource inputs while still enabling effective and efficient operations. Decisions made need to be reviewed continually to ensure that achievement of outcomes is optimised.

### **1) Determining interventions**

*i) Ensuring decision makers receive objective and rigorous analysis of a variety of options indicating how intended outcomes would be achieved and including the risks associated with those options. Therefore ensuring best value is achieved however services are provided.*

*ii) Considering feedback from citizens and service users when making decisions about service improvements or where services are no longer required in order to prioritise competing demands within limited resources available including people, skills, land and assets and bearing in mind future impacts.*

### **2) Planning interventions**

*i) Establishing and implementing robust planning and control cycles that cover strategic and operational plans, priorities and targets.*

*ii) Engaging with internal and external stakeholders in determining how services and other courses of action should be planned and delivered.*

*iii) Considering and monitoring risks facing each partner when working collaboratively including shared risks.*

*iv) Ensuring arrangements are flexible and agile so that the mechanisms for delivering outputs can be adapted to changing circumstances.*

*v) Establishing appropriate key performance indicators (KPIs) as part of the planning process in order to identify how the performance of services and projects is to be measured.*

*vi) Ensuring capacity exists to generate the information required to review service quality regularly.*

*vii) Preparing budgets in accordance with organisational objectives, strategies and the medium term financial plan.*

*viii) Informing medium and long term resource planning by drawing up realistic estimates of revenue and capital expenditure aimed at developing a sustainable funding strategy.*

### **3) Optimising achievement of intended outcomes**

*i) Ensuring the medium term financial strategy integrates and balances service priorities, affordability and other resource constraints.*

*ii) Ensuring the budgeting process is all-inclusive, taking into account the full cost of operations over the medium and longer term.*

*iii) Ensuring the medium term financial strategy sets the context for ongoing decisions on significant delivery issues or responses to changes in the external environment that may arise during the budgetary period in order for outcomes to be achieved while optimising resource usage.*



iv) Ensuring the achievement of 'social value' through service planning and commissioning. The Public Services (Social Value) Act 2012 states that this is "the additional benefit to the community...over and above the direct purchasing of goods, services and outcomes".

**Principle E. Developing the entity's capacity, including the capability of its leadership and the individuals within it**

Local government needs appropriate structures and leadership, as well as people with the right skills, appropriate qualifications and mindset, to operate efficiently and effectively and achieve their intended outcomes within the specified periods. A local government organisation must ensure that it has both the capacity to fulfil its own mandate and to make certain that there are policies in place to guarantee that its management has the operational capacity for the organisation as a whole. Because both individuals and the environment in which an authority operates will change over time, there will be a continuous need to develop its capacity as well as the skills and experience of the leadership of individual staff members. Leadership in local government entities is strengthened by the participation of people with many different types of backgrounds, reflecting the structure and diversity of communities.

**1) Developing the entity's capacity**

i) Reviewing operations, performance use of assets on a regular basis to ensure their continuing effectiveness.

ii) Improving resource use through appropriate application of techniques such as benchmarking and other options in order to determine how the authority's resources are allocated so that outcomes are achieved effectively and efficiently.

iii) Recognising the benefits of partnerships and collaborative working where added value can be achieved.

iv) Developing and maintaining an effective workforce plan to enhance the strategic allocation of resources.

**2) Developing the capability of the entity's leadership and other individuals**

i) Developing protocols to ensure that elected and appointed leaders negotiate with each other regarding their respective roles early on in the relationship and that a shared understanding of roles and objectives is maintained.

ii) Publishing a statement that specifies the types of decisions that are delegated and those reserved for the collective decision making of the governing body.

iii) Ensuring the leader and the chief executive have clearly defined and distinctive leadership roles within a structure whereby the chief executive leads the authority in implementing strategy and managing the delivery of services and other outputs set by members and each provides a check and a balance for each other's authority.

iv) Developing the capabilities of members and senior management to achieve effective shared leadership and to enable the organisation to respond successfully to changing legal and policy demands as well as economic, political and environmental changes and risks by:

- ensuring members and staff have access to appropriate induction tailored to their role and that ongoing training and development matching individual and organisational requirements is available and encouraged.
- ensuring members and officers have the appropriate skills, knowledge, resources and support to fulfil their roles and responsibilities and ensuring that they are able to update their knowledge on a continuing basis ensuring members and officers have the appropriate skills.



- knowledge, resources and support to fulfil their roles and responsibilities and ensuring that they are able to update their knowledge on a continuing basis.
- ensuring personal, organisational and system-wide development through shared learning, including lessons learnt from governance weaknesses both internal and external.

v) Ensuring that there are structures in place to encourage public participation.

vi) Taking steps to consider the leadership's own effectiveness and ensuring leaders are open to constructive feedback from peer review and inspections.

vii) Holding staff to account through regular performance reviews which take account of training or development needs.

viii) Ensuring arrangements are in place to maintain the health and wellbeing of the workforce and support individuals in maintaining their own physical and mental wellbeing.

## **Principle F. Managing risks and performance through robust internal control and strong public financial management**

Local government needs to ensure that the organisations and governance structures that it oversees have implemented, and can sustain, an effective performance management system that facilitates effective and efficient delivery of planned services. Risk management and internal control are important and integral parts of a performance management system and crucial to the achievement of outcomes. Risk should be considered and addressed as part of all decision making activities.

A strong system of financial management is essential for the implementation of policies and the achievement of intended outcomes, as it will enforce financial discipline, strategic allocation of resources, efficient service delivery, and accountability.

It is also essential that a culture and structure for scrutiny is in place as a key part of accountable decision making, policy making and review. A positive working culture that accepts, promotes and encourages constructive challenge is critical to successful scrutiny and successful delivery.

Importantly, this culture does not happen automatically, it requires repeated commitment from those in authority.

### **1) Managing risk**

i) Recognising that risk management is an integral part of all activities and must be considered in all aspects of decision making.

ii) Implementing robust and integrated risk management arrangements and ensuring that they are working effectively.

iii) Ensuring that responsibilities for managing individual risks are clearly allocated.

### **2) Managing performance**

i) Monitoring service delivery effectively including planning, specification, execution and independent post implementation review.

ii) Making decisions based on relevant, clear objective analysis and advice pointing out the implications and risks inherent in the organisation's financial, social and environmental position and outlook.

iii) Ensuring an effective scrutiny or oversight function is in place which encourages constructive challenge and debate on policies and objectives before, during and after decisions are made

thereby enhancing the organisation's performance and that of any organisation for which it is responsible.

iv) Providing members and senior management with regular reports on service delivery plans and on progress towards outcome achievement.

v) Ensuring there is consistency between specification stages (such as budgets) and post implementation reporting (eg financial statements).

### **3) Robust internal control**

i) Aligning the risk management strategy and policies on internal control with achieving the objectives.

ii) Evaluating and monitoring the authority's risk management and internal control on a regular basis.

iii) Ensuring effective counter fraud and anti-corruption arrangements are in place.

iv) Ensuring additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor.

v) Ensuring an audit committee or equivalent group or function which is independent of the executive and accountable to the governing body:  
— provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment  
— that its recommendations are listened to and acted upon.

### **4) Managing data**

i) Ensuring effective arrangements are in place for the safe collection, storage, use and sharing of data, including processes to safeguard personal data.

ii) Ensuring effective arrangements are in place and operating effectively when sharing data with other bodies.

iii) Reviewing and auditing regularly the quality and accuracy of data used in decision making and performance monitoring.

### **5) Strong public financial management**

i) Ensuring financial management supports both long term achievement of outcomes and short-term financial and operational performance.

ii) Ensuring well-developed financial management is integrated at all levels of planning and control, including management of financial risks and controls.

### **Principle G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability**

Accountability is about ensuring that those making decisions and delivering services are answerable for them. Effective accountability is concerned not only with reporting on actions completed, but also ensuring that stakeholders are able to understand and respond as the organisation plans and carries out its activities in a transparent manner. Both external and internal audit contribute to effective accountability.

### **1) Implementing good practice in transparency**

*i) Writing and communicating reports for the public and other stakeholders in an understandable style appropriate to the intended audience and ensuring that they are easy to access and interrogate.*

*ii) Striking a balance between providing the right amount of information to satisfy transparency demands and enhance public scrutiny while not being too onerous to provide and for users to understand.*

### **6) Implementing good practices in reporting**

*i) Reporting at least annually on performance, value for money and the stewardship of its resources.*

*ii) Ensuring members and senior management own the results.*

*iii) Ensuring robust arrangements for assessing the extent to which the principles contained in the Framework have been applied and publishing the results on this assessment including an action plan for improvement and evidence to demonstrate good governance (annual governance statement).*

*iv) Ensuring that the Framework is applied to jointly managed or shared service organisations as appropriate.*

*v) Ensuring the performance information that accompanies the financial statements is prepared on a consistent and timely basis and the statements allow for comparison with other similar organisations.*

### **7) Assurance and effective accountability**

*i) Ensuring that recommendations for corrective action made by external audit are acted upon.*

*ii) Ensuring an effective internal audit service with direct access to members is in place which provides assurance with regard to governance arrangements and recommendations are acted upon.*

*iii) Welcoming peer challenge, reviews and inspections from regulatory bodies and implementing recommendations.*

*iv) Gaining assurance on risks associated with delivering services through third parties and that this is evidenced in the annual governance statement.*

*v) Ensuring that when working in partnership, arrangements for accountability are clear and that the need for wider public accountability has been recognised and met.*

2.5 The Chartered Institute of Public Finance and Accountancy (CIPFA) also launched a Financial Management (FM) Code. The intention is that the Code helps to create a culture of strong financial management to help address the financial pressures that Councils are facing. The intention is that a self-regulation approach will prevent any other Local Authorities 'failing'. This will then avoid any need for any external control or reductions in current powers. The Code does not currently have any specific statutory backing. However, CIPFA reference that compliance with the code should be linked to s151 of the Local Government Act 1972 ("every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of

their officers has responsibility for the administration of those affairs”). They also place an obligation on their members to adhere to the Code. The 17 standards contained within the Code have been provided to Members of the Committee by the Chief Finance Officer.

### 3. NHDC'S GOVERNANCE AIM

3.1. NHDC aims to meet the above Framework principles in a cost efficient and effective governance manner. The Council is required to review its arrangements annually and will assess these against the principles and prepare and publish an Annual Governance Statement (AGS) in accordance with Delivering Good Governance in Local Government: Framework (2016) and the statutory requirements<sup>2</sup>.

3.2. Many of the requirements contained within the principles and this Code are included in the Council's Constitution and the Council's key strategies and policies, which are available through the Council's website:

<https://www.north-herts.gov.uk/>

As part of the annual assessment, the AGS will, however, set out how the requirements have been met through specific examples/ outcomes as against the above principles; or if these have not been met in part/ fully, detail the actions NHDC will take to address the matter. The assessment document will be published on the Council's website.

### 4. NHDC'S VISION

4.1. Leadership and collaborative working are developed themes within NHDC. It has a vision and the Council Plan that sets out NHDC's strategic priorities and thematic work for the district for 2022-2027.

4.2. NHDC's Vision is:

***'We will put people first and deliver sustainable services, to enable a brighter future together'.***

It is clear that the Council must work with its residents, businesses, contractors, and urban and rural communities to achieve this vision.

4.3. NHDC's internal corporate business planning process supports the delivery of the vision in terms of what we do and the collaborative work we carry out in conjunction with our partners.

4.4. The vision is supported by the Council's Priorities, which for 2022 onwards are:

- **People First**

People make North Herts work. We value all our residents, businesses, staff, contractors, councillors, and other partners, and place them at the heart of everything we do.

- **Sustainability**

We recognise the challenges our towns and district as a whole face and are committed to delivering services which are relevant and sustainable. In doing so we will place our environmental responsibilities, as well as sound financial planning, at the centre of our policy making.

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<sup>2</sup> Under the Local Audit and Accountability Act 2014 ('LAAA 2014') and the Accounts and Audit (Amendment) Regulations 2022/708

- **A Brighter Future Together**

We are far-sighted and plan for the long term to secure the best outcomes for our people, towns and villages, and the local economy, ensuring North Herts continues to thrive.

- 4.5. The Council aspires to achieve its priorities in an open and transparent manner having due regard to equal opportunities and the opportunities and benefits proffered by innovative and flexible partnership working.

## **5. CONCLUSION**

To ensure that it keeps its aims, North Herts District Council will:

- Review its Local Code of Corporate Governance annually to ensure that it reflects current recommended practice and remains a “live” document.
- Monitor all arrangements in place for practical effectiveness.
- Review practices, procedures and guidelines on a regular basis.
- Review its arrangements and report these through the AGS on how North Herts District Council is complying with the principles/ the Code. This will include oversight of the assessment by the Leadership Team and Member consideration and approval (through appropriate bodies). This assessment will include review of the annual internal auditor’s opinion from the Head of the Shared Internal Audit Service (SIAS); external auditors’ opinion/ letter; managers’ assurance statements; the Finance, Audit and Risk Committee annual report/ review of its effectiveness; inspection reports (SIAS and the Shared Anti-Fraud Service – SAFS); Ombudsman’s recommendations; annual Scrutiny report; Standards Committee report; project governance and risk arrangements.
- Identify any necessary governance actions in the AGS including appropriate timescales and designate Lead Officers for the forthcoming year.
- Ensure that actions identified in the AGS are monitored and reported back through the Leadership Team process (as appropriate) and to Members of Finance, Audit and Risk Committee.

Review date – 13th March 2024

*This Code will be reviewed by 31 March 2025 unless any **significant changes** are required in the interim.*

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Action	Officer update
<p>1. Increase uptake of ethical awareness training - increase staff/member uptake of the Anti-bribery and Fraud Awareness e-learning modules, noting uptake levels through the Civic year. (Leadership Team; Learning &amp; Development; Committee Services)</p>	<p><b>ONGOING</b></p> <p>There has been a two percentage-point increase in staff uptake of Fraud Awareness Training (53% to 55%), and a two percentage-point increase in Member uptake of Fraud Awareness (16% to 18%). For Anti-Bribery, the staff uptake rate has stayed the same (84%), while the uptake rate for Members has increased six percentage-points (16% to 22%). These figures compare data from May 2023 to January 2024. It should be noted that the figures include those who have completed the training as well as those who have commenced but not finished it. However, the vast majority are complete.</p> <p>Learning and Development have been working with the Shared Anti-Fraud Service (SAFS) to improve ethical awareness training uptake. SAFS have recently presented at a Senior Managers Group meeting, at a Council meeting, and are scheduled to attend the March staff briefing to reiterate the importance of completing the training. Uptake rates will continue to be monitored following these engagements.</p>
<p>2. Review and develop a Member training programme for commencement after the May 2024 local election. (Leadership Team; Committee Services; Learning and Development)</p>	<p><b>COMPLETE</b></p> <p>Committee Services met with the Member Learning and Development Champions to discuss feedback on the 2023 Member training programme. They also ran a survey for Members who attended the 2023 training sessions and Officers who presented the sessions. Feedback from these surveys was compiled and has helped to shape the 2024 training programme.</p> <p>Committee Services have developed a plan for Member Induction sessions that will be running during the official Induction Week (13<sup>th</sup>-17<sup>th</sup> May). This covers Code of Conduct training, Member Support, and Introduction to Committees. In addition to this there will be specific training on Scrutiny, Finance, and Planning, as well as the introduction of Member Development Sessions on roughly a bi-monthly basis, which will focus on relevant topics. Committee Services have met with the Group Leaders; they are happy with the plan that has been developed.</p>

<p>3. The Inclusion Group to establish a procedure for developing recommendations and delivering these to Leadership Team. (Inclusion Group; Human Resources; Policy)</p>	<p><b>COMPLETE</b></p> <p>Process agreed: HR and Policy &amp; Strategy to produce a summary of the discussion that took place at each Inclusion Group meeting, including recommendations based on the discussion. The Service Director – Resources to take the summary and recommendation document to the Leadership Team for their consideration following each Inclusion Group meeting.</p> <p>This process is now enacted.</p>
<p>4. Develop greater scrutiny of performance against the gender pay gap action plan (Human Resources; Inclusion Group; Leadership Team; Joint Staff Consultative Committee)</p>	<p><b>COMPLETE</b></p> <p>The data on the gender pay gap is reported to the Leadership Team and Joint Staff Consultative Committee annually.</p> <p>The Inclusion Group proposed that a subgroup be set up to analyse the data around the gender pay gap and plan measures to improve the gap. This subgroup was first convened in September 2023. Updates on the actions developed will be regularly reported to the Inclusion Group, Leadership Team, and the Joint Staff Consultative Committee.</p>
<p>5. To monitor trends and circumstances around Local Government Ombudsman (LGO) complaints via the review of quarterly reports (Leadership Team)</p>	<p><b>COMPLETE</b></p> <p>LGO complaints included in the Customer Contact Dashboard that is presented to Leadership Team on a quarterly basis.</p>
<p>6. Implement the action plan, once agreed with the relevant Committees and Cabinet, which is being proposed to Overview &amp; Scrutiny and Finance, Audit, and Risk Committees from June 2023. (Leadership Team / Overview &amp; Scrutiny and Finance, Audit and Risk Committees to monitor).</p>	<p><b>COMPLETE</b></p> <p>Overview &amp; Scrutiny and Finance, Audit, and Risk have agreed action plans which they are taking forward with the support of relevant officers. The Committees review progress against their actions.</p>



<b>FINANCE, AUDIT AND RISK COMMITTEE</b> <b>13 MARCH 2024</b>
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<b>PART 1 – PUBLIC DOCUMENT</b>
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**TITLE OF REPORT: MEASURES TO ADDRESS THE EXTERNAL AUDIT BACKLOG**

REPORT OF: *Service Director: Resources*

EXECUTIVE MEMBER: *Non-Executive function*

COUNCIL PRIORITY: SUSTAINABILITY

**1. EXECUTIVE SUMMARY**

*The Department for Housing, Levelling Up and Communities (DHLUC) have published a consultation and cross-system statement on addressing the backlog of Local Government audits. This proposes the following:*

- *A reset phase where all audit opinions up to and including 2022/23 will be cleared by 30<sup>th</sup> September 2024.*
- *A recovery phase which will set back-stop dates for audits to be completed for years from 2023/24 onwards.*
- *A reform phase involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.*

**2. RECOMMENDATIONS**

- 2.1. That the Committee notes this report including implications on the approval of the Statement of Accounts for 2022-23 onwards.

**3. REASONS FOR RECOMMENDATIONS**

- 3.1. To make the Committee aware of the consultation as it will have a significant impact on the Committee's role in approving the Statements of Accounts for 2022-23 onwards.

**4. ALTERNATIVE OPTIONS CONSIDERED**

- 4.1. The actions being consulted on may not be taken forward. But given the wide involvement in developing these proposals, this seems unlikely.

**5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS**

- 5.1. No consultation is relevant to this report.

## 6. FORWARD PLAN

- 6.1 This report does not contain a recommendation on a key Executive decision and has therefore not been referred to in the Forward Plan.

## 7. BACKGROUND

- 7.1. The Committee will be aware of substantial delays in the audits of Local Authority accounts. This Council has fared relatively well in only having one year's accounts outstanding (2022/23). Some Councils have many years of accounts audits outstanding.
- 7.2. Under the Account and Audit Regulations a Local Authority is supposed to publish their draft Accounts by 31<sup>st</sup> May each year. The audit is then supposed to take place so that the final audited accounts can be approved by 31<sup>st</sup> July each year. There are currently very limited implications for auditors not meeting their deadlines. The audit firm is required to write to the Council to explain the delay. The Council then has to publish a statement explaining the delay on their website.
- 7.3. In June 2019, Sir Tony Redmond was asked to undertake an independent review of the effectiveness of local audit and the transparency of local authority financial reporting. His report (the Redmond Review) was published in September 2020. This review made a number of recommendations.
- 7.4. The impacts of the Covid pandemic have resulted in amendments to the Accounts and Audit Regulations to delay the dates above (i.e., to the time allowed for Councils to complete the draft accounts and the time for auditors to then complete their work),
- 7.5. The audit sector has also been significantly affected by accounting scandals in the private sector. The response to this has been to increase the work required to complete audits, including in the public sector. The audit sector have also struggled to attract and retain staff. Some Councils have also engaged in transactions that require a greater degree of audit scrutiny and work.
- 7.6. Like the majority of Councils, our audit appointments are arranged through Public Sector Audit Appointments (PSAA). They determine who our auditor will be and also set scale fees for audits. For the 2022-23 Accounts our auditors are Ernst and Young (EY). For the 2023-24 onwards (for an initial term of 5 years) our auditors are KPMG.

## 8. RELEVANT CONSIDERATIONS

- 8.1. On 8 February 2024, DHLUC issued a consultation and joint statement on how to address the audit backlog. The joint statement included commitments from the Financial Reporting Council (FRC), National Audit Office (NAO), Chartered Institute of Public Finance and Accountancy (CIPFA), Institute of Chartered Accountants in England and Wales (ICAEW) and Public Sector Audit Appointments (PSAA).
- 8.2. The joint statement proposes introducing the necessary changes to achieve the following three phases of action:
- **Phase 1: Reset** involving clearing the backlog of historical audit opinions up to and including financial year 2022/23 by 30 September 2024.

- **Phase 2: Recovery** from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles.
- **Phase 3: Reform** involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.

8.3. The joint statement (and supporting documents) provides a lot of detail on the substance of what is proposed as well as the detailed changes that would enable it to happen. The following paragraphs set out the expected implications for us, our audits and the approval of our Statements of Accounts. Noting that this is all subject to the final decisions made following the consultation.

### **2022-23 Statement of Accounts**

8.4. There would be a back-stop date for the Statement of Accounts to be approved by **30<sup>th</sup> September 2024**.

8.5. This means there will need to be a meeting of this committee at the end of September. Any audit work should focus on Value for Money (VfM), and EY have already carried out some VfM work. It will be up to EY to determine how they prioritise their audit work and therefore how much audit work they do for us. EY will need to issue an opinion which will either be unmodified, modified (qualified or adverse) or disclaimed. Unmodified would mean that they have carried out enough audit work to determine that the accounts are materially accurate and give a true and fair view. Modified would mean that they have found issues with the accounts that means they are not materially accurate. A disclaimed opinion means that they have not been able to carry out enough audit work to make a conclusion. Unless we happen to be prioritised by EY, a disclaimed opinion would seem the most likely outcome.

8.6. The PSAA have said that they will review scale fees to reflect the amount of work actually carried out by audit firms.

### **2023-24 Statement of Accounts**

8.7. The current proposal is that Councils should still prepare their Accounts by the end of May. There is a consultation question as to whether this should be extended. It would seem reasonable that this deadline should be extended as (1) the auditor of the 2022-23 accounts may want to carry out audit work during that period and there would not be the resources in the Accounts team to do both at the same time, and (2) the auditor of the 2023-24 accounts can't actually do any work until the 2022-23 Accounts are approved.

8.8. The proposal is that there should be some reduction in the work required in preparing the accounts. This would relate to infrastructure assets, the valuation of operational property and pension disclosures. This would apply for the 2023-24 and 2024-25 accounts. This will provide some benefit to us, but mainly only in relation to the pension disclosures.

8.9. The back-stop date for the completion of the audit and approval of the final accounts will be **31<sup>st</sup> May 2025**.

- 8.10. This is the first year that KPMG will be auditing our accounts. They are already carrying out work on VfM and also to understand us and our processes. But if EY have issued a disclaimed opinion on our 2022-23 accounts, then KPMG won't be able to rely on some or all of the opening balances for the 2023-24 accounts. This would therefore increase the work that they need to undertake. This may have an impact on how long their work takes and also the audit fees that we need to pay. They may be in a position where they can't carry out enough work by the back-stop date and would need to issue a disclaimed opinion.

#### **2024-25 Statement of Accounts**

- 8.11. The reduction in work required in preparing the accounts (detailed in paragraph 8.7) will apply in 2024-25 as well.
- 8.12. Draft Accounts will need to be completed by 31<sup>st</sup> May 2025.
- 8.13. The back-stop date will be **31<sup>st</sup> March 2026**.
- 8.14. As each year passes, the likelihood of needing a disclaimed opinion reduces, but it is still possible that it may be required.

#### **2025-26 Statement of Accounts**

- 8.15. There is a commitment (as part of the Reform phase) to make systemic changes to stop this happening again. That could involve the simplification of Local Government accounts as the less detail that there is, the easier they are to prepare and also easier to audit. This would build on the findings of the Redmond review.
- 8.16. The back-stop date will be 31<sup>st</sup> January 2027.

#### **2026-27 Statement of Accounts onwards**

- 8.17. In each year the draft accounts will continue to need to be completed by 31<sup>st</sup> May.
- 8.18. The back-stop date for the approval of the final accounts will be 30<sup>th</sup> November.

#### **Consultation**

- 8.19. We provided a positive response to the consultation, as it is clear that something needs to be done and lots of key organisations have been engaged in drawing up these proposals. The consultation closed on 7<sup>th</sup> March. It is not specified when the results of the consultation will be known, but given the proposed timelines it is clear that a quick turn-around will be required.

### **9. LEGAL IMPLICATIONS**

- 9.1. Paragraph 10.1.5 (a) of the Constitution the Finance, Audit and Risk Committee "review and approve the Statement of Accounts". Paragraph 10.1.5 (s) determines that the Committee will "comment on the scope and depth of external audit work and to ensure it gives value for money". Paragraph 10.1.5 (t) determines that the Committee will "receive reports or recommendations from the external Local Auditor, other than public interest reports (which shall be direct to Full Council)". If adopted, the changes described

in this report are likely to result in the Committee receiving different reports to what they are used to.

- 9.2. The Audit and Account Regulations 2015 determine the timing of when Statement of Accounts should be produced by and when they should be audited by. The proposals would lead to an amendment and strengthening of these regulations, which will be the Audit and Account Regulations 2024.

## **10. FINANCIAL IMPLICATIONS**

- 10.1 There are no defined financial implications arising from this report. If EY carry out less audit work on the 2022-23 audit, then that should reduce the amount that we would need to pay for their audit work as the PSAA would reduce their scale fee to reflect the work done. However that may mean that KPMG need to carry out more work on the 2023-24 audit (and/ or subsequent audits) which could affect future amounts that need to be paid.

## **11. RISK IMPLICATIONS**

- 11.1. Good Risk Management supports and enhances the decision-making process, increasing the likelihood of the Council meeting its objectives and enabling it to respond quickly and effectively to change. When taking decisions, risks and opportunities must be considered.
- 11.2. The work of external audit helps to provide assurance on the finances and Value for Money of the Council. Significant delays to when this audit work takes place means that it provides less assurance. In the short-term if audit results are disclaimed then that also affects the level of assurance that the external audit work provides. However, something needs to happen to get back to the timely completion of external audits.

## **12. EQUALITIES IMPLICATIONS**

- 12.1. In line with the Public Sector Equality Duty, public bodies must, in the exercise of their functions, give due regard to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.
- 12.2. There are no equalities implications in relation to this report.

## **13. SOCIAL VALUE IMPLICATIONS**

- 13.1. The Social Value Act and “go local” requirements do not apply to this report.

## **14. ENVIRONMENTAL IMPLICATIONS**

- 14.1. There are no known Environmental impacts or requirements that apply to *this report*.

## **15. HUMAN RESOURCE IMPLICATIONS**

- 15.1 Having a better idea of when audits will take place allows the Accounts team to ensure that the audit work can be supported, as it requires significant input in providing information and responding to queries.

15.2 For the 2023-24 Statement of Accounts if they are still required to be produced by 31<sup>st</sup> May 2024, then that will cause resource pressures. Those pressures will be more acute if EY look to carry out any 2022-23 audit work during that period.

15.3 There is work from other teams that contributes towards the Statement of Accounts and associated documents. In particular, the Corporate Policy team in preparing the Annual Governance Statement. These changes should not affect the total volume of work, but may affect the timing of that work.

## **16. APPENDICES**

16.1 Appendix A- Joint statement on dealing the audit backlog.

16.2 Appendix B- Response to consultation questions.

## **17. CONTACT OFFICERS**

17.1 Ian Couper, Service Director: Resources, [ian.couper@north-herts.gov.uk](mailto:ian.couper@north-herts.gov.uk); ext 4243

17.2 Yvette Roberts, Legal Officer, [Yvette.roberts@north-herts.gov.uk](mailto:Yvette.roberts@north-herts.gov.uk), ext: 4310

17.3 Reuben Ayavoo, Policy and Communities Manager, [reuben.ayavoo@north-herts.gov.uk](mailto:reuben.ayavoo@north-herts.gov.uk), ext: 4212

## **18. BACKGROUND PAPERS**

18.1 *None*

## **Local audit delays: Joint statement on update to proposals to clear the backlog and embed timely audit**

**Published 8 February 2024**

### **Executive summary**

Timely, high-quality financial reporting and audit of local bodies is a vital part of our democratic system. Not only does it support good decision making by local bodies, by enabling them to plan effectively, make informed decisions and manage their services, it ensures transparency and accountability to local taxpayers.

The backlog in the publication of audited accounts of local bodies in England has grown to an unacceptable level. The number of outstanding opinions peaked on 30 September 2023 at 918. As at 31 December 2023, the backlog of outstanding audit opinions stood at 771.

In July 2023, the Minister for Local Government published a [Cross-System Statement](#) to Parliament setting out proposals to tackle this backlog. Since then, organisations involved in the regulation and oversight of local body financial reporting and audit (“system partners”) have been working collectively to agree a proposed solution to clear the outstanding historical audit opinions and ensure that delays do not return. This new Joint Statement provides an update on the proposals. All system partners share the conviction that bold steps are necessary to reset the system and recognise the exceptional nature of the proposed measures.

To clear the backlog of historical accounts and ‘reset’ the system, the Department for Levelling Up, Housing and Communities (DLUHC) proposes putting a date in law (the “backstop date”) – 30 September 2024 – by which point local bodies would publish audited accounts for all outstanding years up to and including 2022/23.

The National Audit Office (NAO) is proposing changes to the Code of Audit Practice to require local auditors to comply with backstop dates by giving their opinions in time for audited accounts to be published, and to allow them to provide a single commentary on value for money (VFM) arrangements for local bodies for all outstanding years up to and including 2022/23.

The duty for local bodies to publish a delay notice where the audit has not been concluded by the deadline will be withdrawn. This is because, with a backstop in place for both local bodies and auditors, authorities would be required to publish audited accounts by 30 September 2024. The introduction of a backstop date is intended to allow those who prepare and audit local body accounts to focus on more current financial periods.

The backstop date is likely to be a factor in local auditors issuing a modified or disclaimed opinion on outstanding accounts if they do not have enough time to complete all audit work before that date. It is important that local bodies, residents and other accounts users can distinguish between modified and disclaimed audit opinions caused by the introduction of backstop dates and those that indicate significant financial reporting or financial management issues.

Auditors have a responsibility under auditing standards to clearly communicate the reasons for their opinion within their report, including where the backstop date causes a modified or disclaimed opinion. System partners will consider guidance for auditors to remind them of these responsibilities. System partners will also issue communications that explain what the different types of modified opinions mean and that clarify that local bodies should not be unfairly judged based on modified opinions caused by the introduction of a backstop date that are largely beyond their control.

As was set out in the July Cross-System Statement, auditors' statutory duty to report on value for money (VfM) arrangements and their statutory audit powers (including to make statutory recommendations or issue Public Interest Reports) are important for enabling identification of areas of concern at an early stage, allowing councils to address them. These remain a high priority in our proposals.

For these measures to achieve their intended objectives, auditors and local bodies need to work together to ensure that as many audits can be completed in full as possible. Auditors should make prioritisation decisions within their portfolio of the audits of local bodies to limit the impact on other public bodies' audits and ensure they complete the work required to conclude and report on whether there are any significant weaknesses in VfM arrangements. Preparers must ensure that any unaudited accounts from 2022/23 or earlier years, that have not been published, are published as soon as possible and respond to auditor requests in a timely manner.

The Financial Reporting Council's (FRC) Audit Quality Review (AQR) team will not carry out routine inspections of major local audits for financial years up to and including 2022/23, unless there is a clear case in the public interest to do so. Alongside this, the Institute of Chartered Accountants in England and Wales (ICAEW) has committed to mirroring this approach for its inspections of non-major local audits.

To ensure that delays do not re-emerge once the backlog of local body audit opinions has been cleared and 'recover' the system, DLUHC proposes to put further backstop dates into law for the publication of audited accounts by local bodies. These would cover the 5-year audit appointments awarded in 2022 by Public Sector Audit Appointments (PSAA) for financial years 2023/24 to 2027/28. As it is anticipated there would be modified and disclaimed opinions on outstanding accounts from the 30 September 2024 backstop date, this measure is designed to enable auditors to rebuild assurance over several audit cycles rather than in a single year, reducing the risk of the backlog re-emerging. This means there would also likely be modified or disclaimed audit opinions for several years.

To support the 'recovery' of the system, the CIPFA LASAAC Local Authority Code Board (CIPFA LASAAC) will consult on temporary changes to the Code of Practice on Local Authority Accounting to reduce burdens on those who prepare and audit local body accounts. These proposed changes include extending overrides on infrastructure assets, simplifying the professional revaluation of operational property, and reducing disclosure requirements around net pension assets and liabilities for at least 2 years.

PSAA will use its fee variation process to determine the final fees local public bodies will have to pay in relation to delayed audits and 2023/24 audits. PSAA will set the scale fees for 2024/25 in accordance with the Local Audit (Appointing Person) Regulations 2015. The FRC and the NAO will support PSAA as it determines the fee impact of changes in audit requirements. It will also review relevant aspects of the contracts for the audits from 2023/24 to identify changes required to align with the changes proposed in the consultations.

All system partners have a shared resolve that the current situation needs addressing and measures of this nature are needed to achieve the shared priority of restoring timely, high-quality financial reporting and audit. Further work is required to address the systemic issues that have led to the unprecedented backlog. The issues facing local audit are widely recognised as multi-faceted and complex with no single cause or solution.



The development of these proposals has involved widespread engagement since summer 2023, especially with auditors and finance teams. To support the further development and testing of the measures, 2 consultations have been launched today, in partnership with the FRC, to receive further feedback and inform the decision on how to proceed:

- DLUHC is seeking views on changes to the Accounts and Audit Regulations 2015 to introduce backstop dates for the publication of audited accounts
- The NAO is seeking views on changes to the Code of Audit Practice to support auditors to meet backstop dates and promote more timely reporting of their work on value for money arrangements

CIPFA LASAAC will consult on temporary changes to the Code of Practice on Local Authority Accounting for 2023/24 and 2024/25 to reduce burdens on the finance teams and auditors.

The 'local bodies' these proposals relate to include councils, but also other relevant authorities as defined under the Local Audit and Accountability Act (2014). It does not include NHS bodies.

## Introduction

1. Local bodies need to have accurate and independently audited accounts, delivered on time, to help them effectively plan, make informed decisions and manage their services. Local residents, councillors, central government and other accounts users need timely audited accounts to understand what money the local body has received and how it has used its resources so they can hold it to account. This is key to transparent, trusted and accountable local democracy.

2. In July 2023, the Minister for Local Government published a [Cross-System Statement](#) setting out proposals to set a series of backstop dates to clear the backlog in local audit opinions in England and embed timely audit. The Statement included commitments by the Department for Levelling Up, Housing and Communities (DLUHC), the Financial Reporting Council (FRC), the National Audit Office (NAO), the Chartered Institute of Public Finance and Accountancy (CIPFA), the Institute of Chartered Accountants in England and Wales (ICAEW) and Public Sector Audit Appointments (PSAA).

3. Since the publication of the Cross-System Statement, the Department has worked collaboratively with the FRC, as incoming shadow system leader, and the other system partners, to develop proposals to achieve the objectives. The proposals maintain auditor independence and enable compliance with International Standards on Auditing (UK) (ISAs (UK)). The proposals consist of 3 stages:

- **Phase 1: Reset** involving clearing the backlog of historical audit opinions up to and including financial year 2022/23 by 30 September 2024
- **Phase 2: Recovery** from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles
- **Phase 3: Reform** involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit

4. Financial reporting and audit frameworks were not designed for the current backlog in local audit. Although these proposals have been designed to minimise risks and unintended consequences, the proposed measures are likely to result in a significant number of local authority accounts receiving modified or disclaimed opinions, during both Phase 1 and Phase 2. The work required to resolve the

local audit backlog will be challenging for both local body finance teams and auditors, as well as system partners.

### **Phase 1: Reset**

5. In line with the Cross-System Statement in July 2023, Phase 1 involves using legislation and changes to the Code of Audit Practice to implement a backstop date for the publication of audited financial statements which are outstanding for all financial years up to and including 2022/23. The current duty, set out in legislation, for local bodies to publish a delay notice in instances where the audit has not been concluded ahead of the deadline, would be removed.

6. Local auditors would be required to issue an opinion based on the work they have been able to complete to enable local bodies to publish audited accounts ahead of the backstop dates. An audit opinion can be either unmodified, modified (qualified or adverse) or disclaimed.

7. Auditing standards allow auditors to issue modified or disclaimed opinions in the event of a statutory backstop date, even in cases where little to no substantive testing has been carried out. As set out in the Cross-System statement in July, the proposed backstop date is likely to result in modifications or disclaimers of the audit opinion. System partners will provide clear communications to the system explaining what the different types of opinions mean, including explaining that modified or disclaimed opinions caused by the backstop date do not necessarily indicate significant financial reporting or financial management issues in a local body.

8. The auditors' statutory duty to report on VFM arrangements and their statutory audit powers (such as the power to make statutory recommendations or produce Public Interest Reports where necessary) are an important for identifying areas of concern at an early stage, allowing local bodies to address them. Under these proposals this will remain a high priority including during Phase 1.

9. The NAO consultation asks for views on changes to the Code of Audit Practice to enable auditors to produce a single commentary on VFM arrangements covering all outstanding periods up to 2022/23 and remind auditors of their obligations to use their statutory reporting powers to draw significant matters to the attention of bodies and residents in a timely way.

10. The proposed backstop date for Phase 1, as set out in DLUHC's consultation on changes to the Accounts and Audit Regulations 2015, 30 September 2024. This has been designed to enable sufficient time for auditors to issue opinions, including modified or disclaimed opinions due to the backstop, and for bodies to publish accounts containing those audit opinions once the legislation has come into force.

11. The NAO's consultation on changes to the Code and any subsequent laying of a new Code of Audit Practice in Parliament would support the backstop date. The proposed backstop date also recognises the multiple priorities of preparers and auditors. For example, finance teams need to, amongst other things, prepare budgets and medium-term financial plans, and for auditors, there will be pre-existing commitments to carry out other public sector audit work, including NHS external audit work, most of which will take place between April and June 2024.

12. The government will publish a list of local bodies and their auditors which do not meet the backstop date, making it clear where unaudited accounts have also not been published.

13. There will be no exemptions for auditors or local bodies except in very limited circumstances. The NAO will consult on specific exemptions to auditors issuing their opinion ahead of the backstop date as part of its consultation on changes to the Code of Audit Practice. These include, for example,

if the auditor is unable to issue their opinion where there are outstanding elector objections to the accounts that could be material to the opinion. DLUHC's consultation also includes a question about creating an equivalent exemption for local bodies in this circumstance, as well as a question seeking views on any other exceptional circumstances in which exemptions may be justifiable.

14. If auditors have completed the required work then they are able to issue their audit opinion ahead of the backstop date. Auditors are expected to complete as much audit work as possible ahead of the backstop date. The NAO, working closely with the FRC, will produce statutory guidance and any additional advice needed to ensure the reset works as intended.

## **Phase 2: Recovery**

15. The July Cross-System Statement set out that recovering from modified and disclaimed audit opinions requires significant work for preparers and auditors. Following modified or disclaimed audit opinions, auditors will need to audit some of the opening balances in order to obtain assurance over the current year closing balances. Where the audit opinion is modified or disclaimed, the auditor does not have assurance over all historical figures that carry forward into the subsequent year. Opening balances can impact closing balances and movements in the current year. In some cases, where the auditor does not have assurance over opening balances, they would be unable to obtain assurance over the closing balances.

16. System partners committed to consider the secondary effects of the proposals, which may impact the audit of opening balances within the accounts for future years. Under these proposals and to maintain compliance with the ISAs (UK), auditors need to perform sufficient testing on opening balances to rebuild assurance that enables them to issue unmodified opinions in the future.

17. To prevent this recovery work causing delays to future audits, the proposals involve establishing new statutory backstop dates for all financial years up to and including 2027/28. These backstop dates would replace the existing deadlines in the Accounts and Audit Regulations 2015. As at Phase 1, the current duty, set out in legislation, for local bodies to publish a delay notice in instances where the audit has not been concluded by the deadline, would be removed. The changes to the Code of Audit Practice in Phase 1 requiring auditors to discharge their statutory duties in relation to the financial statements audit in accordance with backstop dates would continue to apply in Phase 2.

18. These new backstop dates would enable auditors to rebuild assurance over local bodies' financial information which has been subject to modified opinion over a longer period of several years. The default position without backstop dates would be that auditors need to rebuild all assurance in the first year following a modified or disclaimed opinion, creating an exceptional workload in this first year, which would risk a recurrence of the backlog. Instead, these proposals enable spreading the work to rebuild this assurance over multiple periods, and we welcome responses on local bodies' and auditors' capacity to manage this work. Backstop dates may result in additional modifications or disclaimers of the audit opinion for some bodies. Unmodified opinions cannot be issued until assurance has been sufficiently rebuilt for the auditor to conclude that the financial statements as a whole are free from material misstatement. This proposal draws on the findings of the recent Levelling Up, Housing and Communities Committee report on financial reporting and audit in local authorities.

19. The FRC has confirmed that rebuilding assurance over multiple periods is compliant with ISAs (UK).

20. Taken together with the proposal outlined in 'Phase 1' for a backstop date of 30 September 2024 for all years up to and including 2022/23, the government is now consulting on the following additional backstop dates:

- Year ended 31 March 2024: 31 May 2025
- Year ended 31 March 2025: 31 March 2026
- Year ended 31 March 2026: 31 January 2027
- Year ended 31 March 2027: 30 November 2027
- Year ended 31 March 2028: 30 November 2028

21. These dates are intended to achieve a balance between restoring timely audit and returning to unmodified audit opinions for the majority of local bodies. They have also been designed, to the extent possible, to limit the impact on other public sector audits, including NHS audits.

22. As has been set out, returning to full and timely reporting on VFM arrangements is a priority. Whilst Phase 1 enables the auditor to incorporate outstanding VFM arrangements reporting for historical years into a single output under a reduced scope, proposals for Phase 2 involve the restoration of full scope VFM arrangements by 2023/24. In addition, it is proposed that the Code of Audit Practice will set a requirement that from 2023/24 the Auditors' Annual Report will be issued in draft to those charged with governance by 30 November each year, irrespective of the position on the audit, to enable auditors to report regularly on most of the VFM arrangements work in a more timely and predictable way.

23. To reduce burdens on preparers and support auditors spreading the work to rebuild assurance over multiple periods CIPFA LASAAC will consult on 3 temporary changes to the Code of Practice on Local Authority Accounting for 2023/24 and 2024/25:

- extending the override relating to the valuation and disclosure requirements for infrastructure assets
- simplifying the revaluation of operational property and instead permitting the use of indexation until new requirements for revaluation of operational property are introduced in 2025/26 following HM Treasury's thematic review of the valuation of non-investments assets in the public sector
- reducing the requirements for disclosures around net defined benefit pension liabilities / assets for 2 years to align with those in FRS 102 (UK Generally Accepted Accounting Practice) rather than International Financial Reporting Standards (IFRS)

24. The current deadline for local bodies (other than NHS bodies) for the publication of unaudited accounts is 31 May following the financial year end. This means the 2024/25 unaudited accounts deadline is set to be the same date as the backstop date for 2023/24 audited accounts. The government's consultation includes questions asking for views over whether this will create any significant issues and for views on the 31 May deadline for 2024/25 to 2027/28.

#### **Consultations to deliver Phase 1 and Phase 2**

25. There will be 3 consultations to implement the Phase 1 and Phase 2 measures set out:

- DLUHC is seeking views on changes to the Accounts and Audit Regulations 2015 to introduce backstop dates for the publication of audited accounts
- The NAO is seeking views on changes to the Code of Audit Practice to support auditors to meet backstop dates and promote more timely reporting of their work on value for money arrangements
- CIPFA LASAAC will consult on temporary changes to the Code of Practice on Local Authority Accounting for 2023/24 and 2024/25 to reduce burdens on the finance teams and auditors

### **Commitments by the FRC to support delivery of Phase 1 and Phase 2**

26. All system partners recognise that the exceptional nature of the proposed measures means there will need to be an extensive programme of communications and engagement with local bodies, auditors and wider system stakeholders including elected members.

27. The FRC will support the NAO and CIPFA to issue guidance for preparers and auditors. The guidance for auditors will be designed to support audit firms with implementing the proposed approach to Phase 1 and Phase 2 in a way that is compliant with the ISAs (UK) and the Code of Audit Practice whilst supporting the overall objectives of the reset and recovery.

28. It is important that local bodies, residents and other accounts users can distinguish between modified and disclaimed audit opinions caused by the introduction of backstop dates and those that indicate significant financial reporting or financial management issues. Guidance for auditors will remind auditors of their responsibilities to communicate the reasons for a modified or disclaimed opinion in reports to audit committees and in the auditor's report. This includes indicating clearly where the modified or disclaimed opinion occurs because the auditor has not completed work ahead of the backstop date.

29. We expect audit committees and other stakeholders to take this into account and ensure that their decisions and judgements are cognisant of where modified or disclaimed opinions are a result of the introduction of backstop dates.

30. The FRC will also hold an exceptional local audit specific meeting of the Technical Advisory Group (TAG). TAG normally takes place every 2 months to consider the application of ISAs (UK), ethical and quality management standards. TAG provides a forum for firms to raise technical issues with the application of standards as well as a means for the FRC to informally consult on standards and guidance that it might issue. The purpose of the local audit specific TAG would be for the FRC to respond to queries from firms in applying the ISAs (UK) in light of the backstop dates as well as any technical guidance issued by the NAO or the FRC. It will also provide an opportunity for firms to discuss best practice and practical matters of implementation in a forum convened by the FRC. The FRC will invite all firms involved in local audit, and representatives from system partners, to this special TAG meeting.

31. In line with the July Cross-System Statement, the FRC's AQR team has recently set out changes to its regulatory approach as part of its [report on the quality of major local audits](#). This sets out that AQR will not carry out routine inspections of major local audits for financial years up to and including 2022/23, unless there is a clear case in the public interest to do so. AQR will provide further details on its planned approach to individual inspections for 2023/24 onwards, once the proposed measures are finalised. ICAEW has committed to mirroring the FRC's approach for its inspections of non-major local audits.

32. Working with DLUHC, the FRC is developing an escalated reporting framework. The intention is for the framework to be fully operational for 2023/24 audits so local authorities and auditors can use it to raise risks to individual audits meeting backstop dates and / or emerging systemic issues ahead of backstop dates to enable them and system partners to take appropriate action as early as possible. The framework is being designed to enable a coordinated response where there are more significant risks and complexities facing entities and ensure that system wide issues are identified as soon as possible so they can be addressed. We will provide further details on the proposed framework by the point the legislation on the backstop dates is in place.

33. The FRC intends to conclude its Audit and Assurance Sandbox on the approach to materiality on local audits in the first quarter of 2024 and will publish the findings. The Sandbox has brought together groups of auditors, practitioners, regulatory bodies and interested parties to explore potential pathways whereby auditors could set differential materiality levels for balance sheet items, such as operational property, from overall account materiality set based on expenditure.

#### **Commitments by ICAEW**

34. ICAEW has committed to mirroring the FRC AQR's approach for its inspections of non-major local audits.

#### **Commitments by PSAA**

35. PSAA will set scale fees and determine fee variations where the auditor undertakes more or less work than assumed by the scale fee in line with the Local Audit (Appointing Person) Regulations 2015. It will also consult with bodies where appropriate. Where possible (subject to sufficient satisfactory data and information from key parties), PSAA will develop indicative fee ranges and assumptions for areas where there is expected to be a change in the audit work carried out.

36. When PSAA subsequently determines the fees payable, the principles set out in the Cross System Statement will apply: if auditors have worked in good faith to meet the requirements of the Code of Audit Practice in place at the time the work was conducted (and have reported on work that is no longer required), then they are due the appropriate fee for the work done, and the body is due to pay the applicable fee, including where there is a modified or disclaimed opinion. Conversely, if an auditor has collected audit fees in part or in full, and the backstop date 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 the bodies pay only for work that has been done and reported.

#### **Expectations of auditors and local bodies to deliver Phase 1 and Phase 2**

37. If implemented, all system partners believe Phase 1 and Phase 2 taken together will result in an overall significant reduction in work compared to the option of not introducing backstop dates. Nevertheless, the success of these proposals depends on both auditors and audited bodies focusing on their obligations in the public interest for timely, high-quality financial reporting and audit.

38. During the consultation period, any local body with concerns about specific financial risk resulting from the proposals should discuss this with their auditors and engage with DLUHC or the relevant parent Department at the earliest opportunity. This may include, but is not limited to, bodies with covenants that require audited accounts with unmodified audit opinions. Any auditors with specific technical, practical, or ethical concerns should flag these with the FRC as soon as possible.

39. Any slowdown in activity would lead to further issues in the future. Ahead of the first proposed backstop date, auditors and local bodies should work together to ensure that as many audits can be completed in full as possible. Where work has already been completed to provide sufficient evidence to support the audit opinion, preparers and auditors should work together to publish the audited accounts as soon as possible.

40. The potential introduction of backstop dates does not preclude the legal responsibilities for local bodies to publish unaudited accounts and hold the 30-working day inspection period for local electors. Any local body that has not yet published unaudited accounts for all years up to and including the financial year 2022/2023, or held the inspection period, should do so as soon as possible.

41. Where a local body believes they will not be able to provide draft accounts, which have been subject to the 30-working day inspection period, to the auditor, with sufficient time ahead of the backstop date, they should, following engagement with their auditors, flag this with DLUHC or the relevant sponsor department as soon as possible. Auditors are only able to provide an opinion – whether unmodified, modified or disclaimed – on a set of accounts which have been certified by the Section 151 Officer as true and fair, subject to the 30-day inspection period and approved as final by those charged with governance.

42. It should not be necessary for the audit of the previous year's accounts for Section 151 Officers to comply with their responsibilities to certify that the unaudited accounts show a true and fair view as local bodies should have sufficient internal controls and processes for the Section 151 Officer to obtain this assurance.

43. In consultation with local bodies and those charged with governance, auditors will need to make prioritisation decisions about the work they complete on local bodies' audits. When making such prioritisation decisions, auditors should consider the impact on other local bodies' audits. For example, they may choose to prioritise conducting sufficient audit work on pension funds to provide IAS 19 assurances to auditors of other local bodies. Finance teams should ensure they provide high-quality evidence requested by auditors in a timely manner.

44. Where an auditor has not obtained sufficient audit evidence to conclude they have reasonable assurance that the financial statements as a whole are free from material misstatement, they will need to modify or disclaim their audit opinion, as required by the ISAs (UK). Auditors are reminded of their existing responsibilities to clearly communicate the reasons for modified or disclaimed opinions in the auditor's report. They should explain in reports to the audit committee if the modified opinion is caused by the introduction of statutory backstop dates and to communicate what work they have been able to carry out.

45. Auditors should also keep in mind that the July Cross-System Statement stated that the auditors' statutory duty to report on VFM arrangements and their wider reporting powers remain a high priority. Auditors will need to ensure that they are able to conclude and report significant weaknesses in VFM arrangements in the audit report ahead of the backstop date as this legal duty cannot be disclaimed. For audits undertaken under the 2015 Code of Audit Practice, covering years up to 2019/20, auditors will need to report their conclusion on VFM arrangements as part of the auditor's report. Where auditors have concerns about a local body's ability to prepare accounts of sufficient quality ahead of the backstop date, they should consider using their wider reporting powers.

46. The government recognises that all audit firms conduct a variety of public sector audit work in addition to local audit. Local auditors should plan and commit to deliver work ahead of the backstop dates that allows for their existing contractual commitments for other public sector audits. Apart from in exceptional circumstances, NHS England will not accept requests for extensions to audit deadlines for NHS bodies because of auditors needing to complete work ahead of backstop dates for non-NHS local audited accounts.

### **Phase 3: Reform**

47. Further, longer term work is required to address the systemic challenges that have led to the current local audit backlog. All parties to the Cross-System Statement have committed to continue work to ensure that financial reporting, auditing and regulatory requirements are proportionate and based on a common understanding of the purposes of local audit and reporting.

48. This work will build on the recommendations of the [Redmond Review](#), the recent Levelling Up, Housing and Communities Committee report into financial reporting and audit in local authorities and Public Accounts Committee reports on the timeliness of local audit. The government remains committed to establishing the Audit, Reporting and Governance Authority as system leader for local audit when Parliamentary time allows.

49. CIPFA LASAAC's strategic plan includes a workstream looking at long-term reforms to financial reporting based on the needs of accounts users. CIPFA are in the process of relaunching the Better Reporting Group to inform this work.

50. HM Treasury will be setting out in the first quarter of 2024 the outcome of the thematic review into the valuation of non-investment assets. CIPFA will continue to work with HM Treasury on how the changes apply to local bodies with the intention that they are introduced to the Code of Practice for Local Authority Accounting for 2025/26.

51. The FRC intends to publish its Local Audit Workforce Strategy during 2024, following a presentation to the Local Audit Liaison Committee. The Strategy will include both short-term and longer-term recommendations to increase the supply of suitably skilled auditors, including for further changes to Key Audit Partner requirements.

52. Closely linked to the Local Audit Workforce Strategy, the government has successfully procured the development of a Local Audit Qualification which will shortly be launched by CIPFA, opening the training route for experienced Responsible Individuals to become Key Audit Partners. In addition, CIPFA and the Local Government Association (LGA) are working on a parallel Workforce Strategy for local government finance teams.

### **Conclusion**

53. The measures proposed are an important step in restoring timely financial reporting and audit for local bodies. The government is grateful for the hard work and collaboration of system partners in developing these ambitious measures. All system partners are committed to continue to work closely together to, following the consultation, implement measures to clear the backlog of local audit opinions and develop the long-term reforms required to prevent a backlog arising in the future.



## **Addressing the local audit backlog in England: Consultation**

### **Responses in red**

#### **Questions**

Q1. Notwithstanding the possibility of exemptions in exceptional circumstances (covered by questions 3 and 4 below), do you agree that Category 1 authorities should be required to have published audited accounts for all financial years up to and including financial year 2022/2023 by 30 September 2024? (agree, disagree, unsure)

**Agree**

Do you have any comments on this issue?

**No**

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Q2. Do you agree that the requirement at Regulation 10(2) for Category 1 authorities to publish a delay notice should be disapplied in relation to any outstanding audits covering financial years 2015/2016 to 2022/2023? (agree, disagree, unsure)

**Agree**

Do you have any comments on this issue?

**No**

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Q3. Do you think it would be appropriate for Category 1 authorities to be exempt from the statutory backstop date of 30 September in circumstances where the auditor is unable to issue their opinion due to outstanding objections to the accounts that could be material to that opinion? (agree, disagree, unsure)

**Agree**

Please explain your response.

**Authorities can not be required to do something that is outside of their control. Audit firms should prioritise resolving those objections.**

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Q4. Do you think there would be any other exceptional circumstances which might create conditions in which it would be appropriate for Category 1 authorities to be exempt from the 30 September backstop date? (agree, disagree, unsure)

**Agree**

Please explain your response, including, where relevant, details of exceptional circumstances you consider would justify an exemption.

**Does not apply to us. But where Authorities have outstanding audit issues that affect a number of years of accounts, they should be given reasonable time to prepare all those Accounts. This would especially apply where an auditor was looking to provide a full opinion (not disclaimed) on an earlier set(s) of Accounts before the end of September.**

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Q5. We intend to publish a list of local bodies and audit firms which meet statutory deadlines for the publication of audited accounts and those which do not. Do you think there should be additional consequences for Category 1 authorities or audit firms (excluding an authority or firm covered by an exemption) if they do not comply with the statutory deadline of 30 September 2024? (agree, disagree, unsure)

**Unsure**

Please explain your response and, where relevant, include any suggested consequences.

Should be reviewed on a case-by-case basis. This is a significant change in a short timescale, and the focus should be on working together to provide the desired outcome. If a review shows either Authorities or audit firms not working towards the intentions of the changes, the additional action could be considered.

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Q6. Notwithstanding the possibility of exemptions in exceptional circumstances (covered by questions 7 and 8 below), do you agree that Category 1 local authorities should be required to publish audited accounts for financial years 2023/2024 to 2027/2028 by the following dates (agree, disagree, unsure)?

Unsure

- 2023/24: 31 May 2025
- 2024/25: 31 March 2026
- 2025/26: 31 January 2027
- 2026/27: 30 November 2027
- 2027/28: 30 November 2028

Do you have any comments on these dates?

The 2023/24 date should be delayed so that it doesn't happen on the same day as the need to complete the draft 2024/25 Accounts. Also (for those Authorities that have elections in May 2025, or even for those that don't have elections but will see changes in the membership of their Audit Committee.

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Q7. Do you think it would be appropriate for Category 1 authorities to be exempt from the statutory backstop dates for Phase 2 in circumstances where the auditor is unable to issue their opinion due to outstanding objections to the accounts that could be material to that opinion? (agree, disagree, unsure)

Agree

Please explain your response.

Authorities can not be required to do something that is outside of their control. Audit firms should prioritise resolving those objections.

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Q8. Do you think there would be any other exceptional circumstances which might create conditions in which it would appropriate for Category 1 authorities to be exempt from the backstop dates for Phase 2? (agree, disagree, unsure)

Unsure

Please explain your response, including, where relevant, details of exceptional circumstances you consider would justify an exemption.

If legitimate circumstances arise, then they should be considered.

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Q9. We intend to publish a list of local bodies and audit firms which meet statutory deadlines for the publication of audited accounts and those which do not. Do you think there should be additional consequences for Category 1 authorities or audit firms (excluding an authority or firm covered by an exemption) if they do not comply with the statutory deadlines for Phase 2? (agree, disagree, unsure)

Unsure

Please explain your response and, where relevant, include any suggested consequences.

Should be reviewed on a case-by-case basis. This is a significant change, and the focus should be on working together to provide the desired outcome. If a review shows either Authorities or audit firms not working towards the intentions of the changes, the additional action could be considered.

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Q10. The Accounts and Audit Regulations 2015 (regulation 15(1)(a)) currently requires Category 1 local authorities to publish unaudited accounts by the 31 May following the end of the financial year. In light of the proposed deadlines for the publication of audited accounts, do you think the 31 May deadline remains appropriate for financial years 2024/2025 to 2027/2028? (agree, disagree, unsure)

Unsure

Please explain your response.

Should be reviewed on a case-by-case basis. This is a significant change and the focus should be on working together to provide the desired outcome. If a review shows either Authorities or audit firms not working towards the intentions of the changes, the additional action could be considered.

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Q11. The existing annual deadline for the publication of unaudited accounts is 31 May. As set out above, we are proposing a backstop date for the publication of audited accounts for the financial year 2023/2024 of 31 May 2025. This would mean that 31 May 2025 would be the statutory deadline for both the publication of audited accounts for financial year 2023/2024 and unaudited accounts for financial year 2024/2025. Do you expect this would create any significant issues? (agree, disagree, unsure)

Agree

Please explain your response.

As per previous response the deadline for the 2023-24 publication should be extended. There should also be a consideration of the benefit of Authorities working to complete accounts by 31<sup>st</sup> May when the audit deadlines are so much later.

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Q12. The government anticipates that the Phase 1 backstop proposals will result in modified or disclaimed opinions. A modified or disclaimed opinion at the end of Phase 1 would require auditors to subsequently rebuild assurance. The Phase 2 backstop dates are intended to enable this work to be spread across multiple years. Given this additional work, and noting the further explanation at paragraphs 15 to 46 of the [Joint Statement](#), do you have any views on the feasibility of audited accounts being published by the proposed statutory backstop dates for Phase 2?

It will down to how the audit firms look to rebuild that assurance do they do a gradual rebuild across all Authorities over a certain period, or do they do a faster builder for some, but at the expense of a slower rebuild for others.

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## Question

Q13. Do you agree that it would be beneficial for the 2015 Regulations be amended so that Category 1 bodies would be under a duty to consider and publish audit letters received from the local auditor whenever they are issued, rather than, as is currently the case, only following the completion of the audit? (agree, disagree, unsure)

Agree

Do you have any comments on this issue?

Timely communication allows better governance and risk assurance.

### Question

Q14. Do you have any comments on whether any of the proposals outlined in this consultation could have a disproportionate impact, either positively or negatively, on people with protected characteristics or wish to highlight any other potential equality impacts?

No.

### Further feedback

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### Question

Q15. Finally, do you have any further comments on the proposed changes to the 2015 Regulations not covered by the questions so far, including relating to any unintended consequences?

The main consequence will be how the audit firms manage their work and capacity- especially up to September 2024. This may depend on the motivations for the audit firm e.g. in terms of level of scale fee that they can justify and focusing on certain Authorities.

Also need to consider a joint strategy on how this is communicated more widely, e.g. to members of the public who are interested in Local Government finance.

**CABINET**  
**19 March 2024**

**\*PART 1 – PUBLIC DOCUMENT**

**TITLE OF REPORT: THIRD QUARTER INVESTMENT STRATEGY (CAPITAL AND TREASURY)  
REVIEW 2023/24**

REPORT OF: SERVICE DIRECTOR - RESOURCES

EXECUTIVE MEMBER: FINANCE AND I.T. – IAN ALBERT

COUNCIL PRIORITY: SUSTAINABILITY

**1 EXECUTIVE SUMMARY**

- 1.1 To update Cabinet on progress with delivering the capital and treasury strategy for 2023/24, as at the end of December 2023.
- 1.2 To update Cabinet on the impact upon the approved capital programme for 2023/24 – 2033/34. The current estimate is a decrease in spend in 2023/24 of £0.969M and an increase in spend in 2024/25 of £0.960M. The most significant individual changes to the forecast spend in 2023/24 relate to the reprofiling into 2024/25 of £0.320M Oughtonhead Common Weir and £0.249M Renovate Skate Park King George V.
- 1.3 To inform Cabinet of the Treasury Management activities in the first nine months of 2023/24. The current forecast is that the amount of investment interest expected to be generated during the year is £2.940M. This is a decrease of £0.074M on the estimate reported in the 2nd quarter report.

**2 RECOMMENDATIONS**

That the Finance, Audit and Risk Committee provide comments and recommend to Cabinet the Third Quarter Investment strategy (Capital and Treasury) Review 2023/24.

- 2.1 That Cabinet notes the forecast expenditure of £6.521M in 2023/24 on the capital programme, paragraph 8.3 refers.
- 2.2 That Cabinet approves the adjustments to the capital programme for 2023/24 onwards, as a result of the revised timetable of schemes detailed in table 2 and 3, increasing the estimated spend in 2024/25 by £0.960M.
- 2.3 That Cabinet notes the position of the availability of capital resources, as detailed in table 4 paragraph 8.6 and the requirement to keep the capital programme under review for affordability.
- 2.4 Cabinet is asked to note the position of Treasury Management activity as at the end of December 2023.

### **3. REASONS FOR RECOMMENDATIONS**

- 3.1 Cabinet is required to approve adjustments to the capital programme and ensure the capital programme is fully funded.
- 3.2 To ensure the Council's continued compliance with CIPFA's code of practice on Treasury Management and the Local Government Act 2003 and that the Council manages its exposure to interest and capital risk.

### **4. ALTERNATIVE OPTIONS CONSIDERED**

- 4.1 Options for capital investment are considered as part of the Corporate Business Planning process.
- 4.2 The primary principles governing the Council's investment criteria are the security of its investments (ensuring that it gets the capital invested back) and liquidity of investments (being able to get the funds back when needed). After this the return (or yield) is then considered, which provides an income source for the Council. In relation to this the Council could take a different view on its appetite for risk, which would be reflected in the Investment Strategy. In general, greater returns can be achieved by taking on greater risk. Once the Strategy has been set for the year, there is limited scope for alternative options as Officers will seek the best return that is in accordance with the Investment Strategy.

### **5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS**

- 5.1 Consultation on the capital expenditure report is not required. Members will be aware that consultation is incorporated into project plans of individual capital schemes as they are progressed.
- 5.2 There are regular updates and meetings with Treasury advisors (Link).

### **6. FORWARD PLAN**

- 6.1 This report contains a recommendation on a key Executive decision that was first notified to the public in the Forward Plan on the 15 December 2023.

### **7. BACKGROUND**

- 7.1 In February 2023, Council approved the Integrated Capital and Treasury Strategy for 2023/24 to 2032/33. To be consistent with the strategy, the monitoring reports for Capital and Treasury are also integrated.
- 7.2 The Medium Term Financial Strategy for 2023 to 2028 confirmed that the Council will seek opportunities to utilise capital funding (including set aside receipts) for 'invest to save' schemes and proposals that generate higher rates of return than standard treasury investments. This is one way the Council will allocate resources to support organisational transformation that will reduce revenue expenditure.

7.3 Link Asset Services Ltd are contracted to provide Treasury advice. The service includes:

- Regular updates on economic and political changes which may impact on the Council's borrowing and investment strategies.
- Information on investment counterparty creditworthiness.
- Technical updates.
- Access to a Technical Advisory Group.

## **8. RELEVANT CONSIDERATIONS**

8.1 The Council has £125.0M of capital assets that it currently owns. The Investment Strategy set out the reasons for owning assets that are not for service delivery, including an assessment of Security, Liquidity, Yield and Fair Value. There have been no significant changes in relation to these since the Strategy was set. The main changes will be sales of surplus land for capital receipts as referenced in table 4.

### **Capital Programme 2023/24**

8.2 The full capital programme is detailed in Appendix A and shows the revised costs to date, together with the expected spend from 2023/24 to 2033/34 and the funding source for each capital scheme.

- 8.3 Capital expenditure for 2023/24 is estimated to be **£6.521M**. This is a decrease of **£0.969M** on the forecast in the Investment Strategy 2024/25 report (reported to Council 29th February 2024). The decrease in spend in 2023/24 is largely due to the reprofiling of projects into 2024/25. Table 1 below details changes to capital programme.

**Table 1- Current Capital Estimates**

	<b>2023/24 £M</b>	<b>2024/25 £M</b>	<b>2025/26 to 2033/34 £M</b>
<b>Original Estimates approved by Full Council February 2023</b>	<b>8.516</b>	<b>7.427</b>	<b>15.624</b>
<b>Changes approved by Cabinet in 3rd Qrt 2022/23</b>	1.554	0	0
<b>Changes approved by Cabinet in 2022/23 Capital Outturn report</b>	1.221	0	0
<b>Revised Capital estimates at start of 2022/23</b>	<b>11.291</b>	<b>7.427</b>	<b>15.624</b>
<b>Changes at Q1</b>	-0.853	0.686	0.585
<b>New Financial System - Council Approved 28/09/23</b>	0.200	0	0
<b>Changes at Q2</b>	-2.413	1.789	2.109
<b>Executive Member – Finance and I.T. approved additional Expenditure EV Charging Point at the DCO</b>	0.023	0	0
<b>Executive Member – Finance and I.T. approved additional Expenditure NHLC Gym Platform Lift Replacement</b>	0.030	0	0
<b>Changes approved by Full Council 29/02/2024 - Investment Strategy 2024-34</b>	<b>-0.788</b>	<b>12.731</b>	<b>8.832</b>
<b>Changes recommended at Q3</b>	<b>-0.969</b>	<b>0.960</b>	<b>0</b>
<b>Current Capital Estimates</b>	<b>6.521</b>	<b>23.593</b>	<b>27.150</b>



- 8.4 Table 2 lists the schemes in the 2023/24 Capital Programme that will now start or continue in 2024/25:

**Table 2: Scheme Timetable Revision:**

(Key: - = reduction in capital expenditure, + = increase in capital expenditure)

<b>Scheme</b>	<b>2023/24 Working Budget £'000</b>	<b>2023/24 Forecast £'000</b>	<b>Differenc e £'000</b>	<b>Reason for Difference</b>	<b>Estimated impact on 2024/25 £'000</b>
Oughtonhead Common Weir	400	80	-320	The development of the detailed specification is nearing completion. The procurement process will entail a period of 3 – 4 months before delivery of the works can commence.	320
Renovate Skate Park King George V	250	1	-249	The contracts have now been tendered and as part of the evaluation process the users are being consulted. Once the evaluation process is complete the design process will continue. This extended consultation process has increased the timescales anticipated to deliver the projects.	249
Newmarket Road Skatepark & Access	76	0	-76		76
Home Repair Assistance	148	30	-118	Due to ongoing staffing issues we have been unable to promote the Home Repair Assistance Grant scheme. It is intended to again raise the profile of this grant scheme during 2024/25 and signpost more people towards this assistance.	118

<b>Scheme</b>	<b>2023/24 Working Budget £'000</b>	<b>2023/24 Forecast £'000</b>	<b>Differenc e £'000</b>	<b>Reason for Difference</b>	<b>Estimated impact on 2024/25 £'000</b>
Timber Access Bridge Norton Common	75	0	-75	Due to wet on-site ground conditions and the delicate nature of the habitat at Norton Common the works have been delayed until ground conditions improve. Initial works to clear the area around the bridge have been completed, so the bird nesting season should not be a factor in the progress of the works.	75
Riverside walkway Biggin Lane	53	0	-53	Agreements are not yet in place with regard to the adoption of the individual pieces of land to connect either end of the footpath, which are necessary for the project to proceed. Work is ongoing to progress the legal issues and obtain the permissions required to deliver the project.	53
Norton Common Tennis Courts	25	0	-25	Procurement processes have only identified 2 quotations and work is ongoing to identify a third. It is preferable in any case for works to be undertaken in a period of warm dry weather to ensure acceptable results.	25
Former Public Conveniences Portmill Lane - works to make available for letting	25	0	-25	Due to limited officer resource within Estates, this project has had to be placed on hold for this financial year.	25
<b>Other minor changes</b>			<b>-50</b>		<b>50</b>
<b>Total Revision to Budget Profile</b>			<b>-991</b>		<b>991</b>

- 8.5 There are also changes to the overall costs of schemes in 2023/24. These changes total a net increase of £0.022million and are detailed in Table 3

**Table 3: Changes to Capital Schemes Commencing in 2023/24:**

(Key: - = reduction in capital expenditure, + = increase in capital expenditure)

<b>Scheme</b>	<b>2023/24 Working Budget £'000</b>	<b>2023/24 Forecast Spend £'000</b>	<b>Difference £'000</b>	<b>Comments</b>
Howard Park Kiosk	0	30	30	This scheme relates to bringing Howard Park kiosk in house and generating a revenue return for the Council from doing so. Initial investment is required as the kiosk is very much in need of refurbishment. The investment was originally identified in the Capital Programme for 24/25 but it was agreed by Council that it would be brought forward to 23/24 to ensure the Kiosk is ready to welcome visitors this summer.
<b>Other minor changes</b>			<b>-8</b>	
<b>Total revision to scheme spend</b>			<b>+22</b>	

- 8.6 Table 4 below shows how the Council will fund the 2023/24 capital programme.

**Table 4: Funding the Capital Programme:**

	<b>2023/24 Balance at start of year £M</b>	<b>2023/24 Forecast Additions £M</b>	<b>2023/24 Forecast Funding Used £M</b>	<b>2023/24 Balance at end of year £M</b>
Useable Capital Receipts and Set-aside Receipts	5.477	0.694	(3.123)	3.048
S106 receipts			(0.440)	
Other third party grants and contributions			(2.958)	
<b>Total</b>			<b>(6.521)</b>	

- 8.7 The availability of third-party contributions and grants to fund capital investment is continuously sought in order to reduce pressure on the Council's available capital receipts and allow for further investment. Additional capital receipts are dependent on selling surplus land and buildings. Ensuring that the Council gets best value from the disposal of land and buildings can take a long time and therefore the amounts that might be received could be subject to change.
- 8.8 The Council's Capital Financing Requirement (CFR) at 31<sup>st</sup> March 2023 was negative £2.72M. Based on current forecasts it will remain negative during 2023/24.

### **Treasury Management 2023/24**

- 8.9 The Council invests its surplus cash in accordance with the Investment Strategy (see paragraph 4.2). This surplus cash is made up of capital funding balances, revenue general fund balance, revenue reserve and provision balances and variations in cash due to the timing of receipts and payments. During the first nine months of 2023/24, the Council had an average investment balance of £56.8M and invested this in accordance with the treasury and prudential indicators as set out in the Integrated Capital and Treasury Management Strategy and in compliance with the Treasury Management Practices.
- 8.10 The Council generated £2.123M of interest during the first nine months of 2023/24. The average interest rate on all outstanding investments at the 31st December was 5.43%. (30th June it was 4.47%, 30<sup>th</sup> September it was 5.03%). Based on current investments and forecasts of interest rates and cash balances for the remainder of the year, it is forecast that the Council will generate £2.94M of interest over the whole of 2023/24. This is a reduction of £0.074M on the estimate quoted at the 2<sup>nd</sup> quarter due to lower cash balances available for investment during the quarter compared with those estimated in the previous forecast.
- 8.11 As at 31 December 2023, the split of investments was as shown in the table below.

Banks	16%
Building Societies	13%
Government	7%
Local Authorities	64%

- 8.12 The level of risk of any investment will be affected by the riskiness of the institution where it is invested and the period that it is invested for. Where an institution has a credit rating this can be used to measure its riskiness. This can be combined with the period remaining on the investment to give a historic risk of default percentage measure. The table below shows the Historic Risk of Default for outstanding investments at 31st December 2023. The most risky investment has a historic risk of default of 0.022%. It should also be noted that in general the interest rate received is correlated to the risk, so the interest income received would be less if the Council took on less risk.

<b>Borrower</b>	<b>Principal Invested £M</b>	<b>Interest Rate %</b>	<b>Credit Rating</b>	<b>Days to Maturity at 30 Sept</b>	<b>Historic Risk of Default %</b>
Dudley Metropolitan Borough Council	1.0	5.7	AA-	5	0.000
DMO	2.0	5.19	AA-	17	0.001
Leeds Building Society	3.0	5.48	A-	18	0.002
Lloyds	1.0	5.39	A+	18	0.002
DMO	2.0	5.235	AA-	18	0.001
Uttlesford District Council	2.0	5.2	AA-	19	0.001
Central Beds Council	2.0	5.4	AA-	22	0.001
Barnsley Metropolitan Borough Council	3.0	5.45	AA-	30	0.002
Nat West	2.0	5.76	A+	47	0.006
Nationwide Building Society	3.0	5.43	A	50	0.006
Lloyds	1.0	4.84	A+	53	0.007
Lloyds	1.0	5.57	A+	57	0.007
LB of Barking & Dagenham	2.0	5.45	AA-	60	0.004
Australia & New Zealand Bank	2.0	5.02	A+	78	0.010
Leeds Building Society	2.0	5.39	A-	78	0.010
Lancashire County Council	2.0	5.45	AA-	78	0.005
Australia & New Zealand Bank	2.0	4.4	A+	80	0.010
Blackpool Council	1.0	5.5	AA-	81	0.005
Lloyds	1.0	5.84	A+	87	0.011
Telford & Wrekin Council	2.0	5.7	AA-	106	0.007
Cheshire East Council	2.0	5.5	AA-	113	0.007
Central Beds Council	2.0	5.45	AA-	114	0.007
Central Beds Council	2.0	5.5	AA-	134	0.008
North Lanarkshire Council	2.0	5.55	AA-	145	0.009
Aberdeen City Council	2.0	5.55	AA-	151	0.009
Leeds City Council	5.0	5.5	AA-	155	0.010
Cheshire East Council	2.0	5.5	AA-	155	0.010
Canterbury Council	2.0	5.65	AA-	169	0.010
North Lanarkshire Council	2.0	5.8	AA-	261	0.016
Great Yarmouth Borough Council	1.0	5.6	AA-	318	0.020
West Dunbartonshire Council	2.0	5.7	AA-	351	0.022
	61.0	5.43			0.007

DMO credit rating is the UK credit rating.

## **9. LEGAL IMPLICATIONS**

- 9.1 Cabinet's terms of reference under 5.7.7 specifically includes "to monitor expenditure on the capital programme and agree adjustments within the overall budgetary framework". The Cabinet also has a responsibility to keep under review the budget of the Council and any other matter having substantial implications for the financial resources of the Council. By considering monitoring reports throughout the financial year Cabinet is able to make informed recommendations on the budget to Council. The Council is under a duty to maintain a balanced budget
- 9.2 Section 151 of the Local Government Act 1972 states that:  
"every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs."
- 9.3 Asset disposals must be handled in accordance with the Council's Contract Procurement Rules.
- 9.4 The Prudential Indicators comply with the Local Government Act 2003.

## **10. FINANCIAL IMPLICATIONS**

- 10.1 The main financial implications are covered in section 8 of the report.
- 10.2 The Council operates a tolerance limit on capital projects that depends on the value of the scheme and on this basis over the next ten-year programme it should be anticipated that the total spend over the period could be around £5.4M higher than the budgeted £57.3M.
- 10.3 The capital programme will need to remain under close review due to the limited availability of capital resources and the affordability in the general fund of the cost of using the Council's capital receipts. When capital receipts are used and not replaced the availability of cash for investment reduces. Consequently interest income from investments reduces. £1.0M currently earns the Authority approximately £54k per year in interest. The general fund estimates are routinely updated to reflect changes in income from investments. When the Capital Financing Requirement (CFR) reaches zero the Council will need to start charging a minimum revenue provision to the general fund for the cost of capital and will need to consider external borrowing for further capital spend. The CFR at the 31 March 2023 was negative £2.72M.
- 10.4 The Council also aims to ensure that the level of planned capital spending in any one year matches the capacity of the organisation to deliver the schemes to ensure that the impact on the revenue budget of loss of cash-flow investment income is minimised.

## **11. RISK IMPLICATIONS**

- 11.1 Good Risk Management supports and enhances the decision-making process, increasing the likelihood of the Council meeting its objectives and enabling it to respond quickly and effectively to change. When taking decisions, risks and opportunities must be considered.

11.2 The inherent risks in undertaking a capital project are managed by the project manager of each individual scheme. These are recorded on a project risk log which will be considered by the Project Oversight Group (if applicable). The key risks arising from the project may be recorded on IdeaGen (the Council's Performance & Risk management software).

11.3 Risks associated with treasury management and procedures to minimise risk are outlined in the Treasury Management Practices document, TMP1, which was adopted by Cabinet in July 2003 and is revisited annually as part of the Treasury Strategy review. The risk on the General Fund of a fall of investment interest below the budgeted level is dependent on banks and building societies need for borrowing.

## **12. EQUALITIES IMPLICATIONS**

12.1. In line with the Public Sector Equality Duty, public bodies must, in the exercise of their functions, give due regard to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.

12.2 There are no direct equalities implications directly arising from the adoption of the Capital Programme for 2023/24 onwards. For any individual new capital investment proposal of £50k or more, or affecting more than two wards, an equality analysis is required to be carried out. This will take place following agreement of the investment proposal.

## **13. SOCIAL VALUE IMPLICATIONS**

13.1. The Social Value Act and "go local" requirements do not apply to this report.

## **14. ENVIRONMENTAL IMPLICATIONS**

14.1. There are no known Environmental impacts or requirements that apply to recommendations of this report. The projects at section 8.4 may have impacts that contribute to an adverse impact. As these projects go forward, an assessment will be made where necessary.

## **15. HUMAN RESOURCE IMPLICATIONS**

15.1 There are no direct human resource implications.

## **16. APPENDICES**

16.1 Appendix A, Capital Programme Detail including Funding 2023/24 onwards.

16.2 Appendix B, Treasury Management Update.

## **17. CONTACT OFFICERS**

17.1 Report Writer – Dean Fury, Corporate Support Accountant, Tel 474509,  
[Dean.fury@north-herts.gov.uk](mailto:Dean.fury@north-herts.gov.uk)

Ian Couper, Service Director: Resources, Tel 474243, email  
[Ian.couper@north-herts.gov.uk](mailto:Ian.couper@north-herts.gov.uk)

Antonio Ciampa, Accountancy Manager, Tel 474566, email,  
[Antonio.ciampa@north-herts.gov.uk](mailto:Antonio.ciampa@north-herts.gov.uk)

Reuben Ayavoo, Policy and Communities Manager, Tel 474212, email,  
[Reuben.ayavoo@north-herts.gov.uk](mailto:Reuben.ayavoo@north-herts.gov.uk)

## **18. BACKGROUND PAPERS**

18.1 Investment Strategy (Integrated Capital and Treasury Strategy)  
<https://srvmodgov01.north-herts.gov.uk/documents/s21271/INVESTMENT%20STRATEGY%20INTEGRATED%20CAPITAL%20AND%20TREASURY.pdf>  
[Uploaded Appendix A- Integrated Capital and Treasury Strategy.docx.pdf \(north-herts.gov.uk\)](#)



Project	Service Directorate								Funding				
		2023/24 Funding £	2024/25 Funding £	2025/26 Funding £	2026/27 Funding £	2027/28 Funding £	2028/29 Funding £	2029/30 - 2033/34 Funding £	Funded from Other Grants	Funded from Government Grant	Funded from s106 contributions	Funded from Revenue / IT Reserve	Balance funded from Capital Receipts/ Set- aside receipts/ Borrowing
40 KVA UPS Device or Battery Replacement	Customers	12,000	0	14,000	0	0	16,000	0	0	0	0	0	42,000
Air Handling Humidification	Enterprise	0	15,000	0	0	0	0	0	0	0	0	0	15,000
Alternative to safeworld tokens for staff/members working remotely	Customers	6,900	3,000	0	3,000	0	19,000	0	0	0	0	0	31,900
Audio Improvements to Mountford Hall	Enterprise	0	15,000	0	0	0	0	0	0	0	0	0	15,000
Avenue Park Floodlights	Place	2,400	0	0	0	0		0	0	0	0	0	2,400
Avenue Park Splash Park	Place	0	70,000	0	0	0		0	0	0	0	0	70,000
Baldock Road Recreation Ground Letchworth	Place	0	30,000	0	0	0	0	0	0	0	0	0	30,000
Baldock Town Hall project	Legal and Community	4,100	0	0	0	0		0	0	0	0	0	4,100
Bancroft & Priory Splash Pads	Place	35,000	0	0	0	0		0	0	0	0	0	35,000
Bancroft Kiosk	Place	800	0	0	0	0		0	0	0	0	0	800
Bancroft Lighting	Place	0	45,000	0	0	0		0	0	0	0	0	45,000
Burials Database System	Place	0	55,000	0	0	0	0	0	0	0	0	0	55,000
Burymead Road Transfer Facility	Place	30,000	0	0	0	0		0	0	0	0	0	30,000
Cabinet Switches - 4 Floors	Customers	18,000	0	0	0	0		0	0	0	0	0	18,000
Cadcorp Local Knowledge & Notice Board Software	Customers	5,400	0	0	0	0		0	0	0	0	200	5,200
Careline Laptops	Customers	5,100	0	0	0	0		0	5,100	0	0	0	0
Careline Servers	Customers	3,800	0	0	0	0		0	0	0	0	0	3,800
CCTV at DCO & Hitchin Town Hall	Customers	20,000	0	0	0	0		0	0	0	0	0	20,000
CCTV Replacement	Customers	190,000	0	0	0	0		0	0	0	0	0	190,000
Charwood House	Enterprise	50,000	350,000	0	0	0		0	0	0	0	0	400,000
Community Centres Flat Roof Safety Barriers	Resources	0	43,000	0	0	0	0	0	0	0	0	0	43,000
Conference Calling Solutions in Large Meeting Rooms and District Council Offices	Customers	13,000	0	0	0	0		0	0	0	0	0	13,000
Council Property improvements following condition surveys	Resources	100,000	100,000	100,000	100,000	85,000		0	0	0	0	0	485,000
Cyber Attacks - Events Monitoring Software Solution	Customers	2,000	0	0	0	0		0	0	0	0	0	2,000
Cycle Strategy implementation (GAF)	Regulatory	278,000	0	0	0	0		0	0	278,000	0	0	0
Data Switch Upgrade	Customers	15,000	0	0	0	0		0	0	0	0	0	15,000
DR Hardware Refresh Inc UPS Battery Pk (unit 3)	Customers	0	0	55,000	0	0		0	0	0	0	0	55,000
Email Encryption Software Solution	Customers	20,400	0	0	0	0		0	0	0	0	0	20,400
Enhancements to Hitchin Swim Centre facility	Place	65,000	0	0	0	0		0	0	0	0	0	65,000
Environmental Improvements	Place	147,300	0	0	0	0		0	0	0	0	0	147,300
EV Charging Point at the DCO	Resources	23,200	0	0	0	0	0	0	0	0	0	0	23,200
Fibre Waste Bins	Place	0	0	1,170,000	0	0	0	0	0	0	0	0	1,170,000
Former Public Convenience Portmill Lane	Enterprise	0	25,000	0	0	0		0	0	0	0	0	25,000
Green Infrastructure implementation (GAF)	Regulatory	185,000	0	0	0	0		0	0	185,000	0	0	0
Grounds Maintenance Vehicles & Machinery	Resources	0	315,000	0	0	0		0	0	0	0	0	315,000
Hitchin Lairage car park - cosmetic coating to four stairwells and replacement windows and doors	Resources	0	75,000	0	0	0		0	0	0	0	0	75,000
Hitchin Swim Centre Boiler Replacement	Place	0	200,000	0	0	0		0	0	0	0	0	200,000
Hitchin Swim Centre Café	Place	0	19,000	0	0	0	0	0	0	0	0	0	19,000
Hitchin Swimn Centre Pool View	Place	0	70,000	0	0	0	0	0		0	0	0	70,000
Hitchin Swim Centre Reception Toilet Refurbishment	Place	0	40,000	0	0	0		0	0	0	0	0	40,000

Project	Service Directorate								Funding				
		2023/24 Funding £	2024/25 Funding £	2025/26 Funding £	2026/27 Funding £	2027/28 Funding £	2028/29 Funding £	2029/30 - 2033/34 Funding £	Funded from Other Grants	Funded from Government Grant	Funded from s106 contributions	Funded from Revenue / IT Reserve	Balance funded from Capital Receipts/ Set-aside receipts/ Borrowing
Hitchin Swim Centre: Archers Member Change and Relaxation Area Refurbishment	Place	0	0	300,000	0	0		0	0	0	0	0	300,000
Hitchin Swim Centre: Changing Village Refurbishment	Place	0	0	0	225,000	0		0	0	0	0	0	225,000
Hitchin Swim Centre: Fitness Equipment Replacement	Place	0	0	371,700	0	0		0	0	0	0	0	371,700
Hitchin Town Hall Kitchen Enhancement	Enterprise	0	0	0	25,000	0	0	0	0	0	0	0	25,000
Howard Gardens Splashpad	Place	17,400	0	0	0	0		0	0	0	0	0	17,400
Howard Park Kiosk Refurbishment	Enterprise	30,000	0	0	0	0	0	0	0	0	0	0	30,000
Howard Park Letchworth Path Resurfacing	Place	0	20,000	0	10,000	10,000		0	0	0	0	0	40,000
Icknield Way Cemetery Letchworth Road and Path Resurfacing	Place	100,500	0	0	0	0		0	0	0	0	0	100,500
Infrastructure Hardware	Customers	28,000	314,000	0	18,000	18,000	190,000	0	0	0	0	0	568,000
Installation of trial on-street charging (GAF)	Regulatory	50,000	0	0	0	0		0	0	50,000	0	0	0
Ivel Springs Footpaths	Place	10,000	0	0	0	0		0	0	0	0	0	10,000
King George V Muga Hitchin	Place	0	55,000	0	0	0	0	0	0	0	0	0	55,000
John Barker Place, Hitchin	Regulatory	0	1,096,000	0	0	0		0	0	0	270,400	0	825,600
Lairage Multi-Storey Car Par - Structural wall repair	Resources	25,000	88,900	0	0	0		0	0	0	0	0	113,900
Laptops - Refresh Programme	Customers	43,700	40,000	319,000	49,000	35,000	40,000	443,000	0	0	0	0	969,700
Lease Cars	Resources	0	141,000	0	0	0		0	0	0	0	0	141,000
Leisure Condition Survey Enhancements	Place	58,800	0	0	0	0		0	0	0	0	0	58,800
Letchworth Multi-storey Car Park - parapet walls, soffit decoration	Resources	15,000	114,000	0	0	0		0	0	0	0	0	129,000
Letchworth OD Pool Café	Place	0	53,000	0	0	0	0	0	0	0	0	0	53,000
Local Authority Housing Fund	Regulatory	543,000	0	0	0	0		0	0	543,000	0	0	0
Local Authority Housing Fund Pt 2	Regulatory	1,424,000	0	0	0	0		0	0	1,424,000	0	0	0
Match funding for Electric Vehicle charging	Regulatory	100,000	0	0	0	0		0	0	0	0	0	100,000
Members Laptops Refresh Programme	Customers	30,000	0	0	30,000	0		60,000	0	0	0	0	120,000
Microsoft Enterprise Software Assurance	Customers	0	0	679,000	0	0	747,000	747,000	0	0	0	0	2,173,000
Mrs Howard Hall Replacement Boiler & Windows	Resources	63,000	0	0	0	0		0	0	0	0	0	63,000
Museum Storage Facility	Enterprise	0	2,000,000	2,000,000	0	0		0	0	0	0	0	4,000,000
Newmarket Road Royston Skatepark & Access	Place	24,400	75,600	0	0	0		0	0	0	100,000	0	0
NH Museum & Community Facility	Enterprise	0	48,300	0	0	0		0	48,300	0	0	0	0
NHLC Air Handling Units	Place	0	250,000	0	0	0	0	0	0	0	0	0	250,000
NHLC Boiler Replacement	Place	0	200,000	0	0	0		0	0	0	0	0	200,000
NHLC Café	Place	0	20,000	0	0	0	0	0	0	0	0	0	20,000
NHLC Gym Platform Lift Replacement	Place	30,000	0	0	0	0	0	0	0	0	0	0	30,000
NHLC Gym Equipment	Place	0	434,000	0	0	0	0	0	0	0	0	0	434,000
NHLC Gym Refubishment	Place	0	292,000	0	0	0	0	0	0	0	0	0	292,000
NHLC Gym toilets and accessible toilet refurbishment	Place	40,000	0	0	0	0		0	0	0	0	0	40,000
NHLC Interactive Water Feature	Place	0	0	0	0	120,000		0	0	0	0	0	120,000
NHLC Lift Replacement	Place	0	90,000	0	0	0	0	0	0	0	0	0	90,000
NHLC Male, Female and Accessible Wet Change Refurbishment	Place	0	0	0	250,000	0	0	0	0	0	0	0	250,000
NHLC Pool Flume Replacement	Place	0	0	0	0	0	150,000		0	0	0	0	150,000
NHLC Pool View	Place	0	110,000	0	0	0	0	0	0	0	0	0	110,000
NHLC Reconfiguration of Reception Area	Place	28,500	0	0	0	0		0	0	0	0	0	28,500

									Funding				
		2023/24 Funding £	2024/25 Funding £	2025/26 Funding £	2026/27 Funding £	2027/28 Funding £	2028/29 Funding £	2029/30 - 2033/34 Funding £					
Project	Service Directorate								Funded from Other Grants	Funded from Government Grant	Funded from s106 contributions	Funded from Revenue / IT Reserve	Balance funded from Capital Receipts/ Set- aside receipts/ Borrowing
NHLC Soft Play	Place	112,500	0	0	0	0		0	0	0	0	0	112,500
Northern Transfer Station	Place	0	0	0	3,000,000	3,000,000		0	0	0	0	0	6,000,000
Norton Common Bowls Pavilion	Place	0	55,000	0	0	0	0	0	0	0	28,000	0	27,000
Norton Common Footpaths	Place	0	10,000	0	0	0		0	0	0	0	0	10,000
Norton Common Letchworth Tennis Courts	Place	0	25,000	0	0	0		0	0	0	0	0	25,000
Off Street Car Parks resurfacing and enhancement	Resources	40,000	60,000	50,000	59,400	0		0	0	0	0	0	209,400
Old Hale Way Allotments Hitchin	Place	0	20,000	0	0	0	0	0	0	0	0	0	20,000
Oughtonhead Common Footpaths	Place	0	20,000	0	0	0		0	0	0	0	0	20,000
Oughtonhead Common Hitchin Weir	Place	80,000	320,000	0	0	0		0	0	0	0	0	400,000
Oughtonhead Common Signage and Interpretation	Place	10,000	0	0	0	0		0	0	0	0	0	10,000
Parking Charging, Payments & Management	Regulatory	235,000	0	0	0	0		0	0	0	0	0	235,000
Parking Machines Replacement	Regulatory	150,000	150,000	0	0	0		0	0	0	0	0	300,000
Parking Machines Upgrade - Contactless Payment Facility Installation	Regulatory	56,000	0	0	0	0		0	0	42,000	0	0	14,000
PC's - Refresh Programme	Customers	16,300	13,000	7,000	8,000	5,000	8,000	13,000	0	0	0	0	70,300
Playground Renovation District Wide	Place	262,500	180,000	180,000	180,000	180,000	180,000	900,000	0	0	0	0	2,062,500
Priory Memorial Gardens MUGA Royston	Place	0	55,000	0	0	0	0	0	0	0	0	0	55,000
Private Sector Grants	Regulatory	30,000	178,100	60,000	60,000	60,000	60,000	300,000	0	0	0	0	748,100
Provide housing at market rents.	Enterprise	35,100	0	0	0	0		0	0	0	0	0	35,100
Public Sector Decarbonisation Fund	Place	0	9,514,600	0	0	0	0	0	0	7,743,000	0	0	1,771,600
Ransoms Rec Footpaths, Gates and Railing	Place	20,000	0	0	0	0		0	0	0	0	0	20,000
Refurbishment and improvement of community facilities	Legal and Community	93,800	0	0	0	0		0	0	0	0	0	93,800
Refuse and Recycling Bins	Place	135,000	90,000	90,000	90,000	90,000	90,000	270,000	0	0	0	0	855,000
Remote Testing equipment - Emergency Lights and Water Temperature Monitoring	Resources	0	0	13,000	0	0		0	0	0	0	0	13,000
Renovate play area Howard Park, Letchworth	Place	4,600	0	0	0	0		0	0	0	0	0	4,600
Renovate skate park at KGV Hitchin	Place	1,300	248,700	0	0	0		0	0	0	0	0	250,000
Replacement of Newark Close, Royston	Enterprise	65,000	0	0	0	0		0	0	0	0	0	65,000
Replacement of the timber access bridge at Norton Common	Place	0	75,000	0	0	0		0	0	0	0	0	75,000
Resurface Lairage Car Park	Resources	30,000	316,300	0	0	0		0	0	0	0	0	346,300
Riverside walkway, Biggin Lane	Place	0	53,000	0	0	0		0	0	0	0	0	53,000
RLC change village refurbishment – replacement of cubicles, lockers, vanity area and group change.	Place	0	150,000	0	0	0		0	0	0	0	0	150,000
RLC swim showers and change village toilet refurbishment	Place	75,000	0	0	0	0		0	0	0	0	0	75,000
Royston Leisure Centre Boiler Replacement	Place	0	100,000	0	0	0		0	0	0	0	0	100,000
RLC Café	Place	0	0	20,000	0	0	0	0	0	0	0	0	20,000
Royston Leisure Centre Dry Side Toilet Refurbishment	Place	0	0	30,000	0	0		0	0	0	0	0	30,000
Royston Leisure Centre extension	Place	0	1,000,000	0	0	0		0	0	0	168,000	0	832,000
RLC Pool View	Place	0	70,000	0	0	0	0	0	0	0	0	0	70,000
RLC Gym Refubishment	Place	0	0	349,800	0	0	0	0	0	0	0	0	349,800
RLC Gym Refubishment	Place	0	0	452,000	0	0	0	0	0	0	0	0	452,000
RLC Learner Pool	Place	0	2,500,000	0	0	0	0	0	0	0	0	0	2,500,000

Project	Service Directorate								Funding				
		2023/24 Funding £	2024/25 Funding £	2025/26 Funding £	2026/27 Funding £	2027/28 Funding £	2028/29 Funding £	2029/30 - 2033/34 Funding £	Funded from Other Grants	Funded from Government Grant	Funded from s106 contributions	Funded from Revenue / IT Reserve	Balance funded from Capital Receipts/ Set- aside receipts/ Borrowing
Royston Leisure Centre Members Changing Refurbishment	Place	0	200,000	0	0	0		0	0	0	0	0	200,000
Royston Leisure Centre Solar Thermal Installation	Place	0	67,400	0	0	0		0	0	0	0	0	67,400
S106 Projects	Various	31,000	0	0	0	0		0	0	0	31,000	0	0
S016 Funding for additional social housing	Regulatory	385,000	0	0	0	0		0	0	0	385,000	0	0
Security - Firewalls	Customers	7,600	16,000	0	18,000	0	18,000	0	0	0	0	0	59,600
Shared Prosperity Fund Community and Place Intervention: Community Engagement Schemes	Enterprise	0	163,000	0	0	0		0	0	163,000	0	0	0
Shared Prosperity Fund Community and Place Intervention: Creation of and improvements to local green spaces	Enterprise	20,000	100,000	0	0	0		0	0	120,000	0	0	0
Shared Prosperity Fund Community and Place Intervention: Local sports facilities, tournaments, teams and leagues	Resources	100,000	100,000	0	0	0		0	0	200,000	0	0	0
Shared Prosperity Fund Community and Place Interventions	Resources	60,000	0	0	0	0		0	0	60,000	0	0	0
Solar PV Installation at Hitchin Swim Centre	Place	0	142,000	0	0	0		0	0	0	0	0	142,000
Solar PV installation at North Herts Leisure Centre	Place	0	338,000	0	0	0		0	0	0	0	0	338,000
Solar PV installation at Royston Leisure Centre	Place	0	241,000	0	0	0		0	0	0	0	0	241,000
St Johns Cemetery Footpath	Place	0	40,000	0	0	0		0	0	0	0	0	40,000
Swinburne Recreation Ground Hitchin	Place	0	30,000	0	0	0		0	0	0	0	0	30,000
Tables & Android Devices	Customers	26,700	10,000	10,000	10,000	4,000	4,000	12,000	0	0	0	0	76,700
Technology One Financial System	Resources	200,000	0	0	0	0		0	0	0	0	0	200,000
Telephony system	Customers	3,200	0	0	0	0		0	0	0	0	0	3,200
Thomas Bellamy House, Hitchin	Enterprise	64,300	0	0	0	0		0	0	0	0	0	64,300
Transport Plans implementation (GAF)	Regulatory	250,000	0	0	0	0		0	0	250,000	0	0	0
Walsworth Common Pavilion - contribution to scheme	Place	0	0	300,000	0	0		0	250,000	0	37,000	0	13,000
Waste and Street Cleansing Vehicles	Place	0	0	8,500,000	0	0		0	0	0	0	3,200,000	5,300,000
Weston Hills Baldock	Place	20,000	0	0	0	0		0	0	0	0	0	20,000
Weston Hills LNR Footpath Renovation	Place	0	20,000	0	0	0		0	0	0	0	0	20,000
WiFi Upgrade	Customers	0	0	40,000	0	0		0	0	0	0	0	40,000
Wilbury Hills Cemetery Footpaths	Place	7,200	10,000	0	30,000	0		0	0	0	0	0	47,200
		6,520,800	23,592,900	15,110,500	4,165,400	3,607,000	1,522,000	2,745,000	303,400	11,058,000	1,019,400	3,200,200	41,682,600

# Treasury Management Update

Quarterly report

31<sup>st</sup> December 2023 (Q3 2023/24)

This report is intended for the use and assistance of customers of Link Group. It should not be regarded as a substitute for the exercise by the recipient of its own judgement. Link Group exists to provide its clients with advice primarily on borrowing and investment. We are not legal experts and we have not obtained legal advice in giving our opinions and interpretations in this paper. Clients are advised to seek expert legal advice before taking action as a result of any advice given in this paper. Whilst Link Group makes every effort to ensure that all information provided by it is accurate and complete, it does not guarantee the correctness or the due receipt of such information and will not be held responsible for any errors therein or omissions arising there from. Furthermore, Link Group shall not be held liable in contract, tort or otherwise for any loss or damage (whether direct, or indirect or consequential) resulting from negligence, delay or failure on the part of Link Group or its officers, employees or agents in procuring, presenting, communicating or otherwise providing information or advice whether sustained by Link Group customer or any third party directly or indirectly making use of such information or advice, including but not limited to any loss or damage resulting as a consequence of inaccuracy or errors in such information or advice. All information supplied by Link Group should only be used as a factor to assist in the making of a business decision and should not be used as a sole basis for any decision.

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# Treasury Management Update

## Quarter Ended 31<sup>st</sup> December 2023 (Q3 2023/24)

The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management 2021 recommends that members be updated on treasury management activities at least quarterly. This report, therefore, ensures this Council is implementing best practice in accordance with the Code.

### 1. Economics update

- The third quarter of 2023/24 saw:
  - A 0.3% m/m decline in real GDP in October, potentially partly due to unseasonably wet weather, but also due to the ongoing drag from higher interest rates. Growth for the second quarter, ending 30<sup>th</sup> September, was revised downwards to -0.1% and growth on an annual basis was also revised downwards, to 0.3%;
  - A sharp fall in wage growth, with the headline 3myy rate declining from 8.0% in September to 7.2% in October, although the ONS “experimental” rate of unemployment has remained low at 4.2%;
  - CPI inflation continuing on its downward trajectory, from 8.7% in April to 4.6% in October, then again to 3.9% in November;
  - Core CPI inflation decreasing from April and May’s 31 years’ high of 7.1% to 5.1% in November, the lowest rate since January 2022;
  - The Bank of England holding rates at 5.25% in November and December;
  - A steady fall in 10-year gilt yields as investors revised their interest rate expectations lower.
- The revision of GDP data in Q2 to a 0.1% q/q fall may mean the mildest of mild recessions has begun. Indeed, real GDP in October fell 0.3% m/m which does suggest that the economy may stagnate again in Q3. The weakness in October may partly be due to the unseasonably wet weather. That said, as the weakness was broad based it may also be the case that the ongoing drag from higher interest rates is more than offsetting any boost from the rise in real wages.
- However, the rise in the flash composite activity Purchasing Managers Index, from 50.7 in November to 51.7 in December, did increase the chances of the economy avoiding a contraction in Q3. The improvement was entirely driven by the increase in the services activity balance from 50.9 to 52.7. (Scores above 50 point to expansion in the economy, although only tepid in this instance.) The press release noted that this was primarily driven by a revival in consumer demand in the technological and financial services sectors. This chimes with the further improvement in the GfK measure of consumer confidence in December, from -24 to -22. The services PMI is now consistent with non-retail services output growing by 0.5% q/q in Q3, but this is in stark contrast to the manufacturing sector where the output balance slumped from 49.2 to 45.9 and, at face value, the output balance is consistent with a 1.5% q/q fall in manufacturing output in Q3.
- The 0.3% m/m fall in retail sales volumes in October means that after contracting by 1.0% q/q (which was downwardly revised from -0.8% q/q) in Q2, retail activity remained weak at the start of Q3. That suggests higher interest rates are taking a bigger toll on real consumer spending.
- Higher interest rates have filtered through the financial channels and weakened the housing market but, overall, it remains surprisingly resilient with only marginal falls showing year on year on the Halifax (-1%) and Nationwide (-1.8%) indices. However, the full weakness in real consumer spending and real business investment has yet to come as currently it is estimated that around two thirds to a half of the impact of higher interest rates on household interest payments has yet to be felt.
- Overall, we expect real GDP growth to remain subdued throughout 2024 as the drag from higher interest rates is protracted but a fading of the cost-of-living crisis and interest rate cuts in the second half of 2024 will support a recovery in GDP growth in 2025.
- The labour market remains tight by historical standards, but the sharp fall in wage growth seen in October will reinforce the growing belief in markets that interest rates will be cut mid-2024. Wage growth eased in October much faster than the consensus expected. Total earnings fell by 1.6% m/m, which meant the headline 3myy rate eased from 8.0% in September to 7.2% in October. This news will be welcomed by the

Bank of England. Indeed, the timelier three-month annualised rate of average earnings growth fell from +2.4% to -1.2%. Excluding bonuses, it fell from 5.3% to 2.0%. Furthermore, one of the Bank's key barometers of inflation persistence, regular private sector pay growth, dropped from 7.9% 3myy to 7.3%, which leaves it comfortably on track to fall to 7.2% by December, as predicted by the Bank in November.

- The fall in wage growth occurred despite labour demand being stronger in October than expected. The three-month change in employment eased only a touch from +52,000 in September to +50,000 in October. But resilient labour demand was offset by a further 63,000 rise in the supply of workers in the three months to October. That meant labour supply exceeded its pre-pandemic level for the first time, and the unemployment rate remained at 4.2% in October. In the three months to November, the number of job vacancies fell for the 17<sup>th</sup> month in a row, from around 959,000 in October to around 949,000. That has reduced the vacancy to unemployment ratio as demand for labour eases relative to supply, which may support a further easing in wage growth in the coming months.
- CPI inflation fell from 6.7% in September to 4.6% in October, and then again to 3.9% in November. Both these falls were bigger than expected and there are clear signs of easing in domestic inflationary pressures. The fall in core CPI inflation from 5.7% to 5.1% in November was bigger than expected (consensus forecast 5.6%). That's the lowest rate since January 2022. Some of the decline in core inflation was due to the global influence of core goods inflation, which slowed from 4.3% to 3.3%. But some of it was due to services inflation falling from 6.6% to 6.3%. The Bank views the latter as a key barometer of the persistence of inflation and it came in further below the Bank's forecast of 6.9% in its November Monetary Policy Report. This will give the Bank more confidence that services inflation is now on a firmly downward path.
- The Bank of England sprung no surprises with its December monetary policy committee (MPC) meeting, leaving interest rates at 5.25% for the third time in a row and pushing back against the prospect of near-term interest rate cuts. The Bank continued to sound hawkish, with the MPC maintaining its tightening bias saying that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures". And it stuck to the familiar script, saying that policy will be "sufficiently restrictive for sufficiently long" and that "monetary policy is likely to need to be restrictive for an extended period of time". In other words, the message is that the MPC is not yet willing to endorse investors' expectations that rates will be cut as soon as May 2024.
- Looking ahead, our colleagues at Capital Economics forecast that the recent downward trends in CPI and core inflation will stall over the next few months before starting to decline more decisively again in February. That explains why we think the Bank of England won't feel comfortable cutting interest rates until H2 2024.
- The fall in UK market interest rate expectations in December has driven most of the decline in 10-year gilt yields, which have fallen in line with 10-year US Treasury and euro-zone yields. 10-year gilt yields have fallen from 4.68% in October 2023 to around 3.70% at the time of writing, with further declines likely if the falling inflation story is maintained.
- Investors' growing expectations that the Fed will cut interest rates soon has led to an improvement in risk sentiment, which has boosted the pound and other risky assets. In addition, the rise in the pound, from \$1.21 in November to \$1.27 now, has also been supported by the recent relative decline in UK wholesale gas prices.
- The further fall in 10-year real gilt yields in December has supported the recent rise in the FTSE 100. That said, the index remains 5% below its record high in February. This modest rise in equities appears to have been mostly driven by strong performances in the industrials and rate-sensitive technology sectors. But UK equities have continued to underperform US and euro-zone equities. The FTSE 100 has risen by 2.2% in December, while the S&P 500 has risen by 3.8%. This is partly due to lower energy prices, which have been a relatively bigger drag on the FTSE 100, due to the index's high concentration of energy companies.

### **MPC Meetings 2<sup>nd</sup> November and 14<sup>th</sup> December 2023**

- On 2<sup>nd</sup> November, the Bank of England's Monetary Policy Committee (MPC) voted to keep Bank Rate on hold at 5.25%, and on 14<sup>th</sup> December reiterated that view. Both months reflected a split vote, the latter by 6 votes to 3, with the minority grouping voting for an increase of 0.25% as concerns about "sticky" inflation remained in place.
- Nonetheless, with UK CPI inflation now at 3.9%, and core inflation beginning to moderate (5.1%), markets are voicing a view that rate cuts should begin in Q1 2024/25, some way ahead of the indications from MPC members. Of course, the data will be the ultimate determinant, so upcoming publications of employment,



wages and inflation numbers will be of particular importance, and on-going volatility in Bank Rate expectations and the gilt yield curve can be expected.

- In addition, what happens outside of the UK is also critical to movement in gilt yields. The US FOMC has kept short-term rates in the range of 5.25%-5.50%, whilst the ECB has moved its Deposit rate to a probable peak of 4%. Markets currently expect both central banks to start cutting rates in 2024.

## 2. Interest rate forecasts

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 are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1<sup>st</sup> November 2012.

Link Group Interest Rate View 07.11.23													
	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	3.25	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.40	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.50	3.30	3.30	3.30	3.30	3.30
5 yr PWLB	5.00	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
10 yr PWLB	5.10	5.00	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.70	3.60	3.60	3.50
25 yr PWLB	5.50	5.30	5.10	4.90	4.70	4.50	4.30	4.20	4.10	4.10	4.00	4.00	4.00
50 yr PWLB	5.30	5.10	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.80	3.80	3.80

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

Link Group Interest Rate View 26.06.23													
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
BANK RATE	5.00	5.50	5.50	5.50	5.25	4.75	4.25	3.75	3.25	2.75	2.75	2.50	2.50
3 month ave earnings	5.30	5.60	5.50	5.30	5.00	4.50	4.00	3.50	3.00	2.70	2.60	2.50	2.50
6 month ave earnings	5.80	5.90	5.70	5.50	5.10	4.60	4.00	3.50	3.00	2.70	2.60	2.60	2.60
12 month ave earnings	6.30	6.20	6.00	5.70	5.30	4.80	4.10	3.60	3.10	2.80	2.70	2.70	2.70
5 yr PWLB	5.50	5.60	5.30	5.10	4.80	4.50	4.20	3.90	3.60	3.40	3.30	3.30	3.20
10 yr PWLB	5.10	5.20	5.00	4.90	4.70	4.40	4.20	3.90	3.70	3.50	3.50	3.50	3.40
25 yr PWLB	5.30	5.40	5.20	5.10	4.90	4.70	4.50	4.20	4.00	3.90	3.80	3.80	3.70
50 yr PWLB	5.00	5.10	5.00	4.90	4.70	4.50	4.30	4.00	3.80	3.60	3.60	3.50	3.50

Link Group Interest Rate View 24.05.23													
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
BANK RATE	4.75	5.00	5.00	4.75	4.50	4.00	3.50	3.25	2.75	2.50	2.50	2.50	2.50
3 month ave earnings	4.80	5.00	5.00	4.80	4.50	4.00	3.50	3.30	2.80	2.50	2.50	2.50	2.50
6 month ave earnings	5.10	5.20	5.10	4.90	4.50	3.90	3.40	3.20	2.90	2.60	2.60	2.60	2.60
12 month ave earnings	5.40	5.40	5.30	5.00	4.50	3.90	3.40	3.20	2.90	2.70	2.70	2.70	2.70
5 yr PWLB	5.00	5.00	5.00	4.80	4.50	4.10	3.70	3.50	3.30	3.20	3.20	3.10	3.10
10 yr PWLB	5.00	5.00	5.00	4.80	4.40	4.10	3.80	3.60	3.50	3.40	3.30	3.30	3.30
25 yr PWLB	5.30	5.30	5.20	5.10	4.80	4.50	4.20	4.00	3.80	3.70	3.60	3.60	3.60
50 yr PWLB	5.10	5.10	5.00	4.90	4.60	4.30	4.00	3.80	3.60	3.50	3.40	3.40	3.40

Link Group Interest Rate View 27.03.23													
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
BANK RATE	4.50	4.50	4.25	4.00	3.50	3.25	3.00	2.75	2.75	2.50	2.50	2.50	2.50
3 month ave earnings	4.50	4.50	4.30	4.00	3.50	3.30	3.00	2.80	2.80	2.50	2.50	2.50	2.50
6 month ave earnings	4.50	4.40	4.20	3.90	3.40	3.20	2.90	2.80	2.80	2.60	2.60	2.60	2.60
12 month ave earnings	4.50	4.40	4.20	3.80	3.30	3.10	2.70	2.70	2.70	2.70	2.70	2.70	2.70
5 yr PWLB	4.10	4.10	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20	3.20	3.20	3.10
10 yr PWLB	4.20	4.20	4.00	3.90	3.80	3.70	3.50	3.50	3.40	3.30	3.30	3.30	3.20
25 yr PWLB	4.60	4.50	4.40	4.20	4.10	4.00	3.80	3.70	3.60	3.50	3.50	3.40	3.40
50 yr PWLB	4.30	4.20	4.10	3.90	3.80	3.70	3.50	3.50	3.30	3.20	3.20	3.10	3.10

- LIBOR and LIBID rates ceased at the end of 2021. In a continuation of previous views, money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.
- The Link forecast for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short-term cash at any one point in time.

## **A SUMMARY OVERVIEW OF THE FUTURE PATH OF BANK RATE**

- Our central forecast for interest rates was previously updated on 7<sup>th</sup> November and reflected a view that the MPC would be keen to underpin its anti-inflation credentials by keeping Bank Rate at 5.25% until at least H2 2024. We expect rate cuts to start when both the CPI inflation and wage/employment data are unequivocally supportive of such a move, and that there is a strong likelihood of the overall economy enduring tepid growth (at best) or a mild recession (at worst) over the coming months.
- Naturally, timing on this matter will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.
- In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.
- On the positive side, consumers are still anticipated to be sitting on some excess savings left over from the pandemic, which could cushion some of the impact of the above challenges and may be the reason why the economy is performing a little better at this stage of the economic cycle than may have been expected. Nonetheless, with approximately 400,000 households per quarter facing a mortgage interest reset at higher levels than their current rate, the economy will face on-going headwinds from that source, in addition to lower income households having to spend disproportionately on essentials such as food, energy and rent payments.

## **PWLB RATES**

- As illustrated in the charts in section 1, gilt yields have endured a volatile nine months with yields rising significantly on the back of inflation concerns before retracing much of those increases in November and December. With the market now anticipating rate cuts by H2 2024, the short and medium parts of the curve are now close to where they started 2023/24, but the longer part of the curve is still a little higher. At the time of writing there is c50 basis points difference between the 5 and 50 year parts of the curve.

### **The balance of risks to the UK economy: -**

- The overall balance of risks to economic growth in the UK is to the downside.

### **Downside risks to current forecasts for UK gilt yields and PWLB rates include: -**

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, could keep gilt yields high for longer).
- **The Bank of England** has increased Bank Rate too fast and too far over recent months, and subsequently brings about a deeper and longer UK recession than we currently anticipate.
- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
- **Geopolitical risks**, for example in Ukraine/Russia, the Middle East, China/Taiwan/US, Iran and North Korea, which could lead to increasing safe-haven flows.

### 3. Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2023/24, which includes the Annual Investment Strategy, was approved by the Council on 23/02/23. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:

- Security of capital
- Liquidity
- Yield

The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity, aligned with the Council's risk appetite. In the current economic climate, over and above keeping investments short-term to cover cash flow needs, there is a benefit to seek out value available in periods up to 24 months

As shown by the interest rate forecasts in section 2, investment rates have remained elevated during 2023/24 but are now expected to have peaked.

#### **Creditworthiness.**

There have been few changes to credit ratings over the quarter under review. However, officers continue to closely monitor these, and other measures of creditworthiness to ensure that only appropriate counterparties are considered for investment purposes.

#### **Investment counterparty criteria**

The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

#### **CDS prices**

For UK banks, there are no underlying negative themes. Prices are not misaligned with other creditworthiness indicators, such as credit ratings. Nevertheless, it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

#### **Investment balances**

The average level of funds available for investment purposes during the quarter was **£61m**. 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 Council holds **£20m** core cash balances for investment purposes (i.e., funds available for more than one year).

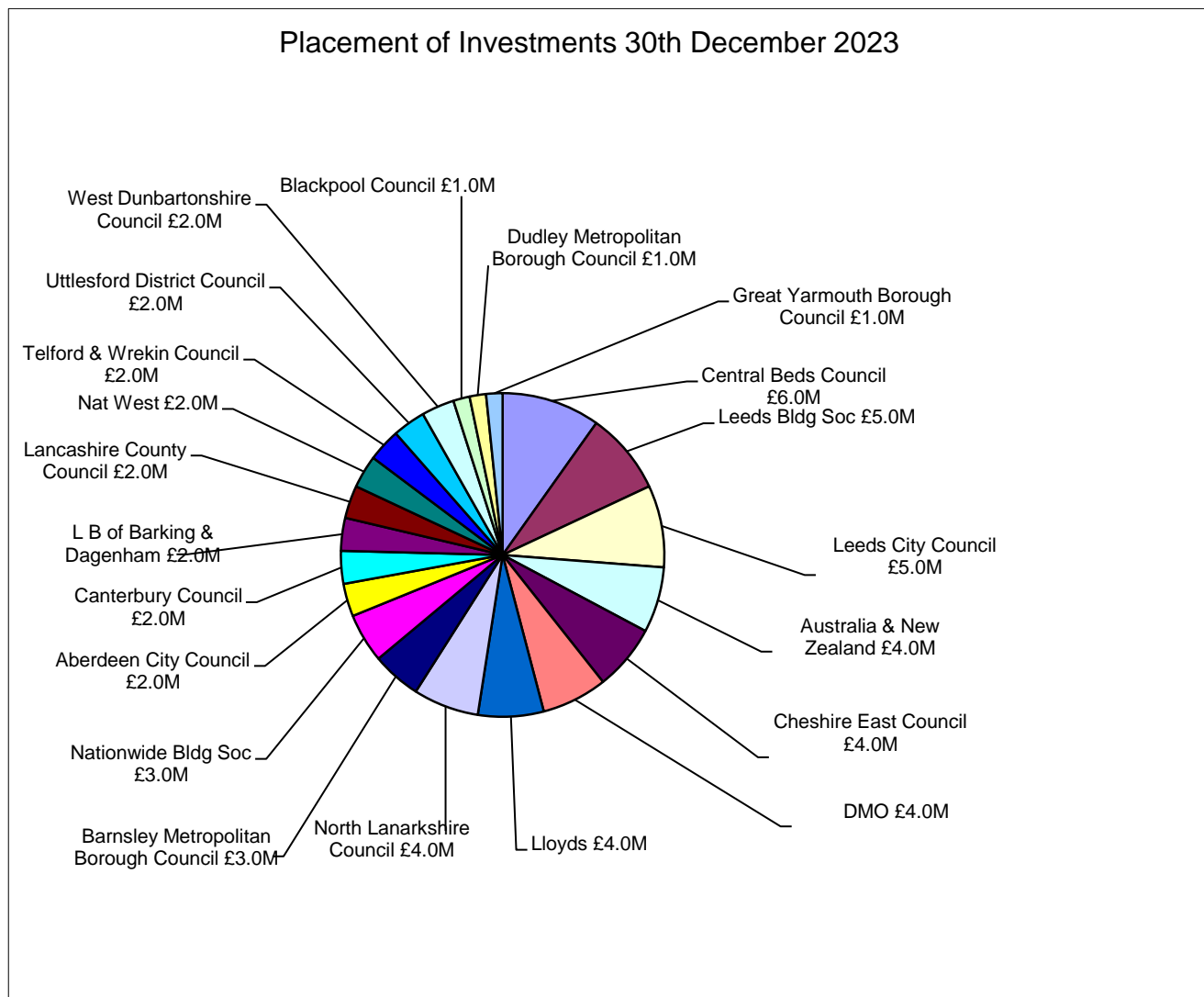
	Amount	Average Interest Rate %
	£	
Managed By NHC		
Banks	10,000,000	5.09
Building Societies	8,000,000	5.43
Local Authorities	39,000,000	5.56
Government	4,000,000	5.23
Total	61, 000,000	5.43

In percentage terms, this equates to:

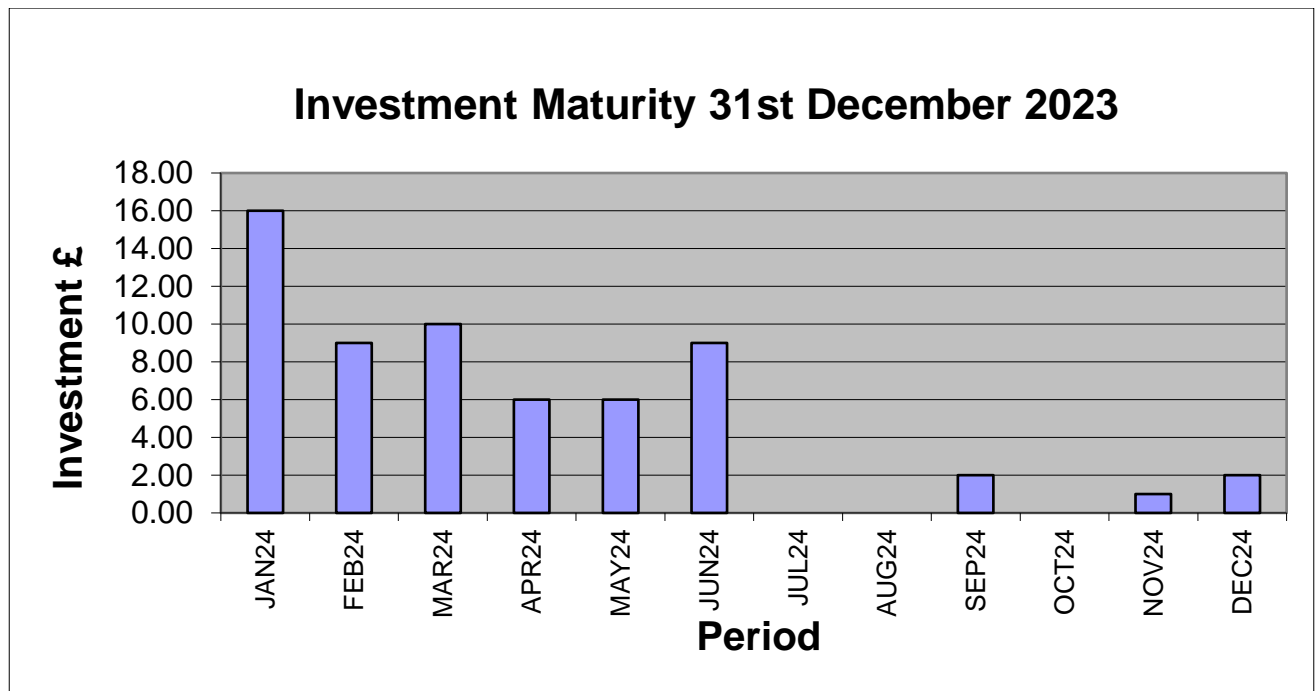
	Percentage
Government	7
Banks	16
Local Authorities	64
Building Societies	13

The approved 23/24 strategy is that no more than 60% of investments should be placed with Building Societies and Property Funds with a maximum value of £25M. The value at 31 December was £08.0M.

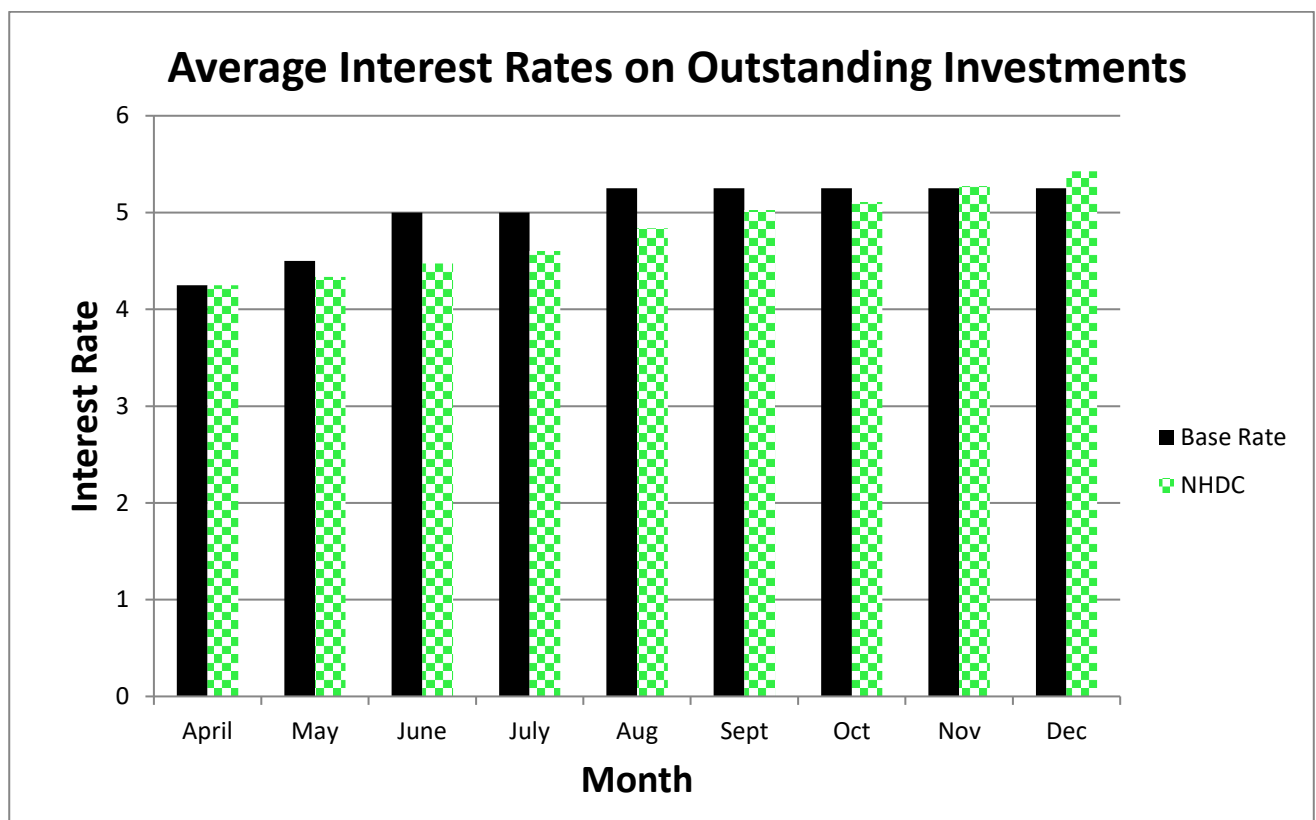
The pie chart below shows the spread of investment balances as at 31 December 2023. This is a snapshot in time that demonstrates the diversification of investments.



The chart below shows the Council's investment maturity profile.



The graph below shows the average rate of interest on outstanding investments at 31 December.



#### Approved limits

Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 31<sup>st</sup> December 2023.

## 4. Borrowing

No borrowing was undertaken during the quarter ended 31<sup>st</sup> December 2023. It is anticipated that further borrowing will not be undertaken during this financial year.

Based on 3rd quarter estimates for capital expenditure, the Council's capital financing requirement (CFR) for 2023/24 is expected to be -£2.145M (-£2.719M at the end of 22/23). 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 (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions and future forecasts.

Loans Outstanding at 30 December 2023:

	Amount	Average Interest Rate
	£	%
Public Works Loans Board	£357k	10.38

Estimated outstanding debt:

Year	Forecast Borrowing £m	Forecast other long-term liabilities £m	Less: Internal Borrowing £m	Forecast Total External Debt £m	Operational Boundary £m	Authorised Limit £m
31 <sup>st</sup> March 2024 (Forecast)	0.347	0.516	0	0.863	2.0	7.0
31 <sup>st</sup> March 2025 (Forecast)	12.174	0.106	11.849	0.431	2.0	7.0
31 <sup>st</sup> March 2026 (Forecast)	16.177	8.600	15.872	8.905	10.0	15.0
31 <sup>st</sup> March 2027 (Forecast)	19.728	8.092	19.438	8.382	10.0	15.0
31 <sup>st</sup> March 2028 (Forecast)	23.320	7.582	23.045	7.857	9.0	14.0

\* Comprises the finance lease relating to Letchworth Multi-storey car park and impact of the finance lease for waste vehicles.

The external borrowing forecast can be used to give an indication of the borrowing that may be required, which is combined with outstanding existing borrowing. The Council will also borrow for short-term cash-flow needs if required. The actual borrowing that is taken out will depend on the latest forecasts and the offers that are available at the time that it is required. There will also be a consideration of when any other borrowing becomes due, with the aim of achieving a spread of these dates. This is to try and avoid refinancing risk. The Council is required to set indicators for the maturity structure of its borrowing. Given the low level of borrowing that the Council currently has and is forecast to have, it is considered appropriate to maintain full flexibility as to the exact duration of any borrowing undertaken.

To manage refinancing risk, the Council sets limits on the maturity structure of its borrowing. However, these indicators are set relatively high to provide sufficient flexibility to respond to opportunities to repay or take out new debt (if it was required), while remaining within the parameters set by the indicators.

Maturity Period	Lower %	Upper %
Under 12 months	0	100
12 months to 2 years	0	100
2 years to 5 years	0	100
5 years to 10 years	0	100
10 years to 20 years	0	100
20 years and above	0	100

The Prudential Indicator below considers the cost of borrowing as a % of the net revenue budget of the Council.

Year	Estimated cost of borrowing £m	Forecast net revenue budget £m	Estimated cost of borrowing as a % of net revenue budget
2023/24	0.037	16.688	0.222
2024/25	0.036	20.309	0.177
2025/26	0.567	19.620	2.890
2026/27	0.747	18.996	3.932
2027/28	0.907	19.088	4.752

The Council is required to set a prudential indicator that estimates financing costs (cost of borrowing less income from investments) as a percentage of its net revenue budget.

Year	Estimated cost of borrowing £m	Less: Forecast of interest earned £m	Net Financing Costs £m	Forecast net revenue budget £m	Estimated cost of Net borrowing as a % of net revenue budget
2023/24	0.037	2.940	-2.903	16.688	-17.396
2024/25	0.036	1.150	-1.114	20.309	-5.485
2025/26	0.567	0.608	-0.041	19.620	-0.209
2026/27	0.747	0.466	0.281	18.996	1.480
2027/28	0.907	0.267	0.640	19.088	3.353

## 5. Debt rescheduling

No debt rescheduling was undertaken during the quarter.

## 6. Compliance with Treasury and Prudential Limits

The prudential and treasury Indicators are shown in Appendix 1.

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the *quarter ended* 31<sup>st</sup> December 2023, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2023/24. The Service Director: Resources reports that no difficulties are envisaged for the current or future years in complying with these indicators.

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



## APPENDIX 1: Prudential and Treasury Indicators for 2023-24 as of 31<sup>st</sup> December 2023

Treasury Indicators	2023/24 Budget £'000	31.03.23 Actual £'000
Authorised limit for external debt	7,000	7,000
Operational boundary for external debt	2,000	2,000
Gross external debt	367	357
Investments	40,700	61,000
Net borrowing	-40,333	-60,643
Maturity structure of fixed rate borrowing - upper and lower limits		
Under 12 months	21	21
12 months to 2 years	21	21
2 years to 5 years	50	50
5 years to 10 years	25	25
Upper limit for principal sums invested over 365 days	17,000 Max	0

Prudential Indicators	2023/24 Budget £'000	31.03.23 Actual £'000
Capital expenditure *	8,225	654
Capital Financing Requirement (CFR) *	-1,469	-2,629
In year borrowing requirement	0	0
Ratio of financing costs to net revenue stream *	-8.442	-1.66

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<b>CABINET</b> <b>19 March 2024</b>
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<b>PART 1 – PUBLIC DOCUMENT</b>
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**TITLE OF REPORT: THIRD QUARTER REVENUE BUDGET MONITORING 2023/24**

REPORT OF: THE SERVICE DIRECTOR - RESOURCES

EXECUTIVE MEMBER: EXECUTIVE MEMBER FOR FINANCE AND IT - IAN ALBERT

COUNCIL PRIORITY: SUSTAINABILITY

**1. EXECUTIVE SUMMARY**

- 1.1. The purpose of this report is to inform Cabinet of the summary position on revenue income and expenditure forecasts for the financial year 2023/24, as at the end of the third quarter. The forecast variance is a £415k decrease in the net working budget of £17.103million, with an ongoing impact in future years of a £68k increase, and requests to carry forward unspent budget totalling £343k to fund specific projects and activities in 2024/25. Explanations for all significant variances are provided in table 3.

**2. RECOMMENDATIONS**

That the Finance, Audit and Risk Committee provide comments and recommend to Cabinet the Third Quarter Revenue Budget Monitoring 2023/24

- 2.1. That Cabinet note this report.
- 2.2. That Cabinet approves the adjustments to the 2023/24 General Fund budget, as identified in table 3 and paragraph 8.2, a £415k decrease in net expenditure.
- 2.3. That Cabinet approves the changes to the 2024/25 General Fund budget, as identified in table 3 and paragraph 8.2, a total £411k increase in net expenditure.

**3. REASONS FOR RECOMMENDATIONS**

- 3.1. Members are able to monitor, make adjustments within the overall budgetary framework and request appropriate action of Services who do not meet the budget targets set as part of the Corporate Business Planning process.

**4. ALTERNATIVE OPTIONS CONSIDERED**

- 4.1. Budget holders have considered the options to manage within the existing budget but consider the variances reported here necessary and appropriate.

**5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS**

- 5.1. Consultation on the budget monitoring report is not required. Members will be aware that there is wider consultation on budget estimates during the corporate business planning process each year.

## 6. FORWARD PLAN

- 6.1. The report contains a recommendation on a key decision that was first notified to the public in the Forward Plan on the 15 December 2023.

## 7. BACKGROUND

- 7.1. Council approved the revenue budget for 2023/24 of £18.496million in February 2023. As at the end of Quarter Three, the working budget has reduced to £17.103million. Table 1 below details the approved changes to this budget to get to the current working budget:

**Table 1 - Current Working Budget**

	£k
Original Revenue Budget for 2023/24 approved by Full Council	18,496
Quarter 3 2022/23 Revenue Budget Monitoring report – 2023/24 budget changes approved by Cabinet (March 2023)	549
2022/23 Revenue Budget Outturn Report – 2023/24 budget changes approved by Cabinet (June 2023)	(47)
First Quarter Revenue Monitoring 2023/24 report - 2023/24 variances approved by Cabinet (September 2023)	(1,119)
Second Quarter Revenue Monitoring 2023/24 report - 2023/24 variances approved by Cabinet (January 2024)	(475)
Month 8 revenue monitoring included within 2024/25 budget report – 2023/24 variances approved by Cabinet (February 2024)	(301)
<b>Current Working Budget</b>	<b>17,103</b>

- 7.2. The Council is managed under Service Directorates. Table 2 below confirms the current net direct resource allocation of each Service Directorate and how this has changed from the budget allocations published in the Quarter Two revenue monitoring report.

**Table 2 – Service Directorate Budget Allocations**

	Working Budget at Quarter Two	Changes approved at Q2 2023/24	Changes approved at Month 8 2023/24	Other Budget Transfers in Q3	Current Net Direct Working Budget
Service Directorate	£k	£k	£k	£k	£k
Managing Director	(513)	(573)	0	(140)	(1,226)
Customers	4,251	(67)	(320)	(34)	3,830
Enterprise	58	(161)	5	0	(98)
Legal & Community	2,800	(29)	0	1	2,772
Place	6,056	327	0	1	6,384
Regulatory Services	2,204	111	9	140	2,464
Resources	3,023	(83)	5	32	2,977
<b>TOTAL</b>	<b>17,879</b>	<b>(475)</b>	<b>(301)</b>	<b>0</b>	<b>17,103</b>

## 8. RELEVANT CONSIDERATIONS

- 8.1. Service Managers are responsible for monitoring their expenditure and income against their working budget. Table 3 below highlights those areas where there are forecast to be differences. An explanation is provided for each of the most significant variances, which are generally more than £25k. The final columns detail if there is expected to be an impact on next year's (2024/25) budget:

**Table 3 - Summary of significant variances**

<b>Budget Area</b>	<b>Working Budget £k</b>	<b>Forecast Outturn £k</b>	<b>Variance £k</b>	<b>Reason for difference</b>	<b>Carry Forward Request £k</b>	<b>Estimated Impact on 2024/25 £k</b>
Treasury Investments Interest Income	(3,014)	(2,940)	+74	Decrease in forecast interest income reflects lower cash balances available for investment during the quarter than anticipated when the revised income forecast at quarter two was prepared (which increased the interest income budget by £413k).	0	0
Corporate Apprenticeship Scheme	107	0	(107)	A proportion of this underspend relates to several apprentices who either moved into a permanent role before the end of their apprenticeship or left the Council mid-way through their apprenticeship. In addition, the resource for apprenticeship salaries was increased during the year by both £23k of government incentive funding and the allocation of £52k from the 2022/23 staffing carry forward of £300k for a higher-level HR apprentice on a 22-month contract. Part of the carry forward requested will therefore be used to fund this post in the next financial year.	107	0
Customers Directorate Staffing Costs	5,912	5,821	(91)	Forecast salary underspend results from various vacant posts due to difficulty in recruiting temporary and permanent staff in the MSU, IT Services and the Customer Service Centre. It is requested to carry forward £39k of the unspent budget to extend the funding of the Digital Services team until March 2025. This will facilitate the delivery of the programme of works identified in the Council's Digital Strategy 2024-2027 approved by Cabinet in February.	39	0
Careline Service – income contributions from Hertfordshire County Council	(2,713)	(2,753)	(40)	Increase in projected income over and above corresponding costs is due to the refurbishment and reuse of returned equipment. The Council receives fixed contributions from HCC for new installations, regardless of whether the equipment installed is newly purchased or refurbished. The growth in the staffing establishment required to recruit the necessary engineers is already included in the working budget.	0	0

Budget Area	Working Budget £k	Forecast Outturn £k	Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2024/25 £k
Enterprise Directorate Staffing Costs	1,201	1,118	(83)	The forecast underspend is mainly due to vacancies held in the Commercial Projects team with a team restructure anticipated in around May this year. The restructure will ensure that the make-up of the team is aligned to the Enterprise work programme for the years ahead, including supporting the progress of the Churchgate project, Economic Development, and tourism.	0	0
Legal & Community Directorate Staffing – Elections Support	30	10	(20)	The delegated decision of the 9 June 2023 on the allocation of the £300k staffing underspend carried forward from 2022/23 earmarked up to £30k for additional part-time elections support up until the next General Election. With an all-out District Council election scheduled for May 2024 and a General Election due to take place no later than January 2025, it is requested that the amount forecast to be unspent at the end of this financial year is carried forward to cover the cost of the additional elections support in the next financial year.	20	0
Income from Taxi Licenses	(141)	(111)	+30	The forecast shortfall in taxi licence licensing income is due, predominantly, to the irregular pattern of licence renewals (6mths, 1yr, 2yr, 3yr, 5yr), which is difficult to reflect in a typical average year resulting in a shortfall some years and an excess in others.	0	0
Fly Tipping Costs	55	123	+68	There has been an increase in some fly tip types, in particular white goods, commercial waste and green waste. An increase in the instances of fly tipping directly increases costs incurred, with an increase in the size of fly tips also increasing costs.	0	68
Regulatory Directorate Staffing Costs	4,703	4,648	(55)	Forecast staffing underspend is mainly due to recruiting difficulties in Planning resulting in a higher level of vacancies. As noted in the presentation of the Revenue Budget 2024/25 report to Cabinet in February, some of the staffing underspend (£10k) will be used to finance the appointment of the Luton Airport expansion consultants (referred to below) as, due to the recruitment difficulties, there is a lack of capacity and expertise to undertake this work in-house. It is requested that the remaining £45k of the unspent staffing budget is carried forward to fund the work of the Town Centre Strategy temporary agency post in the next financial year. The agency staff member is currently in post, and it is proposed to extend their contract until August to progress the implementation of the town centre strategies.	45	0

Budget Area	Working Budget £k	Forecast Outturn £k	Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2024/25 £k
Service Director Housing & Environmental Health	140	62	(78)	At the meeting in March 2023, Cabinet approved the use of £140k of salary budget carry forward for additional Service Director capacity for an 18-month period. With the Service Director in post from the 14 August 23, the forecast unspent budget is requested to be carried forward to cover the period to February 2025.	78	0
Transport User Forum	46	0	(46)	The change in the use of most of the Transport User Forum investment budget carried forward from 2022/23 was highlighted to Cabinet at the last meeting in February in the presentation of the Revenue Budget 2024/25 report. £40k of the investment bid will instead now be used for consultants on the Luton Airport Expansion (as referred to below). The remaining budget of £6k is requested to be carried forward to fund the activity of the Transport Users Forum and any associated consultation or promotion undertaken in future years.	6	0
Planning Policy Consultants – Luton Airport Expansion	0	50	+50	Consultants are required for the preparation of the Council's response and representations to the examination of the proposed Luton Airport expansion. The Council has been defined as a host authority, with the impact of the expansion directly affecting residents as well as the relocated portion of Wigmore Valley Park within North Herts, albeit on land owned by Luton Rising.	0	0
Sustainable Travel Town	20	0	(20)	Joint Member Steering Groups have been set up for both Letchworth and Royston Sustainable Travel Towns and officers are working with the Steering Group to agree projects to be taken forward as part of the implementation plan for next financial year. It is therefore requested that this investment budget is carried forward to finance the implementation in next year.	20	0
Town Wide Reviews	19	9	(10)	A number of Traffic Regulation Orders (TROs) are mid process following consultation across all four towns and Knebworth. It is requested to carry forward the forecast unspent budget to fund the completion of the various outstanding TROs, with the publication of the orders and implementation of the associated restrictions anticipated by the summer.	10	0

Budget Area	Working Budget £k	Forecast Outturn £k	Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2024/25 £k
Local Plan Post Adoption review – expenditure on consultants	26	8	(18)	Cabinet approved, in principle, a full review of the Local Plan in January 2024. The Levelling Up and Regeneration Act was, however, only published in November 2023 (having been expected earlier in the year), while secondary legislation and Government guidance setting out how a Local Plan should now be prepared are still awaited. This, alongside ongoing recruitment challenges, means work through to the end of the financial year will be more focussed on implementation of the current Local Plan rather than initiating new workstreams in relation to the review. While there is expected to be some expenditure on the review in this financial year, it is requested to carry forward a further £18k of unspent budget, in addition to those amounts previously requested to be carried forward at Qtr2 (60k) and month 8 (£30k).	18	0
Car Parking PCN Income	(683)	(743)	(60)	The number of penalty charge notices issued is ahead of budget with the Civil Enforcement Officer team managing higher levels of traffic offences within and around the town centres.	0	0
<b>Total of explained variances</b>	<b>5,708</b>	<b>5,302</b>	<b>(406)</b>		<b>343</b>	<b>68</b>
Other minor balances	11,395	11,386	(9)		0	0
<b>Overall Total</b>	<b>17,103</b>	<b>16,688</b>	<b>(415)</b>		<b>343</b>	<b>68</b>

8.2. Cabinet are asked to approve the differences highlighted in the table above (a £415k decrease in spend), as an adjustment to the working budget (recommendation 2.2). Cabinet are also asked to approve the estimated impact on the 2024/25 budget, a £411k increase in budget that includes the request to carry forward £343k of unspent budget for specific projects next year (recommendation 2.3).

8.3. The original approved budget for 2023/24 (and therefore working budget) included efficiencies totalling £1.521million, which were agreed by Council in February 2023. Any under or over delivery of efficiencies will be picked up by any budget variances (table 3 above). However, there can be off-setting variances which mean that it is unclear whether the efficiency has been delivered. Where this is the case, this will be highlighted. The forecast at the end of Quarter Two was a net overachievement of £1.457million. The current forecast at the end of Quarter Three is a net overachievement of £1.367million. The decrease of £90k relates to;

- £74k reduction in the forecast interest income from investment of surplus cash balances being greater than identified in the efficiency proposal, which was based on the Investment Strategy 2023 - 2033, as highlighted and explained in table three above.
- £7k reduction in the £9k efficiency originally anticipated from the opening of Bancroft Kiosk (included in the other minor variances total in table 3). The shortfall is attributed to a combination of bad weather over the summer impacting turnover, particularly at weekends, and teething issues associated with the first year of operation.



- The additional £9k efficiency from a full year of letting Thomas Bellamy house will not be achieved (included in the other minor variances total in table 3). Officers are currently working on identifying the costs of getting the property into shape for a new letting. Options will then be considered once this is complete.
- 8.4. The working budget for 2023/24 includes budgets totalling £1.107million that were carried forward from the previous year. These are generally carried forward so that they can be spent for a particular purpose that had been due to happen in 2022/23 but was delayed into 2023/24. At Quarter Two, it was forecast that £228k of the budget carried forward will not be spent in this year. At Quarter Three it is forecast that £532k will not be spent in this year. The increase of £304k relates to budgets carried forward for:
- Housing Stock Condition Survey. £15k of the £20k budget carried forward will not be spent this year and has been requested to be carried forward again, as explained in the budget monitoring review at the end of November (Month 8) included in the Revenue Budget 2024/25 report.
  - Supplementary planning documents supporting the Local Plan. A total of £130k (£80k forecast at Quarter Two plus £50k forecast at Month 8) of the £167k carry forward budget is forecast to be unspent and has been requested to be carried forward again, as explained in the Month 8 budget monitoring review.
  - Town Centre Strategy Reviews. A total of £50k (£10k forecast at Quarter Two plus £40k forecast at Month 8) of the £80k budget carried forward will not be spent in this year and has been requested to be carried forward again, as explained in the Month 8 budget monitoring review.
  - Local Plan post adoption review. £20k of the £28k budget carried forward will not be spent in this year and has been requested to be carried forward again, as explained in the budget monitoring review included in the revenue budget 2024/25 report.
  - Transport User Forum. As explained in table 3 above, the £46k budget carried forward will not be spent on Forum activities in this year, with £40k reallocated to fund consultants required in relation to the Luton Airport expansion and the remaining £6k requested to be carried forward again.
  - Staffing pressures. Of the £300k carried forward from 2022/23 a total of £133k will not be spent in 2023/24 and is requested to be carried forward. This is comprised of the estimated £78k cost of the temporary additional Service Director capacity and £20k cost of the additional elections support falling in next year, as well as a contract liability of £35k remaining for the higher-level apprentice, as noted in table 3 above.
- 8.5. Six corporate 'financial health' indicators have been identified in relation to key sources of income for the Council in 2023/24. Table 4 below shows the performance for the year. A comparison is made to the original budget to give the complete picture for the year. Each indicator is given a status of red, amber, or green. A green indicator means that they are forecast to match or exceed the budgeted level of income. An amber indicator means that there is a risk that they will not meet the budgeted level of income. A red indicator means that they will not meet the budgeted level of income.
- 8.6. At the end of Quarter Two, two of the indicators were green, one indicator was amber, and three of the indicators were red. At the end of Quarter Three, two of the indicators are green and four are red. In respect of the red indicators for Leisure management fee income and car parking fees, provision amounts of £80k for Leisure and £100k for parking fees were included in the budget at the start of the year to recognise that variances in these income streams were more likely due to the ongoing recovery following the Covid-19 pandemic.






- 8.7. The status of income from planning applications has changed from amber at Quarter Two to red at Quarter Three. A £150k shortfall in income from planning applications in 2023/24 was identified and explained in the revenue monitoring included in the Revenue Budget 2024/25 report.
- 8.8. The projected outturns for both planning income and garden waste service income are lower than the actual income recorded to date because the projections include the estimated impact of the accounting adjustments required at the end of the financial year. The final planning income total will capture only those fees received from applications resolved during 2023/24, while the waste income total will only reflect the proportion (around one third) of garden waste income receipts received in this year for the current 18-month garden waste subscription period for collections provided in this financial year.

**Table 4 - Corporate financial health indicators**

Indicator	Status	Original Budget £k	Actual to Date £k	Projected Outturn £k	Variance £k
Leisure Centres Management Fee Income	Red	(599)	(518)	(533)	66
Garden Waste Collection Service Subscriptions	Green	(1,140)	(1,917)	(1,140)	0
Commercial Refuse & Recycling Service Income	Red	(1,269)	(968)	(1,245)	24
Planning Application Fees (including fees for pre-application advice)	Red	(1,008)	(1,114)	(858)	150
Car Parking Fees	Red	(2,026)	(1,347)	(1,870)	156
Parking Penalty Charge Notices (PCNs)	Green	(573)	(542)	(743)	(170)

- 8.9. Table 5 below indicates current activity levels, where these drive financial performance, and how these compare to the prior year to indicate the direction of current trends. As performance against the planning applications fee income budget is generally determined by the number of large applications resolved in the year (rather than the total number of applications received), and this distinction is not captured in the data available, this indicator is omitted from table 5.

**Table 5 - Corporate financial health indicators – activity drivers**

Indicator	Activity Measure	Performance to Q3 2023/24	Performance to Q3 2022/23	Percentage Movement	Direction of Trend
Leisure Centres Management Fee	Number of Leisure Centre visits	1,199,889	1,083,908	+10.7%	
Garden Waste Collection Service	Number of bin subscriptions at end of quarter	30,413	27,920	+8.9%	
Commercial Refuse & Recycling Service	Number of customers	1,035	1,013	+2.2%	
Car Parking Fees	Car park tickets sold / average ticket price sold	861,959 / £1.70	855,931 / £1.63	+0.7% / +4.3%	
Parking Penalty Charge Notices	Number of PCNs issued	11,510	10,202	+12.8%	

## **FUNDING, RISK AND GENERAL FUND BALANCE**

- 8.10. The Council's revenue budget is funded primarily from Council Tax and Retained Business Rates income. The Council was notified by Central Government in February 2023 of the amount of New Homes Bonus and Services Grant it could expect to receive in 2023/24 and planned accordingly.
- 8.11. Council Tax and Business Rates are accounted for in the Collection Fund rather than directly in our accounts, as we also collect them on behalf of other bodies. Each organisation has a share of the balance on the Collection Fund account. The Council will receive in this year its share of the Council Tax and Business Rates Collection Fund surpluses for the prior year, as estimated in January 2023. As reported previously, this means contributions to the General Fund of £138k from the Council Tax Collection Fund and £452k from the Business Rates Collection Fund. While the Council Tax surplus amount of £138k is included in the funding total in table 7, the business rates surplus will be transferred to reserve and used to mitigate the impact of deficits recorded, and/or changes to the rates retention scheme, in future years.
- 8.12. The Council's share of the Council Tax Collection Fund is forecast to be a deficit balance of £24k at the end of the year. A contribution of £24k will be transferred from the General Fund to the Collection Fund in the next financial year and this will therefore reduce the amount of Council Tax funding available in 2024/25, as was shown in Appendix C to the Revenue Budget 2024/25 report. Any difference between this forecast and the actual position recorded at the end of the financial year will affect the calculation of the surplus / deficit position for 2024/25 and therefore impact the level of Council Tax funding available in 2025/26.
- 8.13. The current forecast for the Council's share of the Business Rates Collection Fund at the end of the year, as declared in the NNDR1 return submitted to Government in January, is an overall surplus position of £416k. As explained previously, this is primarily due to the actual surplus recorded for 2022/23 being £1.276m higher than was estimated in January 2023. The in-year position is therefore a forecast deficit of £860k. The increase of around £500k in the forecast in-year deficit since the quarter 2 forecast deficit of £300k is due to an increase in the estimated cost of appeals calculated in January, with information received from the Valuation Office (VOA) indicating an increase in the number of challenges lodged with the VOA. Similar to the Council Tax Collection Fund, the surplus amount of £416k will be transferred to the General Fund in the next financial year and any difference with the final outturn for 2023/24 will affect the following financial year's calculated surplus / deficit position.
- 8.14. The Council must pay a business rates tariff to central government as its income from business rates is higher than the level of its assessed funding need, as determined by central government. For 2023/24, the tariff amount was set at £15.3million. However, with a new business rates revaluation effective from April 2023, the Government has sought to ensure that, as far as practicable, a local authority's retained business rates income is no more or no less than it would have been had the revaluation not taken place, as the outcome of the revaluation and the consequent impact on rates income is outside of the Council's control. This is to be achieved through adjusting the tariff amount payable to government. For North Herts Council, this adjustment was confirmed as a £245k reduction in tariff in the Local Government Finance Settlement for 2024/25. While the cash benefit to the Council will materialise in 2024/25, with the government reducing the tariff payment schedule amounts in 2024/25, the required accounting for the reconciliation adjustment in 2023/24 means that the tariff amount chargeable to the Council's General Fund in 2023/24 will be £245k less than the tariff amount notified in the Local Government Finance Settlement in February 2023. This will reduce the amount of grant held in reserve needed to be transferred to the General Fund at the close of the year.

- 8.15. The Council is also subject to a business rates levy from Central Government as it collects more in business rates than the baseline level determined by Central Government. The current forecast for 2023/24 is a business rates levy liability of around £800k at the end of the financial year. The final amount payable however will depend on the actual level of business rates income collected during the year. In any case, the business rates levy payable for 2023/24 will be funded from grant held in reserve and as such will have a net zero impact on the General Fund balance at the end of the year.
- 8.16. The Council receives compensation in the form of a grant from Central Government for business rate reliefs introduced, which goes into our funds rather than the Collection Fund. The final amount of grant the Council can retain depends on the actual level of reliefs applied during the year. The Council currently expects to retain a grant total of £4.659m for reliefs in 2023/24, which includes an amount of £482k received as compensation for the Government's previous decisions to cap the increases in the business rates multiplier. The multiplier compensation is included in the funding total in table 6 below. The rest of the grant received is held in reserve. Some of the amount held in reserve will be used to fund the business rates levy payable for this year, while a further amount of around £2million will be used to top up the business rates income charged to the General Fund in 2023/24 to the baseline funding amount anticipated when the budget was set. In addition, as shown in table 7 below, there is the planned release of £1.144million from the reserve to the General Fund in 2023/24 to bridge the funding gap anticipated when the budget was set, as explained originally in the MTFs 2023-2033.
- 8.17. The Council does not expect to receive non-ringfenced emergency grant funding from government in 2023/24 to help mitigate the ongoing financial impacts of the Covid-19 pandemic. As detailed in the 2023/24 Revenue Budget Report presented to Full Council in February, a central provision of £450k was included in the budget for 2023/24. As detailed in the monitoring reports at Quarter One and Quarter Two, the forecast financial impact in this year is £479k, exceeding the provision made in the budget by £29k.
- 8.18. Table 6 below summarises the impact on the General Fund balance of the position at Quarter Two detailed in this report.

**Table 6 – General Fund impact**

	<b>Working Budget</b>	<b>Projected Outturn</b>	<b>Difference</b>
	<b>£k</b>	<b>£k</b>	<b>£k</b>
<b>Brought Forward balance (1<sup>st</sup> April 2023)</b>	<b>(11,990)</b>	<b>(11,990)</b>	<b>-</b>
Net Expenditure	17,103	16,688	(415)
Funding (Council Tax, Business Rates, NHB, Services Grant)	(17,394)	(17,394)	0
Funding from Reserves (including Business Rate Relief Grant)	(1,144)	(1,144)	0
<b>Carried Forward balance (31<sup>st</sup> March 2024)</b>	<b>(13,425)</b>	<b>(13,840)</b>	<b>(415)</b>

- 8.19. The minimum level of General Fund balance is determined based on known and unknown risks. Known risks are those things that we think could happen and we can forecast both a potential cost if they happen, and percentage likelihood. The notional amount is based on multiplying the cost by the potential likelihood. The notional amount for unknown risks is based on 5% of net expenditure. There is not an actual budget set aside for either of these risk types so, when they occur, they are reflected as budget variances (see table 3). We monitor the level of known risks that actually happen, as it highlights whether there might be further variances.

This would be likely if a number of risks come to fruition during the early part of the year. We also use this monitoring to inform the assessment of risks in future years. The notional amount calculated at the start of the year for known risks was £1,215k, and at the end of the third quarter a total of £427k has come to fruition. The identified risk realised in the third quarter relates to:

- Legal costs in relation to Environmental Health enforcement (included in other minor variances on table 3) - £19k.

**Table 7– Known financial risks.**

	£'000
<b>Original allowance for known financial risks</b>	<b>1,215</b>
Known financial risks realised in Quarter 1	(34)
Known financial risks realised in Quarter 2	(374)
Known financial risks realised in Quarter 3	(19)
<b>Remaining allowance for known financial risks</b>	<b>788</b>

## 9. LEGAL IMPLICATIONS

- 9.1. The Cabinet has a responsibility to keep under review the budget of the Council and any other matter having substantial implications for the financial resources of the Council. Specifically, 5.7.8 of Cabinet's terms of reference state that it has remit "*to monitor quarterly revenue expenditure and agree adjustments within the overall budgetary framework*". By considering monitoring reports throughout the financial year Cabinet is able to make informed recommendations on the budget to Council. The Council is under a duty to maintain a balanced budget and to maintain a prudent balance of reserves.
- 9.2. The recommendations contained within this report are to comply with the council's financial regulations with attention drawn to significant budget variances as part of good financial planning to ensure the council remains financially viable over the current fiscal year and into the future. Local authorities are required by law to set a balanced budget for each financial year. During the year, there is an ongoing responsibility to monitor spending and ensure the finances continue to be sound. This means there must be frequent reviews of spending and obligation trends so that timely intervention can be made ensuring the annual budgeting targets are met.

## 10. FINANCIAL IMPLICATIONS

- 10.1. Members have been advised of any variations from the budgets in the body of this report and of any action taken by officers.

## 11. RISK IMPLICATIONS

- 11.1. Good Risk Management supports and enhances the decision-making process, increasing the likelihood of the Council meeting its objectives and enabling it to respond quickly and effectively to change. When taking decisions, risks and opportunities must be considered.
- 11.2. As outlined in the body of the report, the process of quarterly monitoring to Cabinet is a control mechanism to help to mitigate the risk of unplanned overspending of the overall Council budget.

## **12. EQUALITIES IMPLICATIONS**

- 12.1. In line with the Public Sector Equality Duty, public bodies must, in the exercise of their functions, give due regard to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.
- 12.2. For any individual new revenue investment proposal of £50k or more, or affecting more than two wards, a brief equality analysis is required to be carried out to demonstrate that the authority has taken full account of any negative, or positive, equalities implications; this will take place following agreement of the investment.

## **13. SOCIAL VALUE IMPLICATIONS**

- 13.1. The Social Value Act and “go local” policy do not apply to this report.

## **14. ENVIRONMENTAL IMPLICATIONS**

- 14.1. There are no known Environmental impacts or requirements that apply to this report.

## **15. HUMAN RESOURCE IMPLICATIONS**

- 15.1. Although there are no direct human resource implications at this stage, care is taken to ensure that where efficiency proposals or service reviews may affect staff, appropriate communication and consultation is provided in line with HR policy.

## **16. APPENDICES**

- 16.1. None.

## **17. CONTACT OFFICERS**

- 17.1. Antonio Ciampa, Accountancy Manager  
[antonio.ciampa@north-herts.gov.uk](mailto:antonio.ciampa@north-herts.gov.uk); ext. 4566
- 17.2. Jodie Penfold, Group Accountant  
[jodie.penfold@north-herts.gov.uk](mailto:jodie.penfold@north-herts.gov.uk); ext. 4332
- 17.3. Ian Couper, Service Director – Resources  
[ian.couper@north-herts.gov.uk](mailto:ian.couper@north-herts.gov.uk); ext. 4243
- 17.4. Rebecca Webb, Human Resources Services Manager  
[rebecca.webb@north-herts.gov.uk](mailto:rebecca.webb@north-herts.gov.uk); ext. 4481
- 17.5. Jeanette Thompson, Service Director – Legal and Community  
[jeanette.thompson@north-herts.gov.uk](mailto:jeanette.thompson@north-herts.gov.uk)
- 17.6. Reuben Ayavoo, Policy and Communities Manager  
[reuben.ayavoo@north-herts.gov.uk](mailto:reuben.ayavoo@north-herts.gov.uk); ext. 4212

## **18. BACKGROUND PAPERS**

- 18.1. None.