

Governance and Audit Committee



SOUTH
KESTEVEN
DISTRICT
COUNCIL



Wednesday, 19 June 2024 at 10.00 am
Council Chamber - South Kesteven House, St. Peter's Hill,
Grantham. NG31 6PZ

Committee Members: Councillor Tim Harrison (Chairman)
Councillor Helen Crawford (Vice-Chairman)

Councillor Bridget Ley, Councillor Charmaine Morgan, Councillor Rob Shorrocks, Councillor Peter Stephens, Councillor Paul Stokes, Councillor Mark Whittington and Councillor Sue Woolley

Agenda

This meeting can be watched as a live stream, or at a later date, [via the SKDC Public-I Channel](#)

1. Apologies for absence

2. Disclosure of interests

Members are asked to disclose any interests in matters for consideration at the meeting.

3. Minutes of previous meetings

(Pages 3 - 31)

Minutes of the meetings held on:

24 January 2024 (public and exempt)

13 March 2024 (public and exempt)

26 April 2024 (Extraordinary Meeting)

There is an exempt set of minutes from both the January and March 2024 meetings; they are exempt under Section 100(a)(4) of the Local Government Act 1972; paragraph 1 (January) and paragraph 2 (March) of Schedule 12A of the Act. The press and public may be excluded from the meeting during consideration of these exempt minutes, on the grounds that if they were to be present, exempt information could be disclosed to them.

- 4. Updates from previous meeting** (Page 33)
To consider updates on actions agreed at the meeting held on 13 March 2024
- 5. Internal Audit Annual Report 2023-2024** (Pages 35 - 90)
The Internal Audit Annual Report 2023-2024 from the Council's outgoing Internal Auditors, RSM.
- 6. Draft Internal Audit Annual Plan and Three Year Strategic Plan (2024-2027)** (Pages 91 - 114)
Draft Internal Audit Plan from BDO, the Council's Internal Auditors.
- 7. 2023-2024 Treasury Management Annual Report** (Pages 115 - 124)
This report provides Governance & Audit Committee with the details of the Council's Treasury Management activity for the financial year 2023/2024.
- 8. Review of Treasury Management Activities - Environmental, Social and Governance Review** (Pages 125 - 182)
This report presents the findings of an independent review of Environmental, Social and Governance (ESG) treasury management activities.
- 9. Whistleblowing Policy 2024 - 2026** (Pages 183 - 195)
One of the key areas for Governance and Audit Committee, as part of its terms of reference, is to monitor and review the whistleblowing arrangements in place and action taken as a result of whistleblowing disclosures.
- 10. Anti-Money Laundering Policy 2024 - 2026** (Pages 197 - 207)
One of the key areas for Governance and Audit Committee, as part of its terms of reference, is to approve the Anti-Money Laundering Policy.
- 11. Corporate Plan 2024-27: Key Performance Indicators** (Pages 209 - 215)
To present the proposed key performance indicators (KPIs) for the Corporate Plan 2024-27, to be monitored by this Committee, and to recommend the approval and adoption of the KPI suite.
- 12. Work Programme 2024/2025** (Pages 217 - 221)
To consider the Committee's Work Programme for 2024/2025.
- 13. Any other business, which the chairman, by reasons of special circumstances, decides is urgent.**

Governance and Audit Committee

Wednesday, 24 January 2024, 2.00 pm



SOUTH
KESTEVEN
DISTRICT
COUNCIL

Committee Members present

Councillor Tim Harrison (Chairman)
Councillor Paul Wood (Vice-Chairman)
Councillor Patsy Ellis
Councillor Graham Jeal
Councillor Bridget Ley
Councillor Charmaine Morgan
Councillor Peter Stephens
Councillor Sue Woolley

Other Members present

Councillor Ian Selby
Councillor Gareth Knight
Councillor Ashley Baxter
Councillor Richard Cleaver
Councillor Philip Knowles

Cabinet Members

Councillor Ashley Baxter
Councillor Richard Cleaver
Councillor Philip Knowles

Officers

Richard Wyles, Deputy Chief Executive
and Section 151 Officer
Graham Watts, Assistant Director
(Governance and Public Protection) and
Monitoring Officer
Alison Hall-Wright, Director of Housing
Tracey Elliott, Governance and Risk
Officer
Claire Moses, Head of Service
(Revenues, Benefits Customer and
Community)
Phil Swinton, Emergency Planning and
Health & Safety Lead
Sarah Downs, Democratic Services
Officer

56. Apologies for absence

Before commencing with the formal items of business, the committee consented to a variation in the order of the agenda, with the 'Leisure:SK Limited – Board of Directors' report falling being heard after the 'Internal Audit Progress report'.

Apologies for absence were received from Councillors' Rob Shorrocks and Ian Stokes.

Councillor Graham Jeal substituted for Councillor Stokes.

Apologies were also received from Councillor Charmaine Morgan who was delayed but due to attend.

57. Disclosure of interests

No interests were disclosed.

58. Minutes of the meeting held on 29 November 2023

The Chairman informed Members that he was expecting to receive a report from Duncan and Toplis by 26 January 2024.

The minutes of the meeting held on 29 November 2023 were proposed, seconded and **AGREED** as a correct record.

59. Updates from previous meeting

All actions from the previous meeting were confirmed as complete. There were no further comments.

60. External Audit Findings 2022-2023

The Auditor from Grant Thornton presented the findings for the Council Audit for the 2022-2023 financial year.

The report was a positive one and close to being completed. All risks that had been discovered at the planning stage were similar to those seen in other Councils of a similar size.

The external auditors raised the following points:

- No management override control had been identified. Two control recommendations had been raised, which had also been communicated in the previous year.

- The audit had not found any material errors in the valuation of property, but it did find one non-material error relating to the valuation of council dwellings of £135,000.
- The audit found significant risk relating to the pension fund net liability not being accounted for as an asset; however, discussions were still ongoing with the actuary regarding this classification.
- The control recommendations from the previous year had been reviewed; six of them had not yet been actioned but this was due to the timing of the audit.
- The unadjusted misstatements were satisfactory, and the accounts were not considered to be materially misstated.

During debate, further information from the report was highlighted:

- The significant risks identified in the audit report were identified in every audit of local government bodies, and the auditors did not have any significant concerns about South Kesteven District Council's (SKDC's) financial statements.
- The largest misstatement in the accounts was in relation to the pension net asset which was being seen in many sets of accounts this year.
- The number of super users within the accounts system processing journals had been reduced from 5 to 4; it was important to ensure resilience within the team. Super users had been issued a separate user ID to reduce the risk when processing journals.
- Auditors do risk assess journals as part of their testing to ensure they test the higher risk journals. The finance team reviewed processed journals on a monthly basis to ensure they were all appropriate.
- Proposed budget increases for next year included a proposed £104,000 increase in the external audit fee due to increases in charges for the audit of the Statement of Accounts and housing benefit subsidy return.
- External audit fees were set by the Public Sector Audit Appointments (PSAA), not the external auditors themselves.

The Committee accepted the External Audit Findings for 2022-2023.

61. Value for Money Opinion 2021-22 and 2022-2023

Members considered a report on the Value for Money Opinion for 2021-2022 and 2022-2023.

The report covered three main areas:

- the Council's financial sustainability
- the Council's governance arrangements, and;
- the Council's arrangements to secure improvements in economy, efficiency, and effectiveness.

The report would remain provisional until the audit opinion had been signed; however the auditors felt that the report was a fair reflection of arrangements at the Council.

There were three levels of recommendation that could be raised:

- improvement recommendations (lowest urgency)
- key recommendations (middle), and;
- statutory recommendations (most serious).

The report had one key recommendation for the two years being covered; a recommendation of a review into the historic use of non-disclosure agreements (NDAs), alongside identifying any overarching themes that might be addressed to reduce their usage, and finally whether the use of NDAs was the correct outcome in each of those cases.

The following pieces of information were raised during debate:

- The use of NDAs was the exception, not the rule. The Council had recently undergone corporate restructuring, which had led to a temporary increase in NDAs. Statutory and legal officers had a set, rigid process to evaluate if an NDA was necessary. Whilst the number of NDAs had increased, the total value spent on them had decreased.
- Corporate restructuring was overseen by the Employment Committee, ensuring a democratic element to the process. However, it wasn't necessary for the Council to agree to every NDA signed because the intent was a timely termination of employment. There was not an undue burden on the taxpayer because it was dealt with within the boundaries of the Budget set by the Council.
- Contracts of employment fell within the duties of the Head of Paid Service. There was a strict process of seeking legal advice, obtaining a business case from the relevant service area, and getting the input of Human Resources and all three statutory officers. All of this was presented to the Head of Paid Service, who then decided if an NDA was necessary.

The Committee **ACCEPTED** the Value for Money Opinion 2021-22 and 2022-2023.

62. Statement of Accounts and Annual Governance Statement 2022-2023

Members considered the Statement of Accounts and Annual Governance Statement for 2022/2023.

The accounts had been awaited for some time as there had been a bottleneck in the audit process.

Having been proposed and seconded, following a vote it was **AGREED**:

DECISION

That Governance and Audit Committee:

1. Notes the outcome of the audit work undertaken to date by the Council's external auditors Grant Thornton.
2. Delegates authority to the Chief Finance Officer to make any final wording changes and accounting adjustments following the conclusion of any outstanding audit queries.
3. Delegates approval of the audited Statement of Accounts and the Letter of Representation to the Chairman of the Governance and Audit Committee, on behalf of the Governance and Audit Committee in consultation with the Chief Finance Officer.

63. Internal Audit Progress Report

Members considered a progress report from the Internal Auditors, RSM. The delivery of the Internal Audit Plan by the end of March 2024, which had been planned for remained on track.

There was one change from the last meeting: responsive repairs had been added to the Internal Audit Plan at the request of the Governance and Audit Committee as there had been an empty slot within the audit.

The Council had demonstrated reasonable progress against the 12 actions within the report, which was positive.

The review into debtors and debt recovery processes sought to ensure that invoices were being raised in a timely and accurate manner, and that debts were being chased so that collection rates could be maximised. Actions that had been previously raised on the account payable review were also followed up; that had been a low assurance opinion, but was now a positive opinion, a marked improvement. A reasonable assurance had been given overall, which was an 'amber' opinion. Good progress had been made in regards to previously agreed actions on the accounts payable review. 28 out of the 38 actions had been completed, the remaining 10 could not be marked as fully completed due to a lack of evidence at the time of carrying out the review. There was confidence that these would be completed as part of the follow up review.

Following questions from members, further information was provided:

- RSM had reached out to the previous internal auditor regarding the Voids report and was awaiting a response. No testing had been possible on Voids at this stage as the new system was not yet in place.
- The Deputy Chief Executive noted that previous reports from the previous auditors had showed six high risks with the debtors audit; it was noted that now there were only low risks within this report.
- Follow-up actions from the debtors and debt recovery audit had referred to ten instances of incomplete evidence. This was in part due to a new system for debt management coming online in April 2024, and also due to guidance for staff not having been placed into one single document. RSM had agreed with the commentary provided by officers on this topic.
- The Health and Safety team undertake an annual review of risk assessments across all Council areas to ensure that they are being done and are in date. Where risk assessments were expired or out of date, the Health and Safety team were already carrying out reviews with the relevant service areas. Where there is a significant risk the Health and Safety team have the power to stop the activity and make sure the risk was corrected.

Committee **ACCEPTED** the Internal Audit Progress Report.

64. LeisureSK Limited - Board of Directors

Members considered a report which sought nominations to the Board of Directors to LeisureSK Limited following recent resignations. It also considered a recent recommendation from Culture and Leisure Overview and Scrutiny Committee regarding a 'Vote of No Confidence'.

The public and press were excluded from the meeting under paragraph 1 of Part 1 of Schedule 12A of the Local Government Act 1972 following a vote; if they had remained they would have been party to information pertaining to the competency of individuals to be Board Directors.

Having been moved and seconded, and following a vote, it was **AGREED**:

DECISION

1. That Councillor Steven Cunnington be appointed to the Board of Directors for LeisureSK Limited.
2. That the Governance and Audit Committee receives the report of the independent review commissioned by Cabinet regarding the governance of LeisureSK Limited.

65. Appointment of the Council Internal Auditors

Members considered the appointment of the Council's internal auditors.

RSM, the current internal auditors had joined the Council in September 2023, and their appointment would run until March 2024.

Following a compliant procurement process, and subject to a scoring mechanism based on price and quality, BDO LLP were selected as the winning bidders. The recommendation would be for the auditors to be in place for a three-year period with an option for a fourth year.

Having been moved and seconded, following a vote it was **AGREED**:

DECISION

That Governance and Audit Committee approve the appointment of BDO LLP as the Council's internal auditor for three years commencing 1 April 2024, with the option to extend for one year, for the annual cost of £90,000.

66. Treasury Management Strategy Statement 2024-2025

Members considered the 2024/2025 Treasury Management Strategy Statement. The Council was required by regulations issued under the Local Government Act 2003 to produce a Treasury Management Statement for each financial year.

The Statement was wholly compliant with the CIPFA Code of Practice on Treasury Management and the Prudential Code.

The Capital Programme was presented to the Budget Overview and Scrutiny Committee on 15 January 2024, including a breakdown of the scheme being invested in. For example, for the HRA that would be the housing stock investment and investment in housing growth. For the General Fund, there was the proposed new Deport project. That would be included in the 2023/2024 figures, which was why the Budget was higher for 2023/2024 than 2024/2025.

Having been moved and seconded, and following a vote, it was **AGREED**:

DECISION

That the Governance and Audit Committee recommends to Council that the 2024/2025 Treasury Management Strategy Statement be approved.

67. Complaints Statistics: April-November 2023

This item had been withdrawn from the meeting and was now due to be heard at the next meeting of Governance and Audit Committee on 13 March 2024.

68. Health and Safety Policy 2023 - 2025

Members considered the Health and Safety Policy for 2023-2025. This Policy ensured compliance with the Council's legal duties and was the Council's statement of intent and commitment to managing any risk that may arise from its undertakings.

The Policy was designed to mirror the Health and Safety at Work Act. It was reviewed annually by officers and brought to the appropriate Overview and Scrutiny Committee every two years (or following any changes to the Policy). The Policy historically had visited Employment Committee, but now was within the remit of the Governance and Audit Committee.

One change from the past Policy was to remove the legal requirements associated with Covid-19.

There was a Health and Safety Working Group including officers of the Council where any health and safety issues across the workforce could be brought to the attention of the Health and Safety team.

Having been moved and seconded, and following a vote, it was **AGREED**:

DECISION

That Governance and Audit Committee approve the contents of the Health and Safety Policy for the period 2023-2025.

69. Work Programme 2023 - 2024

The following items were discussed during consideration of the work programme for 2023-2024:

- Expressions of interest for Governance and Audit Committee members had been sought to take part in the Little Ponton and Stroxton Community Governance Review Working Group. So far three members had expressed an interest, and a maximum of five members could take part.
- Housing repairs had been agreed to be part of the Audit Plan and would be worked on accordingly.
- The item on Complaints Statistics for April to November 2023 would come back to Governance and Audit Committee in March 2024.
- The Counter Fraud and Risk Management Framework reports were being worked on and were likely to be ready for the 2024/2025 municipal year.
- An item on Constitutional Amendments would be added to the workplan for the March 2024 meeting.

The workplan was therefore **NOTED**.

70. Any other business, which the chairman, by reasons of special circumstances, decides is urgent.

The Chairman informed the Committee that an issue had been brought to his attention by a member of the public regarding the Common Seal register of the Council. This had been investigated by the Monitoring Officer and the issue had now been remedied; processes had been put in place to try and avoid similar issues happening in the future.

71. Close of meeting

The Chairman closed the meeting at 16.10.

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Meeting of the Governance and Audit Committee

Wednesday, 13 March 2024, 2.00
pm



SOUTH
KESTEVEN
DISTRICT
COUNCIL

Committee Members present

Councillor Tim Harrison (Chairman)
Councillor Paul Wood (Vice-Chairman)
Councillor Patsy Ellis
Councillor Bridget Ley
Councillor Charmaine Morgan
Councillor Rob Shorrocks

Other Members present

Cabinet Members

Councillor Ashley Baxter
Councillor Phil Dilks
Councillor Philip Knowles
Councillor Rhea Rayside

Officers

Debbie Roberts, Head of Corporate
Projects, Policy and Performance
Nicola McCoy-Brown, Director of Growth
and Culture
Richard Wyles, Deputy Chief Executive
and Section 151 Officer
Graham Watts, Assistant Director
(Governance and Public Protection) and
Monitoring Officer
James Welbourn, Democratic Services
Manager (Deputy Monitoring Officer)
Alison Hall-Wright, Director of Housing
Charles James, Policy Officer
Emma Whittaker, Assistant Director of
Planning
Tracey Elliott, Governance and Risk
Officer
Jodie Archer, Head of Housing Services
Sarah McQueen, Head of Service
(Housing Options)

72. Apologies for absence

Apologies for absence were received from Councillors Peter Stephens and Sue Woolley.

Substitutes for the meeting had been suggested for these members but they did not appear throughout the course of the meeting.

It was moved, seconded and **AGREED** to vary the order of the agenda in order to allow the Whistleblowing Audit Update to be heard prior to the other formal items on the agenda.

73. Minutes of the meeting held on 24 January 2024.

The consideration of the minutes of the meeting held on 24 January 2024 was **DEFERRED** until the next ordinary meeting of the Committee.

74. Updates from previous meeting

All actions from the previous meeting were confirmed as complete. There were no further comments.

75. Disclosure of interests

No interests were disclosed.

76. Whistleblowing Audit Update

Having been moved, seconded and **AGREED**, the public and press were excluded from the meeting under paragraph 2 of Part 1 of Schedule 12A of the Local Government Act 1972.

Having been moved and seconded, the Committee **AGREED** to:

- 1. Note the progress of the completion of the Internal Audit Whistleblowing Actions.**
- 2. Note the findings of the independent review of the Sale of excess Oil.**

77. Internal Audit Progress Report

The Internal Auditors, RSM provided a general update on the progress of the internal audit, explaining that the Council were on track to deliver the plan by the end of March 2024. The purchasers and creditors and payroll reports had been issued in draft. A meeting was held on 12 March 2024 to move forward

and close work on the Section 106 reports. The follow up field work was also complete and would shortly be going through management review.

Questions on progress were invited, and it was clarified in response that the draft responsive repairs report was to be finalised. A meeting had taken place recently with the management team to discuss this, and further feedback would be given at the next meeting of Governance and Audit Committee. The reports were presented to the Committee in turn:

- **Food Safety Management.** The Council conducted inspections of food outlets to assess compliance and safety arrangements. Overall substantial assurance was provided, with three management actions, focusing on updating procedures, ensuring that supporting notes were included on the system where businesses have closed, and the timing of inspections.
- **Governance.** The internal auditor looked at five committees, with a focus on the terms of reference and how the committees discharged their duties in relation to this. They also considered reports, agendas and minutes to ensure that the terms of reference were being complied with. Substantial assurance was provided, with one low area to ensure that all committees undertook a full self-evaluation at the end of each year. The internal auditors looked at minutes of committee meetings and commented that it was evident there was challenge during these meetings. The auditors commented that they could only base their answer on the information recorded in minutes. It was confirmed that there was a reference in the Constitution to an annual Scrutiny Report for each Overview and Scrutiny Committee. This hadn't been completed in the last municipal year but was due to visit Full Council later in 2024 to ensure this included a full year of Council business.
- **Recruitment and Retention.** This report looked at how this process was being managed by the HR team and individual teams when undertaking recruitment exercises. The report was positive with substantial assurance and three low management actions were agreed relating to maintaining evidence of training being conducted, and retention of documentation including requisition and shortlisting and scoring. It was remarked that interview forms should always be retained unless there was a reason not to; in 5 out of 20 instances the forms had not been retained.
- **Cyber Treatment Plan.** In 2022 the Department for Levelling Up, Housing and Communities (DLUHC) performed a review around grant funding. 32 actions were identified during this review. DLUHC has now signed off these actions, with 1 of 32 ongoing. This was a good report with substantial assurance and one low. Two actions had been marked as complete and signed off by DLUHC, however the internal auditors felt that while these actions had been completed, further enhancements could be made to reduce risk. It was confirmed that one action around installing core switches within the IT network would be completed imminently.

- **Risk Management Review.** Risk was a key area of the Head of Internal Audit Opinion. This was undertaken as an advisory review, completed from a perspective of the evolving and changing risk which had also been discussed at the previous Governance and Audit Committee meeting. There were nine recommendations from this report to take this work to the next level, ensure that actions are followed though, and look at good practice. It was agreed that minutes would be taken for the Risk Management Group meetings. Internal auditors also explained that there were no particular red flags raised, and that it was important to note the Council were taking steps to improve risk management. It was noted that the report recommended resuming the use of risk management software, and in response the Governance and Risk Officer confirmed that the use of this had been paused following a software upgrade, but following approval of the new Strategic Risk Register usage will be resumed.

In noting it, Councillors shared praise for the report and the progress made by the internal auditors.

78. Strategic Risk Register

Members considered a report on the Strategic Risk Register. A report on the same topic had been discussed at a previous Governance and Audit Committee held on 29 November 2023, and members of Governance and Audit Committee were due to receive further reports every six months.

Two risks were identified as being complimentary or repeated and therefore they had been separated from the wider report. Six risks had been reassessed where there has been a requirement to raise the level of risk because either it was more likely or more serious than previously perceived.

The Deputy Chief Executive added that the Emerging Risk Radar document preceded this work and was relevant to this item, despite being placed later on in the agenda.

The Commercial Head from RSM was in attendance at the meeting and available to answer questions. He had been instrumental in the formation of the Risk Register, following an ambition set out in the previous year to reset the strategic register, taking it from a thematic approach to a more specific approach.

Following questions from members, additional information was highlighted:

- Risk monitoring formed a fundamental element of public service delivery and helped to improve outcomes.
- The Council had a duty to understand principal risks. A strategic risk was something material in nature and would be painful should it occur through reputational damage.

- Auditors may identify further actions through analysis, so in the next six months Members would see an assessment of the effectiveness of controls. This was concerned with strengthening the governance of the Council to protect officers and stakeholders.
- Strategic risk actions were still in the process of being developed. In relation to staff vacancies at South Kesteven District Council (SKDC), the turnover of staff and vacancy rate was in line with other Local Authorities.
- The Authority was exposed to risks around the areas of quality assurance and regulatory compliance if it did not act. If digital transformation options were not explored then SKDC could be exposed. A more strategic vision was required when approaching technology, and this would be achieved through the development of a Transformation Strategy.
- The Corporate Information Governance Group, an internal group attended by the Monitoring Officer, the Data and Information Governance Officer and other key officers met on a monthly basis to discuss regulatory compliance. It was agreed to share the action list from this group with the Committee.
- From a financial risk perspective, the Council had just set a balanced Budget for 2024/2025 without reliance on reserves. There was an emerging Minimum Revenue Position (MRP) to set aside each year as a result of large strategic projects.
- Some of the actions within the Strategic Risk Register were 'exceptional', meaning that they were not identified as standard. A 'Controls Assessment' would be performed to identify exceptional actions, which in turn would hopefully be completed, enhancing the control environment. As an example of a non-exceptional item, the Safeguarding Policy was reviewed as a matter of course through a review of policy, procedures and training.
- With Local Authorities there was always a core set of risks. With regard to these core risks, SKDC benchmarked relatively positively.
- If undergoing a Local Government Association Peer Review, the Strategic Risk Register would be submitted as a core document.

Having been moved and seconded, and following a vote, it was **AGREED** that Governance and Audit Committee approved the updated and revised Strategic Risk Register.

79. Safeguarding Report: 2022/2023

The Annual Safeguarding report for 2022/2023 was presented to the Committee. The report provided an overview of the Council's involvement in the safeguarding of children, young people and vulnerable adults for 2022/2023, and also outlined SKDC's relationship with Lincolnshire County Council (LCC) with regard to safeguarding issues.

It was reported that there had been a good success rate on the delivery of safeguarding training to Members, albeit with a small number of Members still to receive the training.

Safeguarding was embedded into the corporate induction for officers; there was also a 6 year pathway for officers, which involved a number of training modules, accessible through the LCC website.

SKDC oversaw 10 adult, and 2 child safeguarding referrals during 2022/2023. The Safeguarding leads for the authority attended Statutory Officer meetings to address any concerns linked to safeguarding.

Assurance had been given to SKDC from auditors regarding adult safeguarding. Officers had recently uploaded their 'evidence chest' to the safeguarding audit.

The Committee **NOTED** the report.

80. Quarter 3 Treasury Monitoring Report

Members considered the Quarter 3 Treasury Monitoring Report, containing treasury management activity for Quarter 3 of 2023/2024.

In introducing the report, the Cabinet Member and Officers highlighted the following:

- No further external borrowing was anticipated this financial year. Average interest on borrowing was 2.64% and the report outlined the repayment profile for borrowing.
- The average size of the investment portfolio was around £85 million, compared to an average of £80 million in the same period of the previous financial year, potentially due to the timing of when the Council was required to make payments. c£76 million was attributed to short term investments, and around £3 million was attributable to long term investments. No more than 35% of investments were to be 'non-specified' or long-term in nature.
- The Council currently had £10 million invested with Close Brothers who had recently seen a downgrade in their credit rating. Following the maturity of this investment the investments would be returned and re-invested.
- There was a protection with personal investors; if financial institutions encountered difficulties then investors 'bail-in'. Therefore part of SKDC's investment in these instances would be taken to ensure the future of the institution. SKDC officers would always be guided by the ratings agency.

During debate, further points were highlighted:

- The maturity dates for outstanding Close Brothers investments were 10 and 17 May, and 21 June. One investment had already matured.
- It was impossible to completely avoid investments in some groups. With the subject of ethical investing, the Authority was guided by the Chartered Institute of Public Finance and Accountancy (CIPFA) code. The motion to Council regarding ethical investing did not contain treasury management activity as officers could not impose a local code over the top of this.

The Committee **NOTED** the report.

81. 2024 Update on the Planning Review undertaken in 2021 and Action Plan

Members considered an update on the actions undertaken following a 2021 review of the Planning Service.

Service reviews were best practice to identify what was working well. Independent consultants in 2020 carried out a review within the Planning Service. Through workshops and focus groups, an action plan for the service was developed.

On 15 March 2023 the Committee considered a report outlining that all but a few actions had been completed.

The Planning Committee were required to receive annual training and support from officers. This training was refreshed close to the Annual Meeting of Full Council every May.

The Enforcement team had made significant progress in clearing their caseload; the team overall were fully resourced.

The Action Plan was up to date and would be revisited when the Levelling Up and Regeneration Act was completed by central government.

Finally, Planning systems had been updated to reflect how officers communicated with members of the public.

The following points were highlighted during debate:

- There has been a noticeable improvement in the quality of Planning reports to Planning Committee. There was of course some learning to be undertaken by newer officers, but overall the team was working well.
- There was a full and comprehensive pre-Planning advice service which officers encouraged the take up of. It was a 'paid-for' service, but good, professional advice would be received as a result, and better planning applications would be received.

- Member involvement at the pre-application stage was challenging, and residents were encouraged to speak to their Parish Councils and other stakeholders first.
- Members were now notified when there was a planning application within their Ward.
- The Council website was updated in September 2023, and the look of the Planning pages was amended.

Having been moved and seconded, and following a vote it was **AGREED** that the Action Plan was now complete.

82. 2023/24 Accounting Policies and publication date of the Statement of Accounts

In line with the Committee's terms of reference, the Council's Accounting Policies were reviewed annually, prior to the preparation of the Statement of Accounts, to ensure that they were up to date and in line with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (The Code).

There were no amendments to the 2022/2023 Accounting Policies.

Having been moved and seconded, and following a vote it was **AGREED** that the Committee:

- 1. Approves the Statement of Accounting Policies, as set out at Appendix A of the report, to be used in the production of the 2023/2024 Financial Statements.**
- 2. Notes the dates for the publication of the draft and final audited Financial Statements.**

83. Proposed amendments to the Council's Constitution

Members considered proposed amendments to the Council's Constitution and whether they would recommend these amendments to Full Council for approval.

The report described four areas where training could be made mandatory for Members:

- Councillor Code of Conduct
- Equality, Diversity and Inclusion
- PREVENT
- Safeguarding

The recommendations contained a provision for members to receive training on these areas within 6 months of the Full Council AGM, or 6 months from

their election (if they became a member as a result of a by-election). There would be a number of opportunities for members to complete this training.

There were also other minor amendments being suggested for recommendation to Full Council, relevant to the Assistant Director of Planning.

The following points were highlighted during debate:

- It was arguable how useful certain sessions were to elected members as part of their role.
- The induction programme for 2023/2024 worked well and there was plenty of scope for members to attend.
- This addressed a vagueness around training and made it clear that there was mandatory compliance training.
- For those members who were both County and District Councillors, they would be able to demonstrate in some instances that they had received training already at LCC and would not need to attend twice. This could also work for those members who received certain training as part of their day job.

Having been moved and seconded, and following a vote it was **AGREED** that the Governance and Audit Committee recommends the following Constitutional Amendments to Full Council:

- 1. That the following training and development sessions be mandatory for all Members of the Council:**
 - I. Councillor Code of Conduct**
 - II. Equality, Diversity and Inclusion**
 - III. PREVENT**
 - IV. Safeguarding**
- 2. That failure to attend training and development sessions within six months of the Council's Annual Meeting, or six months since election to office, means that a Member is unable to act on any committees or bodies to which they have been appointed until they have attended all mandatory training and development sessions.**
- 3. That the relevant Articles and Procedure Rules in Part 2 (Articles) and Part 4 (Rules of Procedure) of the Constitution in respect of its committees or other bodies be amended to reflect (1) and (2) above.**
- 4. That the following be included under the list of notices referred to in paragraph 24(e) (Planning and Planning Policy) in Part 3(c) of the Constitution (Responsibility for Functions – Delegated Powers to Officers) and the Planning Scheme of Delegation at Appendix 1 of the same part of the Constitution:**
 - I. Urgent Works Notices (Listed Buildings)**

II. Repairs Notices (Listed Buildings)

- 5. That the Planning Scheme of Delegation in Appendix 1 of Part 3 (Responsibility for Functions) be amended to reflect that the Director of Planning is authorised to issue those notices listed in the document, subject to consultation with Legal Services.**

84. Complaints Statistics: April 2022 to February 2024

Members considered complaints statistics for the period April 2022 to February 2024.

Over the period April 2021 to February 2024, the Council received 3243 complaints. There had been a steady improvement in resolution times detailed at Table 1 in the report. In the period April 2021-2022 of the 879 complaints received only 9.97% or 85 were closed within the defined timeframes, and the average complaint was open for 73 working days. In 2022-2023 the resolution time rate was improved to 38.18%, with the average time open falling to 39 working days. The trend continued in 2023-2024. 59% of complaints were resolved on time, with the average complaint open for 16 working days. This was a significant improvement based on previous years; however, performance remained below target timeframes.

There was not a dedicated complaints team at SKDC, instead there was a process for dealing with complaints across all teams. In addition, statutory officers (Head of Paid Service, Section 151 Officer and Monitoring Officer) met on a monthly basis and part of this monthly meeting was to discuss the complaints dashboard.

The overall trajectory of dealing with complaints was positive and highlighted areas for improvement. An action plan was in the process of being developed to improve performance further.

Upheld escalations to the Local Government Ombudsman was a metric from the Office for Local Government (OFLOG); on this, SKDC performed well compared to peer authorities.

The following points were raised during debate:

- The positive trajectory of complaints being closed on time had been compounded by an increase in the amount of complaints received.
- When complaints were first received into the Council they would be logged as a Stage 1 complaint. If they were not resolved at this first stage, then they would progress to being a Stage 2 complaint. Replies to a Stage 1 complaint would follow a standard template, and within this the responder would be asked to address all corresponding items in the complaint. When the Stage 1 complaint was sent back to the complainant, it would be marked as 'closed'. It would be for the

complainant to respond within 30 days if they felt the complaint had not been addressed adequately; at this point it would be escalated to a Stage 2 complaint. If the complainant was not content with the Stage 2 response, they would need to approach the LGO to take it forward; this was made clear in Stage 2 responses.

- Stage 1 and 2 complaints were linked through. Stage 2 complaints were handled by Heads of Service and Senior Managers.
- When a Stage 1 complaint was closed officers explained how it had been resolved and supportive evidence for this would be inputted into the complaints system. Recently, changes in complaints guidance had been received from the Housing Ombudsman, who recommended that complaints be closed along with actions outlining the response given. Officers would be looking at these new changes in guidance and how they may change the way complaints were looked at.
- Submitting a complaint was dealt with through the Customer Complaints and Feedback Policy. People could complain through a variety of different avenues, but in general complaints were submitted through the SKDC website.
- The statistics showed that there had been a substantial improvement in resolving Housing complaints. The average time had reduced from over two months to just under a month. The implementation of the new complaints system had assisted with this.

The Committee:

- 1. Noted the information contained within the report; and;**
- 2. Notes that from 1 April 2024 complaints will be regularly reported under the new Key Performance Indicator (KPI) suite accompanying the Corporate Plan 2024-2027.**

85. LeisureSK Limited - Board of Directors

The Committee considered appointments to the Board of Directors for LeisureSK Limited following the earlier resignation of Councillor Steven Cunningham.

There were 5 vacancies on the Board of Directors and since the resignation of Councillor Cunningham there had been no nominations. Currently the Board was quorate with two Directors, but any illness or absence with the two Directors would mean that a meeting would be inquorate.

Discussions about LeisureSK Limited were ongoing between officers and Councillors at SKDC and this topic was reviewed regularly at Culture and Leisure Overview and Scrutiny Committee.

The Committee NOTED that there were no appointments to the Board of LeisureSK Limited to consider, and no new names were proposed.

86. Access to Information Working Group

The Monitoring Officer gave a verbal update on an Access to Information Working Group, an issue that had been raised at Full Council on 29 February 2024 under the 'Public Open Forum'. For the Group to progress, a membership was required, alongside a Terms of Reference. It was suggested that the first meeting of the Working Group should establish what the Group was trying to achieve.

The list of issues that had been raised by Mr Peter Bell at the Full Council meeting in February contained areas of inquiry that were legitimate, but also actions that had already been resolved. There may also be some scope to put additional information on the SKDC website.

Discussion took place on a membership of the Working Group, with an emphasis on how many Members should make up the Group, and whether the membership should be confined to the Governance and Audit Committee, or across the Full Council membership.

Having been moved and seconded, and following a vote it was **AGREED**:

That the Monitoring Officer invites expressions of interest for membership of the Access to Information Working Group from all Members of Full Council.

87. Work Programme 2024-2025

Two items were added into the Work Programme:

- Review of the Whistleblowing Process
- Review of the Whistleblowing Policy

The remainder of the Work Programme was NOTED.

88. Any other business, which the chairman, by reasons of special circumstances, decides is urgent.

There was no other business.

The meeting closed at 4:34pm.

Meeting of the Governance and Audit Committee

Friday, 26 April 2024, 10.00 am



SOUTH
KESTEVEN
DISTRICT
COUNCIL

Committee Members present

Councillor Tim Harrison (Chairman)
Councillor Patsy Ellis
Councillor Bridget Ley
Councillor Charmaine Morgan
Councillor Peter Stephens
Councillor Mark Whittington
Councillor Sue Woolley

Other Members present

Councillor Paul Fellows
Councillor Paul Stokes

Officers

Richard Wyles, Deputy Chief Executive
and Section 151 Officer
Graham Watts, Assistant Director
(Governance and Public Protection) and
Monitoring Officer

89. Apologies for absence

Apologies for absence were received from Councillors Rob Shorrock and Paul Wood. It was noted that Councillor Mark Whittington was attending as a substitute for this meeting only in place of Councillor Paul Wood.

Councillors Ashley Baxter and Richard Cleaver also presented their apologies for absence to the meeting.

90. Disclosure of interests

No interests were disclosed.

91. LeisureSK Limited - Board of Directors

The Cabinet Member for Leisure and Culture presented a report which recommended the appointment of Councillor Patsy Ellis (Cabinet Member for Environment and Waste), Councillor Philip Knowles (Cabinet Member for Corporate Governance and Licensing) and Mr Paul Sutton (Interim Deputy Section 151 Officer) onto the Board of Leisure SK Limited. The rationale for

the appointments was based upon the challenges currently facing the company and the under-representation on the Board which only consisted of two individuals, thereby meeting the minimum requirements for a quorum. The Cabinet Member was of the view that further representation was required on the Board with the right skill sets to support the existing membership of the Board and help move the company forward.

The Monitoring Officer provided clarification regarding the legal comments outlined in the report, whereby external legal advice had strongly recommended that Cabinet Members and Statutory Officers should not be appointed onto the Boards of wholly-owned Council companies without sufficient justification for doing so. Those recommended for appointment to the Board were two Cabinet Members and a Deputy Statutory Officer. The Monitoring Officer reported that, in consultation with the Leader of the Council, they both believed the current circumstances facing the company, particularly given the fact that the Governance and Audit Committee had been unable to appoint onto the Board of LeisureSK Limited at its previous meeting, meant that there was sufficient justification for appointing Cabinet Members and a Deputy Statutory Officer onto the Board.

Questions were raised as to why further information relating to the two Cabinet Members had not been provided in the report in relation to their respective backgrounds and what competencies, experience and skills they could bring to the Board of LeisureSK Limited. It was noted that they had been nominated by the Leader of the Council who, as set out in the report, had outlined that they were both Cabinet Members who had experience of managing finances within a corporate environment.

Concerns were expressed in relation to the legal advice that Cabinet Members should not be appointed onto the Boards of Council-owned companies. Furthermore, a question was raised as to any conflict associated with the Cabinet Member for Corporate Governance and Licensing and his relationship with the Governance and Audit Committee. The Monitoring Officer provided clarification that the role of the Governance and Audit Committee was solely the appointment of Directors to the Board. Scrutiny of LeisureSK Limited as a company would fall under the responsibility of the Culture and Leisure Overview and Scrutiny Committee. It was noted that conflicts of interest may occur as a result of being on the Board of LeisureSK Limited as well as being a Cabinet Member or Deputy Statutory Officer, but reassurances were provided that such conflicts could be managed.

Further discussion ensued on the rationale and need for the three nominees to be appointed, not from a personal perspective regarding the individuals concerned but in relation to why such appointments were necessary at this time. The Cabinet Member highlighted that in discussions with the Leader of the Council it was felt necessary to provide those existing Directors on the Board with additional capacity and support at a significant time for the company. The Chairman of the Culture and Leisure Overview and Scrutiny

Committee supported this stance, adding that the support of individuals who had the necessary ability and experience to help move the company forward was essential.

The Chairman invited the Committee to give due consideration to the nomination of Councillor Philip Knowles, Cabinet Member for Corporate Governance and Licensing. Further details relating to Councillor Knowles' experience of having sat on the Board of large private companies and his knowledge of governance were shared with the Committee. It was proposed, seconded and **AGREED** that Councillor Knowles be appointed onto the Board of LeisureSK Limited and that this be reviewed in six months.

The Chairman invited the Committee to give due consideration to the nomination of Councillor Patsy Ellis, Cabinet Member for Environment and Waste. Councillor Ellis provided the Committee with details associated with her background, experience and skillset. Having been proposed, seconded and voted upon, the number of votes in favour and against were tied. The Chairman therefore used his casting vote and it was **AGREED** that Councillor Patsy Ellis be appointed onto the Board of LeisureSK Ltd and that this be reviewed in six months.

Councillors Sue Woolley and Mark Whittington wished that their votes against the appointment of Cabinet Members be recorded in the minutes. They explained that this was solely from the perspective of the external legal advice that had been received recommending that Cabinet Members should not be appointed to the Board of a Council-owned company.

The Chairman invited the Committee to give due consideration to the nomination of Mr Paul Sutton, Interim Deputy Section 151 Officer. The Council's Deputy Chief Executive and Section 151 Officer provided the Committee with an overview of Mr Sutton's experience, particularly in relation to financial analysis and previous roles as a Director of Council-owned companies.

Discussion ensued on the remuneration associated with Directors of LeisureSK Limited. It was noted that those Councillors and Officers of the authority appointed as Directors of LeisureSK Limited would not receive any remuneration for their role as Directors.

Members discussed further the balance of the Board and whether too much emphasis was being placed on financial stewardship as opposed to operational issues and that of leisure. It was noted that the existing Non-Executive Director had significant experience in the leisure industry. Taking this into account, the majority of those in attendance were content with the proposed balance of the Board based on the nominations put forward.

It was proposed, seconded and **AGREED** that Mr Paul Sutton be appointed be appointed onto the Board of LeisureSK Ltd and that this be reviewed in six months.

The meeting closed at 11:05.

By virtue of paragraph(s) 1 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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By virtue of paragraph(s) 2 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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Action Sheet

To provide members with an update on actions agreed at the 13 March 2024 meeting of the Governance and Audit Committee.

Min no.	Agenda Item	Action(s)	Assigned to	Comments/status	Deadline
77	Internal Audit Progress Report	The draft responsive repairs report was to be finalised. A meeting had taken place recently with the management team to discuss this, and further feedback would be given at the next meeting of Governance and Audit Committee.	Richard Wyles	Feedback at the next G and A in June.	June 2024
78	Strategic Risk Register	To share the action list from the Corporate Information Governance Group (CIGG)	Graham Watts	ONGOING – to be shared following the next meeting of the CIGG	June 2024
80	Quarter 3 Treasury Management Activity	Work with Link Group on a desktop review of investing	Richard Wyles	COMPLETED – the Section 151 Officer confirmed that this work had been carried out.	
81	Update on Planning Review	Share a link to pre-planning advice with Members and schedule an update within SK Today	Emma Whittaker	COMPLETED – email sent to G and A members on 10 June and article in SK Today scheduled for Autumn 2024.	June 2024
86	Access to Information Working Group	The Monitoring Officer to email members for expressions of interest to take part in the Access to Information Working Group	Graham Watts	COMPLETED – group has been formed and have been asked to agree a date to meet.	

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SOUTH KESTIVEN DISTRICT COUNCIL

Annual Internal Audit Report 2023/24

3 June 2024

This report is solely for the use of the persons to whom it is addressed.

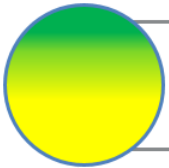
To the fullest extent permitted by law, RSM UK Risk Assurance Services LLP will accept no responsibility or liability in respect of this report to any other party.

THE ANNUAL INTERNAL AUDIT OPINION

This report provides an annual internal audit opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes. The opinion should contribute to the organisation's annual governance reporting.

The opinion

For the 12 months ended 31 March 2024, the Head of Internal Audit opinion for South Kesteven District Council is as follows:



The organisation has an adequate and effective framework for risk management, governance and internal control. However, our work has identified further enhancements to the framework of risk management, governance and internal control to ensure that it remains adequate and effective.

Please see Appendix A for the full range of annual opinions available to us in preparing this report and opinion.

It remains management's responsibility to develop and maintain a sound system of risk management, internal control and governance, and for the prevention and detection of material errors, loss or fraud. The work of internal audit should not be a substitute for management responsibility around the design and effective operation of these systems.

Scope and limitations of our work

The formation of our opinion is achieved through a risk-based plan of work, agreed with management and approved by the Governance and Audit Committee, our opinion is subject to inherent limitations, as detailed below:

- Internal audit has not reviewed all risks and assurances relating to the organisation;
- The opinion is substantially derived from the conduct of risk-based plans generated from a robust and organisation-led assurance framework. The assurance framework is one component that the Council takes into account in making its Annual Governance Statement (AGS);
- The opinion is based on the findings and conclusions from the work undertaken, the scope of which has been agreed with management;
- Where strong levels of control have been identified, there are still instances where these may not always be effective. This may be due to human error, incorrect management judgement, management override, controls being by-passed or a reduction in compliance;
- Due to the limited scope of our audits, there may be weaknesses in the control system which we are not aware of, or which were not brought to our attention;
- We were appointed in October 2023 to conduct the Internal Audit Plan for 2023/24, therefore, we can only comment on matters since this date.

FACTORS AND FINDINGS WHICH HAVE INFORMED OUR OPINION

Governance

We have taken into consideration the governance and oversight related elements of each of the reviews undertaken as part of the 2023/24 internal audit plan when forming our opinion on Governance at the Council.

There is an adequate governance framework in place, and we have also observed that the Governance and Audit Committee is effective in monitoring and challenging management and holding them to account.

We also provided a substantial assurance opinion as part of the governance internal audit undertaken within the year.

Risk Management

Our risk management opinion was informed by our observation of risk management systems and processes throughout the course of all audits within the audit plan. Our internal audit plans are driven by and linked to strategic and operational risk.

We also conducted an advisory review of risk management as part of our internal audit plan which resulted in a total of nine recommendations for improvement. The Council are currently refreshing their strategic risks and risk management framework.

Internal Control

We undertook nine internal audit reviews in 2023/24 which resulted in an assurance opinion. There were five reviews (56%) from which the Council could take substantial assurance, three reviews (33%) from which the Council could take reasonable assurance, and one review (11%) from which the Council could take partial (negative) assurance.

During the year we agreed a total of 54 management actions across assurance, advisory and follow up reviews.

Of the 54 actions agreed: two (4%) were 'high' priority, 17 (31%) were 'medium' priority, 23 (43%) were 'low' priority and 12 (22%) were advisory.

Details of the reviews where assurance opinions have been provided, or advisory input are as follows:

Debtors and Debt Recovery – Reasonable Assurance

Overall our review confirmed that there was an appropriate control framework in place (noting the current system limitations) and the Council had been making good progress towards implementing the previously agreed management actions. However, our review identified areas where enhancements were required or controls were not being consistently adhered to in relation to new debtor creation and authorisation, debt chasing, and access to the finance system.

Food Safety Management – Substantial Assurance Governance – Substantial Assurance

Overall our review confirmed that there was an appropriate control framework in place which is being complied with in practice. Staff have received training for completing the required inspections, and inspections are carried and recorded within the Flare system. However, our review identified areas for improvement including ensuring inspections were conducted in line with the required frequencies set out by their risk levels.

Overall our review confirmed that there was an appropriate control framework in place for the governance functions within the Council, and these had been clearly laid out within the Constitution. Meetings were conducted in line with the required frequencies and actions were followed up at the next meeting. However, our review identified one area for improvement relating to conducting annual self-assessments at each committee. This resulted in the agreement of one low priority management action.

As part of our testing we reviewed the Council's follow up actions from their previous audit and where actions had been completed we reviewed evidence to confirm that management action had been applied. Of the actions listed there were 38 actions listed as completed, upon review of the actions we found that 28 had been completed or superseded. We found 10 instances where actions had been listed as complete but did not have evidence to confirm this.

As a result of our review, we agreed five low priority management actions with management and detail of these can be found in section two of the report.

Recruitment and Retention – Substantial Assurance

Overall our review confirmed that there was an appropriate control framework in place within the Council. However, our review identified areas where enhancements were required or controls were not being consistently adhered to in relation documenting training attendance, fully completing staff requisition forms, retaining interview decision documents and ensuring employment contracts are signed and returned by new starters prior to employment commencement. This resulted in the agreement of three low and one medium priority management action.

This resulted in the agreement of three low priority management actions.

Cyber Treatment Plan – Substantial Assurance

Our testing found that 31 of the 32 actions had been correctly implemented or superseded in line with the initial action set by DLUHC and this was accurate to what was being reported to the Finance and Economic Overview and Scrutiny Committee. We noted that one action was partially implemented, and for two further actions, although completed as per the DLUHC action, additional improvements could still be made to enhance the control environment.

We agreed one low priority management action to complete the remaining action and to consider the other two areas for further improvements.

Responsive Repairs – Partial Assurance

Whilst a number of current controls and process were well designed, a large amount of work was required for the Council to be able to address the current backlog of open jobs, and to then implement new controls which detect and action jobs which are open for prolonged periods of time, to reduce the risk of open jobs accumulating again. Processes at all levels required review and alteration in order to efficiently raise, assign and complete jobs in a timely manner, however our data analytics identified that performance for emergency and urgent jobs was relatively strong, with most jobs being completed in target times. Finally, oversight and management reporting for repairs needed to be fully established in order to monitor the reduction of the current backlog and scrutinise any jobs which were breaching the agreed performance targets.

Risk Management – Advisory Review

Our review identified that although there was a Risk Management Framework in place, through the implementation of the recommendations identified within this report this could be further improved to ensure that there is a fully embedded effective risk management process in place. As a result of this advisory review we noted nine recommendations.

We provided examples of best practice to management with regards to creating an assurance framework and the three lines of assurance.

Section 106 Agreements – Reasonable Assurance

Our testing identified that a set of processes had been implemented by the Infrastructure Delivery Officer, utilising interlinking spreadsheets to track funds received from developers and be sent out to various third parties or Council departments. We noted that the Council had not yet implemented an agreed approach to managing accrued interest on Section 106 funds held on the ledger, and as such we agreed one medium priority action to address this finding. We also agreed two low priority actions with management.

Payroll – Reasonable Assurance

Our overall review confirmed the presence of an appropriate control framework covering the payroll process at the Council, as per the Council's Financial Regulations. Based on our testing, segregation of duties was clearly apparent throughout the processes, however, we found two areas of non-compliance which resulted in the agreement of two medium priority management actions with management.

These actions related to retaining and completing new starter forms in full with the bank details included, and ensuring amendments are authorised prior to the effective date.

We agreed a total of two high, seven medium, and four low priority management actions, as well as two advisory recommendations.

Purchasing and Creditors – Substantial Assurance

We confirmed that the Council had efficient purchasing processes in place which were being adhered to in practice; however, our review highlighted areas for improvement, specifically regarding raising purchase orders after an invoice was received. The review led to the agreement of one medium and one low priority action with management.

Topics judged relevant for consideration as part of the annual governance statement

There was one area, Responsive Repairs, where only partial assurance could be taken over the effectiveness of controls in place. The AGS should therefore include appropriate detail regarding the weaknesses identified and any actions that have already been taken to address the issues identified as part of this audit.

THE BASIS OF OUR INTERNAL AUDIT OPINION

As well as those headlines previously discussed, the following areas have helped to inform our opinion. A summary of internal audit work undertaken, and the resulting conclusions, is provided at appendix B.

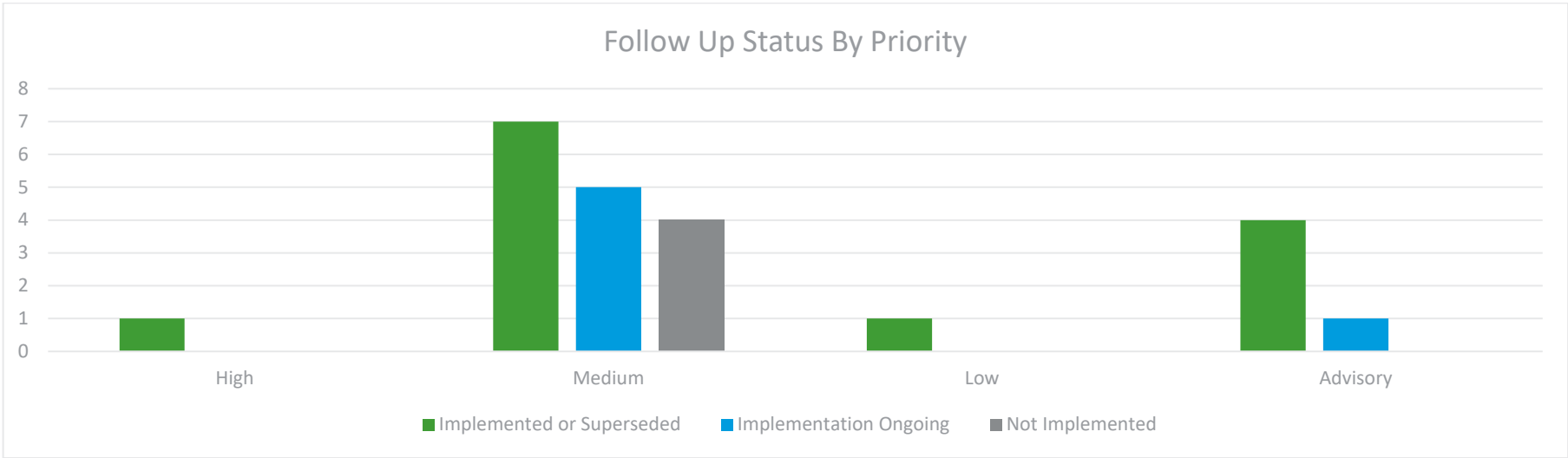
Acceptance of internal audit management actions

Management have agreed actions to address all of the findings reported by the internal audit service during 2023/24.

Implementation of internal audit management actions

Where actions have been agreed by management, these have been monitored by management through their internal action tracking processes in place. During the year progress has been reported to the Governance and Audit Committee, with the validation of the action status confirmed by internal audit through the two follow up reviews.

Our follow up of the actions agreed to address previous year’s internal audit findings shows that the Council had made **reasonable progress** in both follow up reviews.



Working with other assurance providers

In forming our opinion we have not placed any direct reliance on other assurance providers.

OUR PERFORMANCE

Wider value adding delivery

Area of work	How has this added value?
Sector Briefings and Articles	We have issued a number of sector briefings during the year providing information on key developments, publications and guidance including: <ul style="list-style-type: none">• Emerging Risk Radar - January 2024;• Building Resilience in Social Housing; and• Housing News Briefing.
Flexible annual planning approach	We have remained flexible with our annual planning approach. This enables us to react to changes in priority and risk, to ensure internal audit is focused in the right areas at the right time, to be the best source of assurance where needed in specific areas of risk or control.
1:1 meetings / discussions	Throughout the year we have continued to liaise with management and held operational meetings to obtain an update on the Council's developments.
Data Analytics	As part of our audit work for 2023/24, we have utilised data analytics to support our sample testing in audits such as: <ul style="list-style-type: none">• Responsive Repairs;• Payroll; and• Purchasing and Creditors.

Conflicts of interest

We have provided risk management software and action tracking software to the Council during 2023/24. These are under a separate Letter of Engagement and an independent team has undertaken this work, led by another Partner, independent of the internal audit team. We have also provided risk management workshops and assisted in refreshing the strategic risks as part of this separate engagement.

We also carried out a review of predetermined samples selected by the Council's external auditors of housing benefit claims and completed the agreed workbooks and documented any control/test failures. This was completed under a separate letter of engagement with no opinions or conclusions drawn from the work.

Therefore, we do not consider any conflicts of interests need to be declared.

Conformance with internal auditing standards

RSM affirms that our internal audit services are designed to conform to the Public Sector Internal Audit Standards (PSIAS).

Under PSIAS, internal audit services are required to have an external quality assessment every five years. Our risk assurance service line commissioned an external independent review of our internal audit services in 2021 to provide assurance whether our approach meets the requirements of the International Professional Practices Framework (IPPF), and the Internal Audit Code of Practice, as published by the Global Institute of Internal Auditors (IIA) and the Chartered IIA, on which PSIAS is based.

The external review concluded that RSM 'generally conforms*' to the requirements of the IIA Standards' and that 'RSM IA also generally conforms with the other Professional Standards and the IIA Code of Ethics. There were no instances of non-conformance with any of the Professional Standards'.

* The rating of 'generally conforms' is the highest rating that can be achieved, in line with the IIA's EQA assessment model.

Quality assurance and continual improvement

To ensure that RSM remains compliant with the PSIAS framework we have a dedicated internal Quality Assurance Team who undertake a programme of reviews to ensure the quality of our audit assignments. This is applicable to all Heads of Internal Audit, where a sample of their clients will be reviewed. Any findings from these reviews are used to inform the training needs of our audit teams.

Resulting from the programme in 2023/24 there are no areas which we believe warrant flagging to your attention as impacting on the quality of the service we provide to you.

In addition to this, any feedback we receive from our post assignment surveys, client feedback, appraisal processes and training needs assessments is also taken into consideration to continually improve the service we provide and inform any training requirements.

Performance indicators

Delivery

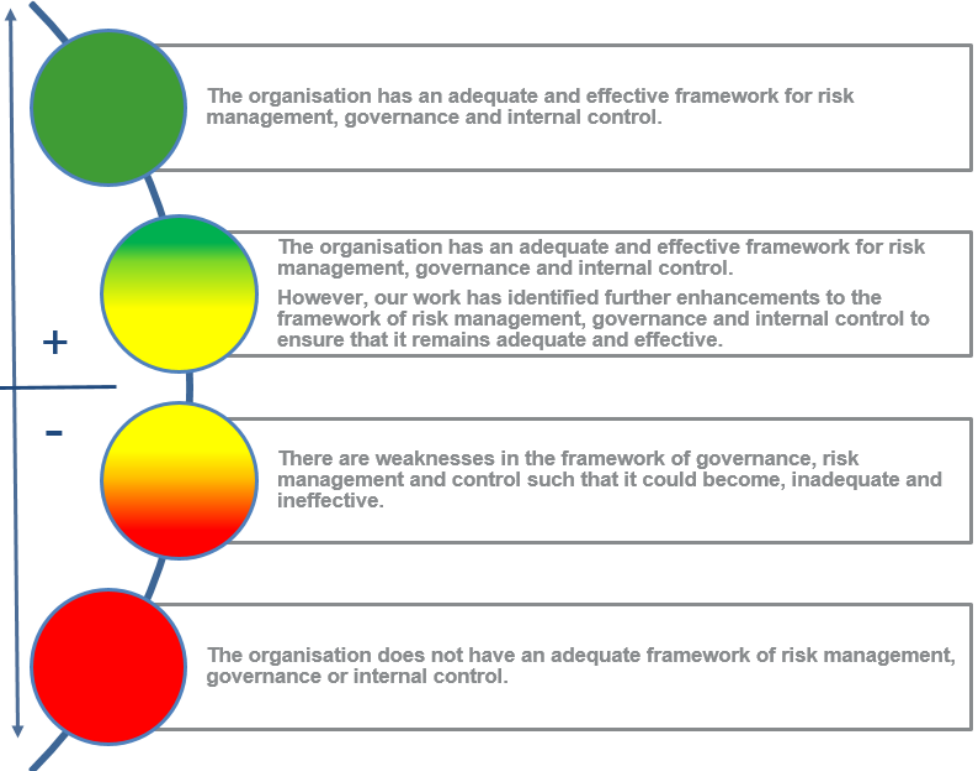
Quality

	Target	Actual		Target	Actual
Audits commenced in line with original timescales*	Yes	Yes	Conformance with PSIAS and IIA Standards	Yes	Yes
Draft reports issued within 10 days of debrief meeting	100%	6 working days (average)	Liaison with external audit to allow, where appropriate and required, the external auditor to place reliance on the work of internal audit	Yes	Yes
Management responses received within 10 days of draft report	10 days	7 working days (average)	Response time for all general enquiries for assistance	2 working days	2 working days (average)
Final report issued within 3 days of management response	100%	1 working day (average)	Response for emergencies and potential fraud	1 working day	N/A

* This takes into account changes agreed by management and Governance and Audit Committee during the year; reflecting our 'agile' / 'flexible' approach to our service delivery.

APPENDIX A: ANNUAL OPINIONS

The following shows the full range of opinions available to us within our internal audit methodology to provide you with context regarding your annual internal audit opinion.

Annual opinions	Factors influencing our opinion
 <p>The organisation has an adequate and effective framework for risk management, governance and internal control.</p> <p>The organisation has an adequate and effective framework for risk management, governance and internal control. However, our work has identified further enhancements to the framework of risk management, governance and internal control to ensure that it remains adequate and effective.</p> <p>There are weaknesses in the framework of governance, risk management and control such that it could become, inadequate and ineffective.</p> <p>The organisation does not have an adequate framework of risk management, governance or internal control.</p>	<p>The factors which are considered when influencing our opinion are:</p> <ul style="list-style-type: none"> • inherent risk in the area being audited; • limitations in the individual audit assignments; • the adequacy and effectiveness of the risk management and / or governance control framework; • the impact of weakness identified; • the level of risk exposure; and • the response to management actions raised and timeliness of actions taken.

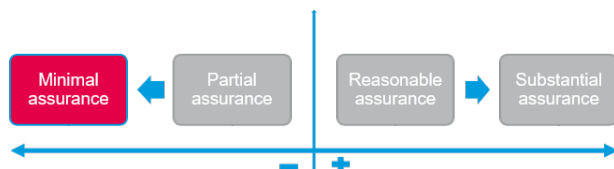
APPENDIX B: SUMMARY OF INTERNAL AUDIT WORK COMPLETED 2023/24

All of the assurance levels and outcomes provided above should be considered in the context of the scope, and the limitation of scope, set out in the individual assignment report.

Assignment	Audit Lead	Assurance level	Actions agreed			
			L	M	H	Adv
Follow Up 1	Deputy Director of Finance	Reasonable Progress [●]	1	4	0	0
Debtors and Debt Recovery	Deputy Director of Finance	Reasonable Assurance [●]	5	0	0	0
Food Safety Management	Head of Service (Public Protection)	Substantial Assurance [●]	3	0	0	0
Governance	Assistant Director (Governance and Public Protection) and Monitoring Officer	Substantial Assurance [●]	1	0	0	0
Recruitment and Retention	Head of HR	Substantial Assurance [●]	3	0	0	0
Cyber Treatment Plan	IT Service Manager	Substantial Assurance [●]	1	0	0	0
Responsive Repairs	Chief Executive	Partial Assurance [●]	4	7	2	2
Risk Management	Governance and Risk Officer	No Opinion / Advisory [●]	0	0	0	9
Payroll	Deputy Director of Finance	Reasonable Assurance [●]	0	2	0	0
Purchasing and Creditors	Deputy Director of Finance	Substantial Assurance [●]	1	1	0	0
Follow Up 2	Deputy Director of Finance	Reasonable Progress [●]	2	2	0	1
Section 106 Agreements	Assistant Director of Planning	Reasonable Assurance [●]	2	1	0	0

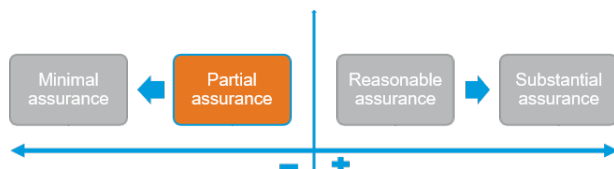
APPENDIX C: OPINION CLASSIFICATION

We use the following levels of opinion classification within our internal audit reports, reflecting the level of assurance the board can take:



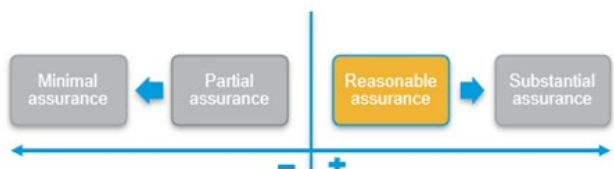
Taking account of the issues identified, the board cannot take assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied or effective.

Urgent action is needed to strengthen the control framework to manage the identified risk(s).



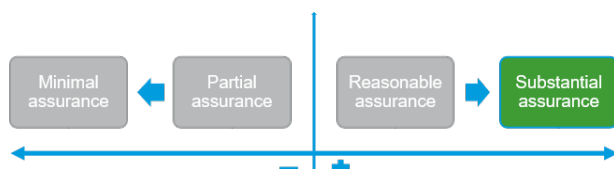
Taking account of the issues identified, the board can take partial assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied or effective.

Action is needed to strengthen the control framework to manage the identified risk(s).



Taking account of the issues identified, the board can take reasonable assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.

However, we have identified issues that need to be addressed in order to ensure that the control framework is effective in managing the identified risk(s).



Taking account of the issues identified, the board can take substantial assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.

YOUR INTERNAL AUDIT TEAM

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The matters raised in this report are only those which came to our attention during the course of our review and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Actions for improvements should be assessed by you for their full impact. This report, or our work, should not be taken as a substitute for management's responsibilities for the application of sound commercial practices. We emphasise that the responsibility for a sound system of internal controls rests with management and our work should not be relied upon to identify all strengths and weaknesses that may exist. Neither should our work be relied upon to identify all circumstances of fraud and irregularity should there be any.

Our report is prepared solely for the confidential use of **South Kesteven District Council**, and solely for the purposes set out herein. This report should not therefore be regarded as suitable to be used or relied on by any other party wishing to acquire any rights from RSM UK Risk Assurance Services LLP for any purpose or in any context. Any third party which obtains access to this report or a copy and chooses to rely on it (or any part of it) will do so at its own risk. To the fullest extent permitted by law, RSM UK Risk Assurance Services LLP will accept no responsibility or liability in respect of this report to any other party and shall not be liable for any loss, damage or expense of whatsoever nature which is caused by any person's reliance on representations in this report.

This report is released to you on the basis that it shall not be copied, referred to or disclosed, in whole or in part (save as otherwise permitted by agreed written terms), without our prior written consent.

We have no responsibility to update this report for events and circumstances occurring after the date of this report.

RSM UK Risk Assurance Services LLP is a limited liability partnership registered in England and Wales no. OC389499 at 6th floor, 25 Farringdon Street, London EC4A 4AB.

EXECUTIVE SUMMARY – RESPONSIVE REPAIRS

With the use of secure portals for the transfer of information, and through electronic communication means, a proportion of our audit has been conducted remotely. Remote working has meant that we have been able to complete our audit and provide you with the assurances you require. Based on the information provided by you, we have been able to sample test, or undertake full population testing using data analytics tools, to complete the work in line with the agreed scope.

Why we completed this audit

The Council is currently facing a large scale backlog in its responsive repairs jobs, with a total of roughly 4,500 open jobs which have not been actioned as of early February 2024. This backlog is an accumulation of multiple setbacks including delays initially created from the Covid-19 Pandemic, lack of available trades staff, staff turnover in leadership positions, and inefficient use of the various systems in place leading to jobs being duplicated or remaining open for unnecessarily long periods of time. The lack of a well established planned maintenance programme has also led to an increased number of component failings in Council properties, leading to an increased number of jobs being raised.

Our review included use of data analytics to identify inconsistencies in job data, allowing us to investigate potential control weaknesses which may be adding to the backlog of open jobs. We have included consideration as to how any shortcomings can be addressed to prevent future backlogs accumulating. Our analysis also allowed for an insight into the improved completion of jobs within target timeframes.

We also reviewed the processes for how jobs are being recorded, raised, and completed, to ensure these are effective and that they promote appropriate closure of jobs in a timely manner. Where possible, we have considered how the implementation of the new QL job management system will allow for improved controls, and have noted this in our findings.

The systems in use for the repairs function include:

- Northgate - This system is used by Call Handlers to raise jobs against the appropriate job code based on information provided by tenants.
- DRS (Dynamic Repairs System) - This system is updated by the information in Northgate, and is used by job planners to arrange jobs in open slots, based on available trades operatives with the required skill sets. This system is currently in the process of being replaced by QL.
- First Touch - This system records the outcome of jobs on the operatives tablet, and serves as an opportunity to retain photographs of completed works and evidence of tenants sign off for completed works.

Conclusion

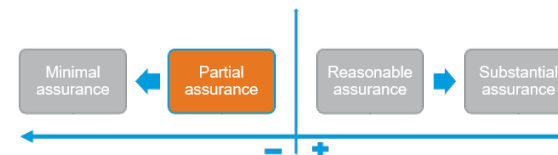
Whilst a number of current controls and process are well designed, a large amount of work is required for the Council to be able to address the current backlog of open jobs, and to then implement new controls which detect and action jobs which are open for prolonged periods of time, to reduce the risk of open jobs accumulating again. Processes at all levels require review and alteration in order to efficiently raise, assign and complete jobs in a timely manner, however our data analytics has identified that performance for emergency and urgent jobs is relatively strong, with most jobs being completed in target times. Finally, oversight and management reporting for repairs needs to be fully established in order to monitor the reduction of the current backlog and scrutinise any jobs which are breaching the agreed performance targets.

We have agreed a total of two high, seven medium, and four low priority management actions, as well as two advisory recommendations. A summary of the high and medium actions, as well as the advisory recommendations, can be found below, and detail on all of the findings in our results can be found in section two of this report.

Internal audit opinion:

Taking account of the issues identified, the Council can take partial assurance that the controls upon which the Council relies to manage this area are suitably designed, consistently applied or effective.

Action is needed to strengthen the control framework to manage the identified area.



Key findings

We identified the following controls which are poorly designed or not functioning effectively:



There is a lack of consistency between job turnaround times in the Call Handler Right to Repair Guidance, the Repairs and Maintenance Policy and the priority codes in the new QL job management system are not consistent, leading to an inconsistent approach to job completion targets. **Medium**



One instance in our testing of 20 repairs was identified where the operative had not clearly recorded that they had made the initial defect (an insecure door) safe before raising a follow on job, and as such there is no record that this property was made safe. Operatives must be reminded to clearly document that initial hazards have been rectified in order to provide accountability for tenant safety. **Medium**



There is not currently a formal QA process whereby senior trade staff review jobs completed by operatives with regards to quality and safety. Whilst we were informed that this would be set up and implemented in the new QL repairs system, the Council should ensure that appropriate resource and reporting is provided to enable this QA programme to function effectively and improve the quality of the repairs completed by the Council. **Medium**



The Council does not currently undertake structured and formal job level cost monitoring. Information is provided by the stores provider, Huws Gray, but is not formally analysed and reviewed. Use of this management information will allow for trend identification, including if particular trades operatives or job types are using a disproportionately high amount of materials. **Medium**



There is no established reporting for any of the performance aspects of the repairs service, and as such there is a lack of oversight and informed decision making regarding how best to address the challenges faced by the Service. **Medium**



The high number of open jobs within Northgate is not only creating a poor tenant experience, but renders the implementation of detective controls ineffective, due to the high number of jobs which would show up on any established exception reports. We noted that a Consultant had been brought in to close down open jobs, and had closed down 1,862 open jobs across March and September 2022. Despite this, the large backlog of open jobs remains a concern for the Council. The Council must decide on an approach to effectively close down a high number of these open jobs, potentially through closing down all jobs which have been open for an agreed duration (i.e. 24 months) in order to provide an opportunity to reduce the backlog. **High**



Following the reduction of the backlog, the Council does not have detective controls in place to identify any jobs which are breaching the target job closure times. Implementation of these controls will reduce the risk of a future backlog of open jobs accumulating. **Medium**



We undertook a number of sample tests to investigate apparent data inconsistencies within repairs data. This sample testing identified instances where the processes for raising follow on pieces of work for attended jobs lead to a lack of clarity as to what work had been completed and what was required. In particular, an instance of a leaky roof creating potential damp and mould risk had been attended, but no follow on job was raised to rectify this leak, and the job remained open for 726 days after the damp and mould risk was recorded. **High**



The Council had undertaken a large piece of work led by an external consultant, to close down a number of jobs (1,862) which were considered no longer relevant within Northgate, in an attempt to reduce the backlog of open jobs. We identified instances where these jobs remained open in Dynamic Repairs System (DRS), creating risk that the backlog has not been addressed, and that this data may be carried across to the new QL repairs system, damaging the data quality of the new system. **Medium**

We have also identified the following advisory recommendations, which could be implemented to provide greater effectiveness and assurance to existing controls:



The Council currently review recordings of calls to identify areas for improvement in accurately raising jobs. The Council could provide more structured learning through reporting on, and reviewing, instances where jobs have been cancelled and re-raised. Review of these jobs may assist in identifying trends in job cancellations, such as incorrect job codes being used.



The Council has oversight of job lengths through the DRS system, which has target job durations based on the job code used. However the Council may wish to implement formal monitoring of job durations, to identify any instances where jobs are taking longer than expected, to improve the efficiency of the repairs process.

DETAILED FINDINGS AND ACTIONS

This report has been prepared by exception Therefore, we have included in this section, only those areas of weakness in control or examples of lapses in control identified from our testing and not the outcome of all internal audit testing undertaken.

Area: Responsive Repairs				
Control	The Council has a Repairs and Maintenance Policy which details its approach to repairs and maintenance.		Assessment:	
			Design	✓
			Compliance	×
Findings / Implications	<p>Through review of the Housing Repairs and Maintenance Policy we confirmed that it provides guidance on relevant legislation, the different responsibilities of parties involved in the repairs process and guidance on the carrying out of repairs. At the end of the document, the policy clearly states that it will be reviewed on a three yearly basis, or sooner if there are any changes in the relevant legislation. Within the draft policy given in the form of evidence there is a box that indicates when the policy was last reviewed, however the box is empty, and will be entered upon the formal uploading of the policy to the public facing website.</p> <p>Within the policy it states that the Council has made the policy available on the Council's website with open access for staff and tenants. However, the policy was not available on the website at the time of our audit. We did however confirm that the policy had been approved at the Overview and Scrutiny Committee in July 2023 and the Cabinet in November 2023. Lack of availability creates risk that the Council does not appear to have a established approach to managing its repair responsibilities, potentially damaging the Council's reputation.</p> <p>The overall aim of the policy is to set a framework enabling the delivery of an effective maintenance service which fulfils the service's statutory obligations, protects council assets, and offers value for money. The policy lists out a set of principles that the Council's repairs and maintenance service will operate against.</p> <p>The policy has a section specific to responsive repairs where it highlights the following:</p> <ul style="list-style-type: none"> • The responsibility of the council in responsive repairs; • What falls under the category of responsive repairs; • How the council carries out day to day repairs; • How tenants can report repairs; and • The categorisation of repair priorities such as urgent or routine work. 			
Management Action 1	Management will ensure the Housing Repairs and Maintenance Policy is made available to staff and tenants via the Council Website.	Responsible Owner:	Date:	Priority:
		Interim Head of Housing (Technical Services)	31 March 2024	Low

Area: Responsive Repairs

Control	There are a number of documented guidance sheets and procedures to support with repairs prioritisation.	Assessment:	
		Design	✓
		Compliance	×
Findings / Implications	<p>Through obtaining and reviewing the Housing Repairs and Maintenance Policy we can confirm that within the policy is a section titles Repair Priorities that highlights that all repair orders are prioritised according to the urgency and nature of the work. Repairs that are required as a result of component failure or breakdowns that put tenants' health and safety, or the property, at risk will be dealt with faster than those that can safely wait.</p> <p>In addition, the policy separates the categories into the following components:</p> <ul style="list-style-type: none"> • Emergency repairs which are to be attended within 24 hours; • Urgent repairs which are to be attended within five working days; • Routine repairs which are to be attended by mutually agreed appointments; and • Out of hours emergencies. <p>The policy gives advice on each of the above to confirm what constitutes a repair falling into the correctly designated category.</p> <p>Tenants can raise repairs via the phonenumber or by raising it online and appointments will be offered for all non-emergency responsive repairs. Tenants will be able to choose from a number of specific appointment slots. In addition, within the policy, advice on dealing with calls is given such as the fact that tenants will be advised of an appointment date during the phone call and a follow up reminder text will be sent. This falls under the section of Appointment and Access.</p> <p>During testing undertaken during our site visit, we confirmed that the Call Handler Right to Repair Guidance includes the circumstances and job codes to be used in instances where a repair is required in an emergency timeframe (between one and seven days.) These turn around times do not fully align with the Repairs and Maintenance Policy which has time frames of one, and five working days as well as non-urgent jobs. It was also noted that the priorities in the new QL system would be four hours, 2-24 hours, 3-5 days, 4-20 days or planned (appointment only) jobs. The lack of consistent guidance on job priority lengths creates risk that jobs may be raised to the wrong priority leading to a poor level of tenant satisfaction.</p>		
Management Action 2	<p>Call Handler Right to Repair Guidance, QL system priorities and the Repairs and Maintenance Policy will all be reviewed to ensure that they are consistent with regards to job priorities. Each job will have its associated priority reviewed in QL prior to system rollout.</p>	<p>Responsible Owner:</p> <p>Systems Improvement and Migration Lead</p>	<p>Date: 31 March 2024</p> <p>Priority: Medium</p>

Area: Responsive Repairs				
Control	Partially Missing Control		Assessment:	
	There is some training and monitoring for call handling and planning staff, although this is not in a formal structure.		Design	×
			Compliance	-
Findings / Implications	Based on discussions with the Senior Business Support Officer, we confirmed that the call handlers and planners are given induction training regarding the use of the Northgate and DRS systems, to ensure that they are able to perform their role adequately. While there is no standardised refresher training, staff are using the systems all year round and develop a working knowledge of the system, and as such regular training updates may not be efficient. However, due to the lack of refresher training, the Council should consider how instances of poor quality work will be identified to identify staff who require additional support. We were informed by the Senior Business Support Officer, that they would regularly use recorded calls to identify training needs and to provide examples for new staff, as well as using feedback from tenants through the rant and rave programme to identify positives and areas for improvement. There is still some risk that poor detail within call handler notes is making job planner's work more difficult, with lack of clarity as to what the job is, and there is also no monitoring of the effectiveness of Job Planners. The Council should implement a monitoring report that reviews instances where jobs have been cancelled and then raised again at the same property on the same day, to identify areas of training for both call handling staff and job planners.			
Advisory Action 1	The Council will investigate the possibility of implementing a cancelled and re-raised job report to identify training need within call handling and planning staff.	Responsible Owner:	Date:	Priority:
		Systems Improvement and Migration Lead	31 March 2024	Advisory

Area: Responsive Repairs			
Control	Run sheets are generated for each operative, each day, via DRS. Job lengths are driven by the Council's schedule of rates (SoR). An amount of free time is built into run sheets to allow for travel time based on the job location.	Assessment:	
		Design	✓
		Compliance	✓
Findings / Implications	We undertook sample testing of 20 responsive repairs jobs, to identify if any jobs had been completed outside of the agreed time frames, confirm how jobs were booked to consider efficiency, and how unexpected delays are responded to. We identified the following: <ul style="list-style-type: none">Six of the 18 relevant jobs (one excluded due to being a welfare check to support police and the other excluded due to a job being raised to deal with securing an abandoned property, both non-standard), were competed in durations longer than their planned extensions. We discussed with the Senior Business Support Officer how these run overs would be addressed, and were informed that tradesmen were expected to call the job planners to adjust the schedule for the remainder of the day, although evidencing		

Area: Responsive Repairs

this would be difficult as it would hard to identify which appointments had moved in DRS. Instead, the Council may wish to implement a monitoring process to identify trends in job completion data, for example identifying where jobs are completed more than double their expected duration, to allow investigation into the root cause of these extended durations.

- Job durations are based on the Council's Schedule of Rates, based on the job code raised by the call handler. We were informed that, as part of the move to QL, the Council would be moving to the National Housing Federation M3NHF schedule of rates for responsive and void repairs, a nationally used Schedule of Rates which would enable the Council to have a baseline on job durations and costs. As these are due to be implemented into QL, and are updated by the M3 organisation, no action will be raised regarding regularly reviewing the schedule of rates to ensure that it is up to date.
- All 19 relevant jobs (welfare check excluded) were raised to the appropriate operative based on the schedule of rates code. We reviewed DRS and confirmed that jobs to be planned were only able to be assigned to members of staff with the required skills listed in DRS, preventing instances where an electrician would be sent to fix a broken sink.

Advisory Action 2	The Council will consider implementing formal monitoring to identify trends in instances where operatives are consistently taking too long on jobs including consideration regarding capturing other works undertaken at the same visit.	Responsible Owner: Technical Services Manager	Date: 31 May 2024	Priority: Advisory
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Area: Responsive Repairs

Control	Tenants are able to call a dedicated phone line or raise repairs through a portal on the District Council's website.	Assessment:	
		Design	✓
		Compliance	×
Findings / Implications	<p>Through discussions with the Senior Business Support Officer, we confirmed that, other than out of hours call outs raised through the CCTV Monitoring Team (and as such not raised in Northgate or completed in DRS), jobs are requested from tenants through either phone calls to the call handlers, or through automated emails sent to the shared inbox monitored by the call handler team. We confirmed that both types of requests would be recorded within the Northgate system, and so would be managed in the same way. We noted that the repairs portal was clearly visible on the Council website, and the repairs page on the website also includes the phone number for tenants to ring. We were informed that if the information provided on the electronic request from the portal is insufficiently detailed, call handlers use the contact details provided to call back and ask additional questions.</p> <p>We did however note that the Tenant Handbook from 2011 is also on the repairs page, which includes the old phonenumber, creating risk of confusion for tenants who may be unable to raise repairs requests.</p>		

Area: Responsive Repairs

Management Action 3	Management will ensure all guidance on raising repair requests is consistent for tenants and that no outdated contact details remain on the Council website.	Responsible Owner: Interim Head of Housing (Technical Services)	Date: 31 March 2024	Priority: Low
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Area: Responsive Repairs

Control	Jobs are raised and categorised consistently, are attended in a timely manner, completed or made safe first time where possible, are accurately categorised and a clear record of access attempts are recorded.	Assessment:	
		Design	✓
		Compliance	×

Findings / Implications	<p>We undertook sample testing of 20 jobs across the DRS and Northgate systems to confirm that all jobs were prioritised consistently, attended in a timely manner, given to the correct tradesperson and that the DRS system enables an appropriate record of any no access attempts or if follow on work is required. Our testing identified the following:</p> <ul style="list-style-type: none"> Of the 18 jobs within the sample that were relevant (an abandonment call out and a welfare check call out are none standard and have been excluded from this test), our testing identified that in 17 instances, the job had an appropriate priority as per the Right to Call Handler Right to Repair Guidance provided by the Council to Call Handlers. In the final instance, the job had been raised as routine but with a three day target time. Whilst this does not fit the policy's working day target, we have raised management action two to address this finding, and were informed that the implementation of QL would include a review of all job priorities in the system, and as such no further management action will be raised. In all instances, the jobs had been raised to the correct operative for the job type, owing to clear notes and job codes taken by the Call Handlers. In all jobs, the trade operative had attended within the agreed appointment time which was booked and agreed with the tenant. We noted that the DRS system enabled operatives to record whether there were issues with access or whether follow on work was required. We noted one instance where a back door had been broken and required securing, however, the notes in DRS and First touch do not clearly show that the property had been made safe whilst awaiting follow on work. This creates risk that the Council does not have assurance that the property has been made safe and the risk to the tenant has been addressed. Another instance was identified where the job had been accidentally deleted within DRS, however as the job was completed without any further follow on, this instance does not create risk to the Council.
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Area: Responsive Repairs

Management Action 4	The Council will remind all trade operatives to clearly document any works taken on initial visits, particularly in instances where follow on works are required. This will provide assurance that the property has been made safe as well as providing clarity to job planners regarding the follow on works required. Guidance documents will be created to support this process.	Responsible Owner: Technical Services Manager	Date: 30 April 2024	Priority: Medium
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Area: Responsive Repairs

Control	Missing Control There are currently no consistent QA checks being undertaken by senior trades staff.	Assessment:		
		Design		×
		Compliance		-
Findings / Implications	Based on our discussions with the Senior Business Support Officer, we identified that the Council had previously performed QA spot checks on operatives completed jobs to ensure that they are completed to the required standard, in order to promote high quality work and reduce the need for future jobs in the same area. However, we were informed that there was no record held of such spot checks and that they believed that the checks had not been performed recently as a result of the backlog and staffing issues causing senior staff to not have availability to complete these checks. We were informed that the new QL system would have built in QA checks on 10% of completed jobs. Whilst this should be implemented to ensure that works are completed to the required standard, the Council should also ensure that clear responsibility is given to senior trades staff to complete these checks and to feedback any concerns to operatives. There is also potential to share broader themes through toolbox talks to promote continuous quality improvement.			
Management Action 5	The implementation of a programme where 10% of jobs will be formally quality assessed will be implemented within QL. Clear oversight responsibility will be allocated, and there will be an established reporting process for sharing broader trends with the full trades team whilst also providing individual feedback to operatives.	Responsible Owner: Technical Services Manager	Date: 30 April 2024	Priority: Medium

Area: Responsive Repairs				
Control	Tenant sign off is received from completed jobs via the operatives PDA. The "rant and rave" feedback scheme can also be used to raise concerns regarding repairs.		Assessment:	
			Design	✓
			Compliance	×
Findings / Implications	<p>As part of the process for completing a job on their tablet, and operative will sign off on a completed job, and will also request the tenants signature to verify that the works have been completed to an acceptable standard. We reviewed a sample of 18 jobs for which the tenant would be expected to sign off (removing the sampled jobs for securing a property and the welfare check job). In these 18 instances we identified the following:</p> <ul style="list-style-type: none"> • Five jobs had tenant sign off; • 12 jobs did not have tenant sign off, but noted on the completed job why no sign off had been obtained. • The final job did not have tenant sign off and also did not have a note explaining the lack of sign off. <p>Obtaining tenant sign off as often as possible, and providing a valid reason when this is not possible, will provide additional assurance to the Council that works have been completed appropriately and that the tenant is satisfied that the issue has been resolved. The Council will monitor the high number of instances where tenants are unable to sign approval and attempt to improve these figures where possible, to reduce risk that tenants are not being consulted on the quality of works completed.</p> <p>We also identified that the Council obtains feedback from tenants using the Rant and Rave software, which sends automated requests for feedback to tenants once a job has been completed. This allows for feedback on a per job level. Rant and Rave includes a satisfaction score as well as a free text response regarding the service each individual has received. Whilst this information is readily available to the Repairs Team, it is not used to drive structured reporting which allows for assessment of tenant satisfaction and identification of trends relating to individual operatives or particular trades. The Council should look to make use of this information, which it already has available, to drive specific feedback to operatives and drive continuous improvement. This will in turn reduce risk regarding tenants being unsatisfied with the standard of works being completed, and allows for particular operatives performance to be reviewed.</p>			
Management Action 6	The Council will remind operatives to obtain tenant sign off for completed works in all instances and to clearly level a note within First Touch recording any reason why the tenant was unable or unwilling to sign off on the job.	Responsible Owner: Technical Services Manager	Date: 30 April 2024	Priority: Low
Management Action 7	The Council will utilise the information from Rant and Rave in an agreed reporting structure, to monitor overall performance and provide specific feedback to operatives.	Responsible Owner: Interim Head of Housing (Technical Services)	Date: 31 May 2024	Priority: Low

Area: Responsive Repairs				
Control	Monthly budget meetings are used to monitor any changes in repairs spend.		Assessment:	
			Design	✓
			Compliance	×
Findings / Implications	<p>We met with the Financial Accountant who supports the Interim Head of Service - Housing Technical Services with regard to budget monitoring. We confirmed that they undertake monthly budget monitoring meetings, which involves a review of the cost centres within the Technical Services budget, their original and current budgets, the YTD actual spend (or income) against the YTD budget, and various other predicted and committed expenditure factors. We reviewed examples of these meetings from P3, P8, P9 and P10. Cost codes are reviewed on a line by line basis allowing for individual costs to be reviewed. We noted that materials spend was included within this report, and had required a virement from the compliance budget of £200,000 and was forecast to total £1,044,300, which is £260,000 greater than the materials costs for 22/23. As a result, we queried how job level costs are being monitored.</p> <p>Discussion with the Repairs Officer noted that they review a monthly report from Huws Gray, the Council's materials provider, which provides a line by line report of purchases made by the Council, including each of the purchases made in the month, the operative ordering and the job which the materials were associated with. Whilst there is some informal monitoring of this report, it is not being proactively used to provide management information. The Council is at risk of inflating materials costs which are not being reviewed, which may lead to excessive or inefficient materials use, and potential cost savings being used. This information may also be able to be used to identify which areas are leading to increased materials costs (for example if plumbing operatives are spending notably more over time).</p> <p>We were also informed by the Repairs Officer that the Council had previously explored more closely managed van stock, using an app provided by Huws Gray to associated materials used with jobs, with Huws Gray replacing used materials as and when they are used. This may provide more established oversight for materials expenditure, and would also reduce the likelihood that materials are ordered through suppliers other than Huws Gray.</p>			
Management Action 8	<p>The Council will utilise the management information provided by the materials contract, as well as other available data from Northgate and DRS, to create management reports which allow for trend analysis regarding job, operative and trade type level spend. These data points will be monitored over time and exceptions will be reviewed (for example excessively expensive jobs).</p> <p>The Council will also continue to investigate implementation of a more managed van stock approach under Huws Gray, to provide more oversight and control regarding use of materials.</p>	Responsible Owner:	Date:	Priority:
		Interim Head of Housing (Technical Services)	31 May 2024	Medium

Area: Responsive Repairs				
Control	Missing Control Initial discussion with client identified that whilst KPIs regarding eight key compliance statistics is reported to the Housing OSC (Oversight and Scrutiny Committee), there are not currently any established reporting lines regarding repairs effectiveness or efficiency.	Assessment:		
		Design		×
		Compliance		-
Findings / Implications	Through discussion with the Interim Interim Head of Housing (Technical Services), we discussed how repairs performance was being reported and monitored across the Council. We identified that there whilst there is consistent reporting of KPIs relating to eight key compliance areas to the Housing OSC, there areno established reporting lines to any of the governance forums at the Council regarding compliance with repairs targets, and as such there is no formal monitoring of the Councils reporting regarding the current backlog of open jobs within Northgate, the Council's ability to meet the agreed turn around times for emergency jobs per the Repairs and Maintenance Policy, or the trends in repair costs (as noted above.) We were informed that the Interim Head of Housing (Technical Services)meets monthly with the Chief Executive, Council Leader and Portfolio Holder to monitor the performance of the Housing Technical Services area. It was agreed that having these performance figures to hand would aid in consistent performance reporting and enable more informed oversight as well as aiding decision making. There is currently a risk that a lack of oversight on the actual performance of the repairs service is leading to a lack of awareness amongst the Council Governance Structure.			
Management Action 9	The Council will implement established KPIs for performance figures relating to repairs, such as the number of open jobs, the success rate with which jobs are being closed in line with the Council targets, and the average costs of repairs. These KPIs will be reported to Housing OSC	Responsible Owner:	Date:	Priority:
		Interim Head of Housing (Technical Services)	31 March 2024	Medium
Area: Responsive Repairs				
Control	We will perform a number of exploratory data analytics tests to identify trends and exceptions in repairs data for additional investigation and sample testing.	Assessment:		
		Design		×
		Compliance		-
Findings / Implications	We undertook data analytics to review the available repairs data and identify any data anomalies for further investigation. It should be noted that the large backlog of open jobs at the Council has led to a number of jobs falling behind, which has inflated our results in a number of categories. It should also be noted that the Northgate system creates multiple job lines for jobs which have taken place over multiple days, which we have attempted to counter act by filtering out duplicate job numbers, however we have considered the effects of this in our sample testing where necessary. It should also be noted that the Council had brought in an external consultant in 2022 to undertake a large scale close down of open jobs in an attempt to reduce the backlog of open jobs. These closures on 16 March and 30 September 2022 have been excluded from sample testing, but are included in our overarching data results, as they represent jobs which			

Area: Responsive Repairs

are not being completed in a timely manner. This resulted in a natural dip in performance figures in 2022 for all of our data tables. We based our testing of the closed date of all jobs in order to provide a reflection of how the Council is performing for newer jobs and how this is impacted by the backlog and the jobs included in the mass closedown. Our testing is based on reports of completed jobs since April 2021 to January 2024, covering the following spread of completed jobs:

- 2021: 3,772 jobs closed;
- 2022: 7,080 jobs closed (including 2,435 from consultant close down);
- 2023: 5,674 jobs closed; and
- 2024: 458 jobs closed (as of 26 January).

Jobs taking too long against policy

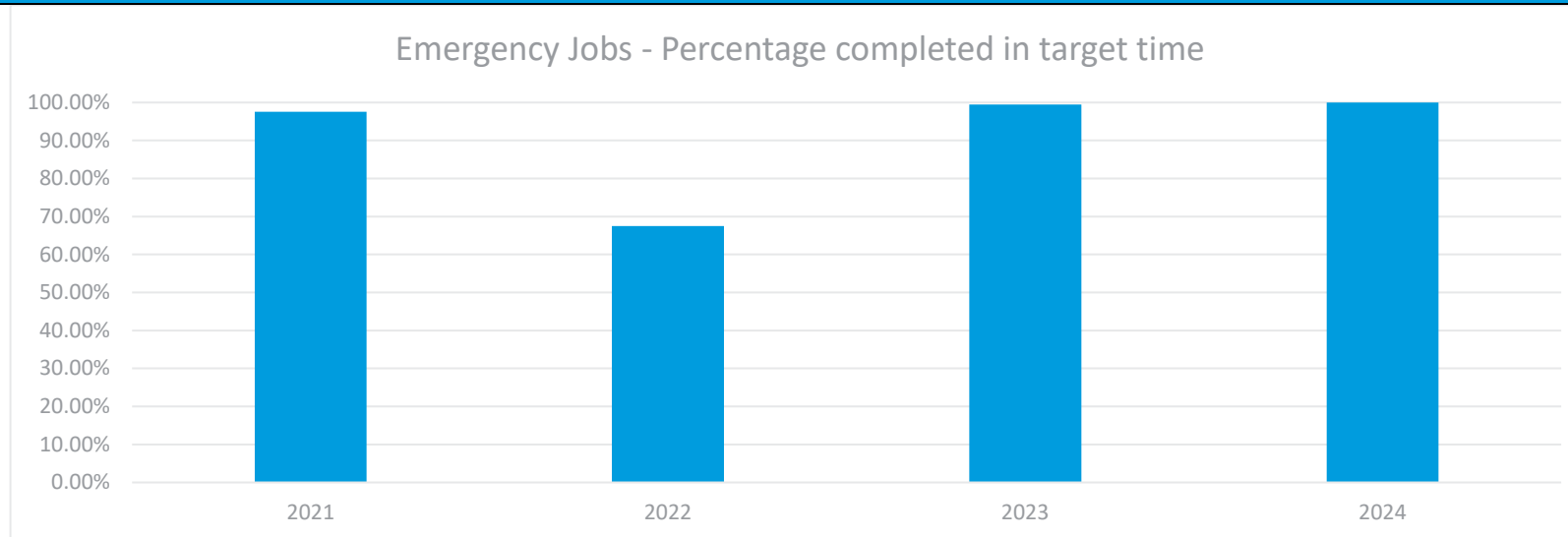
Emergency Repairs

282 of the 2,029 emergency repairs in the data, which have a target completion time of two hours, were not completed in two days, meaning that 86.2% of all emergency repairs were completed in two days or less. Of these, only six jobs had not been closed on the 16th March or 30th September 2022. Sample testing half of these jobs identified the following issues:

- Two jobs had been completed either by Liberty Gas (the Councils Gas Contractor) or via an out of hours call out, however the jobs had not been closed in Northgate.
- The final job was also a call out, on which a follow on job was requested, however this was not reflected in Northgate. Whilst another job was raised at the same address to rectify the issue, the lack of follow on job being raised led to this job sitting open for an extended period.

287 of the emergency repairs jobs were not completed on the day they were raised, and as such 85.9% of all emergency jobs were hitting the target set by the Council. Breaking this value down into annual data, the following percentage of jobs were hitting their target completion, showing strong performance in this area, outside of the mass closedown in 2022:

Calendar Year	Priority	Jobs Complete	Jobs complete in target time	Jobs not completed in target time	Percentage completed in target time
2021	Emergency	122	119	3	97.54%
2022	Emergency	859	580	279	67.52%
2023	Emergency	989	984	5	99.49%
2024	Emergency	59	59	0	100.00%



Urgent Repairs

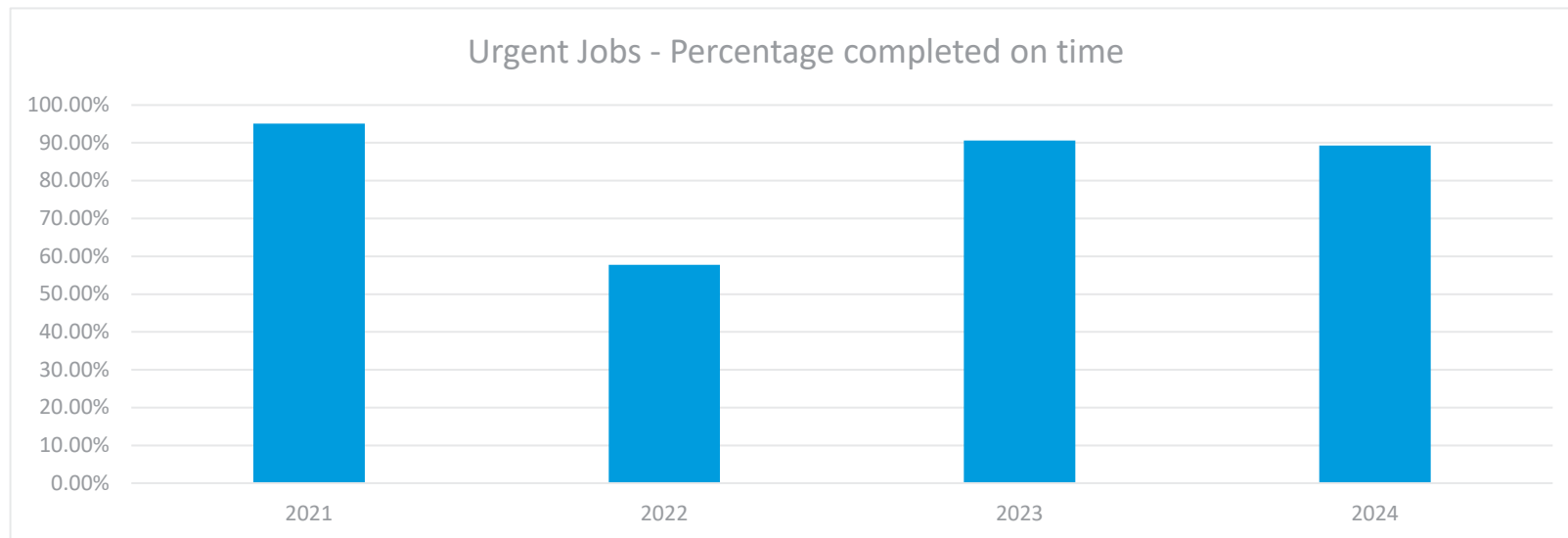
Of the 2,334 urgent repairs with a one day turn around time 474 took more than 10 days to complete, meaning 79.7% of urgent jobs were completed in 10 days or less. Of these, 67 jobs had not been closed on the 16th March or 30th September 2022. Sample testing five of these jobs identified the following:

- Three jobs, completed in 2021, 2023 and 2024, were genuine reflections of the the time taken to complete, all of which were jobs which had multiple instances of follow on work with material delays causing extended durations.
- One job, completed in 2024 after being open for 789 days, had no notes on file to indicate if the work was completed or if more work was required. It is therefore unclear whether this issue was addressed.
- The final job, completed in September 2023, had been attended once to make safe a smashed window, and then had taken an extended break to close due to lack of materials. However, the visit in May 2023 did not include any clear indication that the window had actually been made safe. We have raised a prior management action to address the lack of clarity.

550 of the urgent repairs jobs were not completed in the target one day turn around, representing 23.5% of all urgent jobs which were missing the target set by the Council. Breaking this value down into annual data, the following percentage of jobs were hitting their target completion, and in a similar manner to Emergency repairs, shows relatively high performance other than the mass closedown in 2022.

Area: Responsive Repairs

Calendar Year	Priority	Jobs Complete	Jobs complete in target time	Jobs not completed in target time	Percentage completed in target time
2021	Urgent	466	443	23	95.06%
2022	Urgent	1067	616	451	57.73%
2023	Urgent	745	675	70	90.60%
2024	Urgent	56	50	6	89.29%



Routine Repairs – 3 days

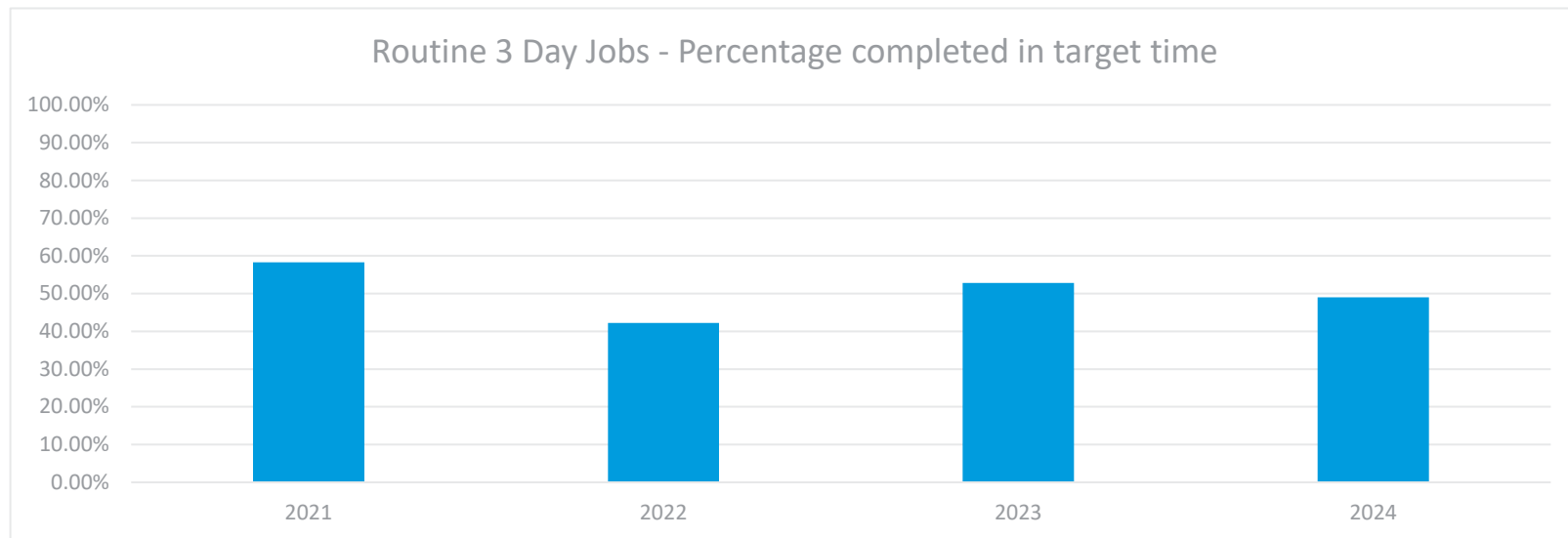
Of the 1,492 routine repairs with a three day turn around time 294 (19.7%) took more than 30 days to complete. Of these, 145 jobs had not been closed on the 16 March or 30 September 2022. Sample testing five of these jobs identified the following:

- Two jobs, completed in 2021 and 2023, appeared to be genuine reflections of the completion times, with jobs either delayed due to access to materials or requiring multiple follow on jobs.
- Two jobs, completed in 2022 and 2023, had not been raised in line with the priority description, i.e. the planner noted that the job was a seven day RTR but the job was raised as a routine 3 day job (see management action one regarding consistency of priorities).
- In the final instance, completed in December 2023, the first visit noted that there may be damp and mould issues due to an old slate roof, however there was no clear follow on job raised to rectify this issue. It is therefore possible, from the information available, that this potential damp and mould and leaking roof was left unactioned for 726 days after the first visit.

Area: Responsive Repairs

752 of the routine repairs were not completed in the three day turn around, representing 50.4% of all routine jobs missing the target set by the Council. Breaking this value down into annual data, we can see that these routine jobs do not perform as strongly as emergency and urgent repairs, reflecting the difficulties that the repairs function is facing in non-urgent jobs. These performance figures suggest that performance in this areas may be contributing to the overall repairs backlog.

Calendar Year	Priority	Jobs Complete	Jobs complete in target time	Jobs not completed in target time	Percentage completed in target time
2021	Routine - 3 day	247	144	103	58.30%
2022	Routine - 3 day	549	232	317	42.26%
2023	Routine - 3 day	598	316	282	52.84%
2024	Routine - 3 day	98	48	50	48.98%



Routine Repairs – No target time

Of the 11,129 routine repairs without a target turn around time, 2,583 (23.2%) took more than 60 days to complete. Of these, 1012 jobs had not been closed on the 16 March or 30 September 2022. Sample testing 10 of these jobs identified the following:

- Six of the jobs appeared to be genuine delays as a result of the backlog of works at the Council.

Area: Responsive Repairs

- For one job, the initial appointment was missed as the operative missed the appointment slot, and then a lack of notes in Northgate meant we were unable to understand why the job had then been delayed for 11 months after the missed appointment.
- For the remaining three jobs, each showed an elongated time frame which was caused in part due to no access issues which were then not closed down after seven days, leading to not only an increased number of open jobs, but also allowing the job to become live again, which we were informed likely took place after the same tenant re-contacted the call handlers.

Jobs completed before they were raised

We identified that 854 of the 16,984 jobs which were closed between April 2021 and January 2024 had been closed before they were registered. This represents 5% of the entire population of jobs. It was noted that all 854 jobs were emergency jobs. We undertook sample testing of five jobs, selecting those with different time gaps, to understand the root cause of these issues:

- Two jobs with gaps over a year appeared to represent typing errors, with the year entered incorrectly. Similar apparent typing errors were clearly visible in the data from incorrect months or missing digits.
- In all three remaining instances, the delays were caused due to late receipt of call out sheets from out of hours jobs. While these completion dates were correct, we were informed by the Senior Business Support Officer that this could be addressed through documenting the job the date was allocated to the call out officer, rather than the date that the Job had been formally recorded in Northgate.

Appointments made on or before the date of job registration

We reviewed the completed jobs from 2021 and 2022 completed job reports (these included current year repairs), using the DRS report to add appointment dates. Our testing identified no instances where jobs had appointment dates prior to them being registered. Of the 3,844 jobs with appointment dates, we noted that 388 had same day appointments, but were not for urgent or emergency priority jobs. Of these, all were completed on the appointment date, suggesting the appointment had been successful.

Jobs with delayed appointments

We reviewed the completed jobs from 2021 and 2022 completed job reports, using the DRS report to add appointment dates. Our testing identified that of the 522 Emergency and Urgent priority jobs, 36 had appointments more than seven days after the job had been raised. Sample testing five of these jobs identified that in all instances, the jobs had run over extended periods due to no access attempts and follow on jobs, with the appointment dates being extended as a result of multiple visits to the property. Whilst this is a reasonable outcome in some circumstances, in three instances we noted a lack of clarity as to the action taken on initial visits, the correct parts not being ordered correctly (due to lack of clear notes) or jobs being marked as complete but requiring additional works, had led to extended job durations and a lack of assurance as to what action was taken on the first visits (i.e. was the defect made safe). This lack of clear documentation reduces the efficiency of the repairs process and risks poor tenant satisfaction.

We also noted that, of the 3,322 routine jobs which had appointments, 327 had appointments 90 days or more after the job had been raised. Sample testing five of these jobs identified the following:

- Two job reflected a genuine delay in the works being completed, due to the lack of available builders and operatives.

Area: Responsive Repairs

- One job was unnecessarily delayed due to inconsistent use of follow on jobs, in one instance the jobs had not linked in Northgate to the original job.
- In one instance, a job had been closed in March 2022 as part of the consultant job close down in Northgate, but was completed in October 2023 as the job was still live in DRS. It is unclear how the closedown of Northgate jobs has enabled DRS jobs to remain open.
- In the final instance, a lack of notes made it difficult to understand why so many visits to the property were required, however the job had been raised to the wrong trade initially due to a lack of understanding as to what work was required.

Results summary

Based on our various findings above, we have noted the following key areas for improvement:

- The Council must address the high number of open jobs, as this is currently leading to a high number of jobs running beyond the targets within the policy. This is not only creating risk of poor levels of tenant satisfaction but effect the quality of tenants living conditions. Consideration of how to close all jobs which are over a certain age or have not had any communication over a set period of time should be considered in order to appropriately address the backlog.
- Processes are not currently effective with regards to consistently and efficiently completing any jobs which are non-standard, i.e. those requiring follow on work, being completed out of hours or by external contractors, or instances where no access can be gained upon appointment. In these instances, lack of clear process is leading to jobs remaining open for extended periods of time, as well as a lack of clear follow on work causing materials to be ordered and re-ordered due to lack of clarity as to what is required. These errors are causing time and cost inefficiencies, are contributing to the backlog of open jobs, and are creating risk of poor tenant satisfaction due to delays in-between initial appointments and works completion.
- Whilst not possible at the current time due to the number of open jobs, the Council does not have detective controls in place for once the backlog has been cleared, to enable efficient operation. Without a process to monitor all jobs at risk of, or having breached the agreed turn around times for jobs, there is risk that the open jobs backlog will begin to accumulate again, and that tenants at risk due to incomplete works are not being prioritised.

We have identified an instance where a job which appeared to have been closed in the Northgate mass close down remained open in DRS. The Council is current at risk of having paid for closing down jobs in Northgate which remain open in DRS, and as a result will carry into QL. This creates risk of damaging the data within QL as well as contributing to the jobs backlog. These jobs may prove increasingly difficult to close down due to the lack of joined job in Northgate.

Management Action 10	The Council will consider options such as closing all jobs over a particular age, and will implement a solution to reduce the high number of open jobs within Northgate. The selected solution will be approved by an appropriate forum within the Council.	Responsible Owner: Interim Head of Housing (Technical Services)	Date: 31 July 2024	Priority: High
Management Action 11	Following the reduction of the open jobs backlog, the Council will implement monitoring controls to identify jobs which are breaching agreed turn around times.	Responsible Owner: Interim Head of Housing (Technical Services)	Date: 31 December 2024	Priority: Medium

Area: Responsive Repairs

Processes will be in place to actively clear these breaching jobs to reduce the risk of the backlog accumulating again.

Management Action 12	The Council will fully review its processes and guidance notes to ensure that there is a clear approach to raising follow on jobs, and that this includes the risk associated with the circumstances identified on the initial visit, as well as any materials required.	Responsible Owner: Interim Head of Housing (Technical Services)	Date: 31 May 2024	Priority: High
Management Action 13	The Council will investigate the finding that jobs closed in Northgate as part of the large scale closedown are still open in DRS, and will seek to understand how this will affect the jobs data being moved into the QL system.	Responsible Owner: Interim Head of Housing(Technical Services)	Date: 31 May 2024	Priority: Medium

EXECUTIVE SUMMARY - PAYROLL

With the use of secure portals for the transfer of information, and through electronic communication means, 100 per cent of our audit has been conducted remotely. Remote working has meant that we have been able to complete our audit and provide you with the assurances you require. Based on the information provided by you, we have been able to sample test, or undertake full population testing using data analytics tools, to complete the work in line with the agreed scope.

Why we completed this audit

An audit of payroll was undertaken to ensure adequate systems and processes are in place for new starters, leavers, and payments to ensure staff are paid both accurately, and timely. Due to the value of the payroll and number of transactions processed both daily and monthly, this is a key risk area and is therefore included within our internal audit plan on a cyclical basis.

Payroll processing is managed through the iTrent system with built in workflows to ensure adequate approvals are provided for all changes, in line with delegated authorities and with appropriate segregation of duties. Processes are clearly defined within policies which segregate roles between the HR Team and the Payroll Team.

Sample testing was conducted on changes since 1 April 2023 and data analytics testing was also conducted to enable review of the full population within the payroll system.

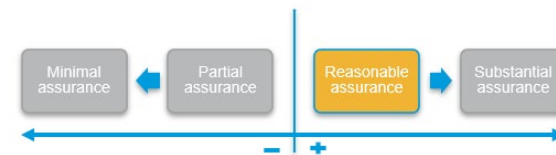
Conclusion

Our overall review confirmed the presence of an appropriate control framework covering the payroll process at the Council, as per the Council's Financial Regulations. Based on our testing, segregation of duties was clearly apparent throughout the processes, however, we found two areas of non-compliance which have resulted in the agreement of two medium priority management actions with management.

Internal audit opinion:

Taking account of the issues identified, the Council can take reasonable assurance that the controls upon which the Council relies to manage this area are suitably designed, consistently applied and effective.

However, we have identified issues that need to be addressed in order to ensure that the control framework is effective in managing the identified area.



Key findings

We identified the following findings:



The Council have in place a set of Financial Regulations and procedure notes that detail the regulations and processes to follow for all staff when completing the payroll. The Financial Regulations had been reviewed and approved by Council in May 2022 and are made available to all staff on the staff shared drive.



Through review of the iTrent system and the Financial Regulations we can confirm that the Council has in place segregation of duties between the Finance Team, HR Team and Payroll Team. This was evidenced through our testing throughout this audit and through review of the user access rights within the system.



The Council run a monthly balancing report on all payees every month, this balancing report details all changes in monthly wages for all employees and the variances from last month. We can confirm that all instances of a plus or minus 10% variance in payroll are investigated by a member of the Payroll Team for both gross and net for the months of November 2023, December 2023 and January 2024.



The monthly payroll is reviewed by both a member of the Payroll Team and the Deputy Director of Finance before being processed for payment. Our testing found that for our sample of three months, these had been approved by the Deputy Director of Finance prior to payment.



Testing of 10 leavers identified that in all instances they had been removed in a timely manner from payroll with details accurate to the source documentation and notification through to the Payroll Team.



The Payroll Team perform final salary calculations for all staff leaving the Council to identify any unused annual leave, payment in lieu of notice, redundancy packages, and any other payments. As part of our testing we reviewed a sample of 10 members of staff who had left the Council within the past year, and ensured that the Payroll Team had completed their final salary calculations and had been checked by second member of the Payroll Team. Our testing found that for all 10 leavers, the Payroll Team had performed final salary calculations and they had been checked by a second member of the Payroll Team, and all leavers were no longer recorded on the Council's payroll.



As part of our data analytics testing we looked at payments made after the member of staffs leaving date. We identified 33 staff who had been paid after their leaving date. Testing of five of these confirmed that these staff had either left after that months payroll had been processed and were therefore processed on the subsequent months payroll or they had an outstanding payment to be made such as backpay.



As part of our data analytics testing we identified 362 payroll numbers which had been paid, but were not present on the full staff list. 87 of these were leavers, however 275 were not accounted for. These 275 staff had 5,273 payments associated with them. Testing of five of these instances we found that these were all casual support officers or freelance workers.



As part of our data analytics testing we looked at 28 instances of duplicated bank details, covering 56 employee records. We also identified that 38 staff did not have any bank details on record. Upon review of five of these instances we found that these were either due to the employee being on two separate contracts needing separate pay rates or the bank details belonged to married couples who shared a bank account.



As part of our data analytics testing we looked at duplicate employee details and found 19 instances where employee details were present multiple times. We looked at five of these instances and confirmed that in all cases this was due to staff holding multiple contracts for their different roles.

However, the following findings have resulted in two medium priority managements action being agreed:



Our testing of 10 new starters found that the Council had retained completed new starter forms for eight of the 10 new starters, three of which had not been dated and one of them had been completed on the same day as their start date.

We also reviewed the bank details form for the new starters and found that eight of the new starters had a bank detail request form that matched the details on the payroll database. For two of the sampled members of staff we were not supplied with bank detail request forms. We therefore could not confirm the accuracy of setup. **Medium**



Testing of 10 contract changes or amendments identified that nine of the changes required a contract change form (the remaining instance was a contract extension). Testing identified three instances where the amendment approvals were after the effective date, one instance where the Finance Team had approved the change after the effective date and one instance where the change had not been authorised by the Finance Team but had just been ticked. **Medium**

2. DETAILED FINDINGS AND ACTIONS

This report has been prepared by exception Therefore, we have included in this section, only those areas of weakness in control or examples of lapses in control identified from our testing and not the outcome of all internal audit testing undertaken.

Area: New Starters				
Control	Starter forms with relevant information (salary, start date and bank account details) are fully completed and authorised by an appropriate member of staff (as per the scheme of delegation) who is different to the preparer. Monthly checks are done of all new staff who joined the Council that month ensuring that they have been correctly added to the payroll.	Assessment:		
		Design	✓	
		Compliance		×
Findings / Implications	<p>It is Council procedure that all new starters complete the HMRC New Starter Form or hand in their P45 prior to joining the Council. New starters also complete a bank details form detailing their bank details for payment purposes.</p> <p>As part of our testing we selected a sample of 10 new members of staff this financial year ensuring that the Council have retained their new starter form, bank details form and that the forms were complete prior to starting at the Council. Our testing found that of the 10 members of staff sampled the Council had retained completed new starter forms for eight of the 10 new starters, three of which had not been dated and one of them had been completed on the same day as their start date.</p> <p>We also reviewed the bank details form for the new starters and found that eight of the new starters had a bank detail request form that matches the details on the payroll database. For two of the sampled members of staff we were not supplied with bank detail request forms.</p> <p>The Payroll Team perform monthly checks on all new starters who have joined the Council each month, in these checks two members of the Payroll Team independently check that all new starters that month have completed their new starter form. The Payroll Team also check that the new starter is on the correct pay scale and pension payment plan.</p> <p>We can see evidence of the Council checking all new starters on their monthly new starter checks and in all instances the new starter check has been input by a member of the Payroll Team then reviewed by a separate member of staff from the Payroll Team.</p> <p>The risk associated with not retaining original new starter forms and bank detail forms is that new starters information may be setup inaccurately, this could lead to an incorrect payment being made. We could also not confirm the accurate setup of each new starter.</p>			
Management Action 1	The Council will retain all new starter forms ensuring that they have been fully completed and correctly dated.	Responsible Owner:	Date:	Priority:
		Payroll Officer	30 April 2024	Medium

Area: Payroll Amendments

Control	Any requests to change payroll details are reviewed by the Finance Team, and Line Managers before the Payroll Team make the appropriate changes on the payroll system.	Assessment: Design ✓ Compliance ×
Findings / Implications	<p>As part of our testing we selected a sample of 10 contract changes and amendments made in the past year, ensuring that the Council have appropriately reviewed and authorised the changes prior to them being processed. The contract change form requires sign off by both the Finance Team and the individuals Line Manager, before the Payroll Team can perform any changes.</p> <p>Of the 10 contract changes sampled, nine of the 10 changes required a contract change form. One of the contract changes sampled was just a contract extension and therefore no contract change form is required as the terms of the contract remained the same. For the other nine sampled changes we have seen evidence of the Council completing a contract change form for the Payroll Team to process. Of the nine forms to review, we can see that five of the contract changes were signed off by both the Finance Team and Line Manager prior to the effective date on the form.</p> <p>We noted that there were three instances where both the Finance Team and Line Manager sign off were dated after the contract change effective date.</p> <p>There was one instance where the contract change form was signed off by the Line Manager on the effective date and it was signed off by the Finance Team four days later.</p> <p>Where approval of contract changes are not prior to their effective date, there is a risk that the contract changes may be processed by the Payroll Team that have not been authorised, leading to incorrect payments to staff being made. Alternatively, once approved, backpay may be required where changes have been processed after they should have been effective from which increases the risk of errors being made.</p>	
Management Action 2	The Council will ensure that all contract changes are approved by both the Finance Team and the member of staff's Line Manager prior to the changes being made and where possible prior to the effective date.	Responsible Owner: Payroll Officer Date: 30 April 2024 Priority: Medium

EXECUTIVE SUMMARY – PURCHASING AND CREDITORS

With the use of secure portals for the transfer of information, and through electronic communication means, a proportion of our audit has been conducted remotely. Remote working has meant that we have been able to complete our audit and provide you with the assurances you require. Based on the information provided by you, we have been able to sample test, or undertake full population testing using data analytics tools, to complete the work in line with the agreed scope.

Why we completed this audit

Our audit on Purchasing and Creditors was undertaken to evaluate the Council's procedures for acquiring goods and services, ensuring their effectiveness and practical compliance against agreed upon procedures. The audit also focussed on a review of controls related to the management of new supplier data and updates to existing supplier information. Maintaining a strong purchasing process within the Council is vital, as it supports the Council with obtaining value for money in its purchases and stays within budgetary constraints.

The Council use two system's called 'eProcurement' and 'eFinancials' for their purchasing processes. 'eProcurement' is utilised for the raising and approving of purchase orders. The 'eFinancials' systems is utilised for the invoicing and payments of purchases. The Council are currently in the process of switching from their current two systems to a new one which is due to be launched in September.

Conclusion

We confirmed that South Kesteven District Council have efficient purchasing processes in place which is being adhered to in practice; however, our review highlighted areas for improvement, specifically regarding raising purchase orders after an invoice is received. The review has led to the agreement of one medium and one low priority actions with management.

Internal audit opinion:

Taking account of the issues identified, the board can take substantial assurance that the controls upon which the organisation relies to manage this area are suitably designed, consistently applied and effective.



Key findings

We identified the following areas of good control design which are being complied with in practice:



The Council have a Financial Regulations document in place which has been reviewed up to date and is made available within the policies section of the intranet site. The regulations are also supported by procedural documentation on the system used as part of the purchasing process.



There are user access restrictions incorporated into the financial systems used at the Council, upon user setup, individuals are allocated a role type, each with financial limitations based on their assigned role.



Invoices are automatically matched to PO's through an automated verification process within the 'POPr53' system and produces a report to show which invoices that have matched and have not. Invoices which match are sent through for payment and non matches are investigated manually by the finance team.



We sample tested 20 purchases made which confirmed:

- In all instances, the purchase was included within the BACS file.
- In all instances, the BACS file was created by the Exchequer Officer, processed by the Senior Exchequer Officer and approved by second Senior Accountant within the Council.



We sample selected ten new suppliers and confirmed:

- In six instances a supplier request form had been filled in and proof of bank details obtained as evidence.
- In two instances a payment voucher had been completed in full for a one off payment.
- In one instances a re-occurring grant payment was set up as part of the Ukraine Support Grant with evidence obtained of the debit card for the individual.
- In one instance a one-off payment for a car park refund was set up based on information received from corporate facilities.
- In all instances, the supplier details were processed by one staff member and subsequently verified by a different staff member.



We selected a sample of 5 bank detail changes and confirmed:

- In all instances, the bank detail change was performed by one member of staff;
- In all instances, the bank detail change was checked by a different member of staff; and;
- In all instances, sufficient evidence had been gathered to support the bank detail change.



From our data analytics results we sample tested ten instances of duplicate supplier instances and confirmed:

- In all instances the supplier codes started with AG, CL, LL, 6 and 7 which are all housing benefits, council tax or business rates refunds. This means that its gone to the same supplier but for a different premises therefore no concerns.



Our data analytics testing there was instances of members of staff approving limits about their approval limit, we sample tested five approvers and confirmed:

- In three instances, the purchase orders checked were amounts within the approvers limits.
- In one instance, the approver had departed from the organisation, resulting in an approval limit of £0. However, during the period when their approvals were required, the amounts in question remained within the applicable limit.
- In one instance, the individual who approved the purchase orders had been promoted to interim head of estates. The amounts sample tested had fell within their designated approval limits.



Our data analytics testing identified transactions with the same supplier and amounts had occurred on the same date and time. We selected 10 duplicate transaction instances and confirmed:

- In all instances, the transaction amount had it's own invoice number therefore was accurate.



We sample tested the top three valued purchase orders which had been raised and approve by the same member of staff and confirmed:

- In one instance, the purchase order had been raised and approved within the designated limit for the member of staff; and;
- In the remaining two instances, the purchase order had been raised by one member of staff and approved by the correct approver, however it was approved in the other finance system to the one the purchase order was raised in.

However, the following finding has resulted in one medium and one low priority management action being agreed:



Through sample testing 20 purchases we confirmed:

- In all instances, a purchase order had been raised and approved by correct delegated authority in line with approval limits.
- In all instances, the system was updated to state the goods or services were received so payment could be made.
- In fourteen instances, the invoice was received after the purchase order was raised in the system.
- In six instances, the invoice was received before the purchase order was raised in the system.

Details of the low priority management action can be found in section 2 of this report.

2. DETAILED FINDINGS AND ACTIONS

This report has been prepared by exception. Therefore, we have included in this section, only those areas of weakness in control or examples of lapses in control identified from our testing and not the outcome of all internal audit testing undertaken.

Area: Delegated authority				
Control	Purchase orders are raised in the eProcurement system which has a built in authorised signatory list, if the purchase order (PO) requires approval a notification is sent to the member of staff relevant to the amount raised. The members of staff who raised the PO is responsible for goods receipting the purchase within the system. The council use a system called 'POPR53' which automatically matches invoices received to PO's in the system.	Assessment:		
		Design	✓	
		Compliance	×	
Findings / Implications	<p>When a member of staff needs to purchase goods or services they are to complete a requisition form which is to be signed by the relevant staff member as per the authorised signatory list. A purchase order is then raised in the eProcurement system, which is automatically sent to the necessary member of staff for approval, as per their limits. Once approved, the goods or services can be purchased and once received is to be goods receipted within the system. When an invoice is received into the financial mailbox, it is run through the POPR53 auto matching process to match to existing PO's. We sample tested 20 purchases which confirmed:</p> <ul style="list-style-type: none"> • In all instances, a purchase order had been raised and approved by correct delegated authority in line with approval limits. • In all instances, the system was updated to state the goods or services were received so payment could be made. • In fourteen instances, the invoice was received after the purchase order was raised in the system. • In six instances, the invoice was received before the purchase order was raised in the system. <p>There is a risk of goods and services being purchased without appropriate authorisation within the system, potentially resulting in unauthorised purchases made by members of staff.</p>			
Management Action 1	The Council will brief all members of staff that purchase orders are to be raised before the purchase of goods or services.	Responsible Owner: Senior Accountant	Date: 30 September 2024	Priority: Medium

Area: Data Analytics - Supplier accounts with same bank details

Control	There are instances of duplicate bank details and suppliers without valid bank details (either blank or all 0's)	Assessment:	
		Design	✓
		Compliance	x
Findings / Implications	<p>We identified ten sets of duplicated bank details, of which two were blank bank details (either blank or all 0's) which resulted in suppliers without valid bank details. The remaining eight sets had 18 total lines of duplicated supplier information which was sample tested, through sampling we confirmed:</p> <ul style="list-style-type: none"> • In five instances, one of the duplicate bank detail accounts had been deleted within the system. • In three instances, there was duplicate accounts still active with the same bank details, one of the duplications is still actively used to pay National Insurance, Tax, Student Loans to Inland Revenue. <p>There is a risk that there are duplicated accounts with the same bank details within the system which could lead to incorrect accounts being used for payments.</p> <p>From our data sample it was also noted that over 16000 accounts did not have any bank details included on their account, we dip checked two accounts of which one had an active direct debit on. A recommendation to the Council would be to ensure that the new system can pull data on supplier information so it can be monitored effectively to ensure no duplications.</p>		
Management Action 2	The Council are to ensure that data cleansing is conducted on existing supplier data to ensure no duplication of bank details into the new system.	Responsible Owner: Senior Accountant	Date: 30 September 2024 Priority: Low

EXECUTIVE SUMMARY – FOLLOW UP 2

With the use of secure portals for the transfer of information, and through electronic communication means, remote working has meant that we have been able to complete our audit and provide you with the assurances you require. It is these exceptional circumstances which mean that 100 per cent of our audit has been conducted remotely. Based on the information provided by you, we have been able to sample test complete the work in line with the agreed scope.

Background

We have undertaken a review to follow up on progress made to implement the previously agreed management actions from the following audits:

- 2022/23-02 – Key Control Testing;
- 2022/23-10 – Cyber Security;
- 2020/21-02 – GDPR Post Implementation Review;
- 2020/21-12 – Housing Compliance Update;
- 2020/21-06 – Rent Collection and Arrears;
- 2021/22-04 – Continuous Assurance Visit One;
- Pre 20/21 – Legacy Follow Up Actions; and
- 2021/22-07 – Housing Compliance.

We followed up the 10 management actions still open on the 4Action Software, and the two remaining management actions from the action log handed over by the previous internal auditors marked as “not actioned”.

Conclusion

Taking account of the issues identified in the remainder of the report and in line with our definitions set out in Appendix A, in our opinion the Council has demonstrated **reasonable progress** in implementing agreed management actions.

We confirmed that five actions were fully implemented, one action had been superseded as this had been covered in the Responsive Repairs Audit, and one action was not yet due and therefore this action did not feature in our opinion provided. Of the remaining five actions, four were deemed partially implemented, and one action had not yet been implemented.

Progress on actions

The following table includes details of the status of each management action:

Implementation status by review	Number of actions agreed	Status of management actions				
		Impl. (1)	Impl. ongoing (2)	Not impl. (3)	Superseded (4)	Not Yet Due (5)
2022/23-02 – Key Control Testing	1	0	0	0	0	1
2022/23-10 – Cyber Security	1	0	1	0	0	0
2020/21-02 – GDPR Post Implementation Review	5	4	1	0	0	0
2020/21-12 – Housing Compliance Update	1	0	0	1	0	0
2020/21-06 – Rent Collection and Arrears	1	0	1	0	0	0
2021/22-04 – Continuous Assurance Visit One	1	0	0	0	1	0
Pre 20/21 – Legacy Follow Up Actions	1	1	0	0	0	0
2021/22-07 – Housing Compliance	1	0	1	0	0	0
Total	12	5 (42%)	4 (34%)	1 (8%)	1 (8%)	1 (8%)

2. FINDINGS AND MANAGEMENT ACTIONS

Status	Detail
1	The entire action has been fully implemented.
2	The action has been partly though not yet fully implemented.
3	The action has not been implemented.
4	The action has been superseded and is no longer applicable.
5	The action is not yet due.

Assignment: 2022/23-10 – Cyber Security				
Original management action / priority	The IT service should develop a timeline for achieving Cyber Essentials certification.			
	We would further advocate that the Council opts for the Cyber Essential Plus given the additional rigour this provides.			
	Priority: Medium			
Audit finding / status	Discussions with the IT Manager advised the IT service completed a self-evaluation assessment in January 2024 to confirm how the Council can achieve the Cyber Essentials certification. Conversations with the IT Manager advised the service is still awaiting the possibility of achieving Cyber Essentials certification by receiving external funding, at which point a timeline can be created. 2 - The action has been partly though not yet fully implemented.			
Management Action 1	The IT service should develop a timeline for achieving Cyber Essentials certification.	Responsible Owner: IT Manager	Date: 31 July 2024	Priority: Low

Assignment: 2020/21-02 – GDPR Post Implementation Review

Original management action / priority The Information Asset Register will be updated and reviewed to ensure a complete and comprehensive record is maintained of all data held by the Council. Once completed, a process will be implemented to ensure that this central record resulting from the data audit is accurate and remains up to date to ensure that the Council continues to hold a comprehensive, accurate and up to date record of all the personal data held. This should be undertaken via regular data audits to capture any changes.

Priority: **N/A**

Audit finding / status Through discussion with the Data and Information Governance Officer, we noted the Information Asset Register is updated and reviewed when changes are required. We also obtained the Information Asset Register last updated in February 2024.

Further discussions with the Data and Information Governance Officer advised a yearly review of the Information Asset Register will commence starting from April 2024 including regular data audits. This is required as some gaps were identified within the register such as cells with question marks, empty cells and job titles of staff members responsible recorded as CCTV and personal.

2 - The action has been partly though not yet fully implemented.

Management Action 2	The Information Asset Register will be reviewed and updated on a yearly basis.	Responsible Owner: Data and Information Governance Officer	Date: 30 April 2024	Priority: N/A
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Assignment: 2020/21-12 - Housing Compliance Update

Original management action / priority

- a) An up to date Housing Asset Management Strategy will be implemented, following completion of the stock condition survey.
- b) The frequency of the review of the Housing Asset Management Strategy will be agreed and reviewed accordingly including the addition of version control.
- c) Once a full review of the Asset Management Strategy has been completed appropriate consultation with tenants and leaseholders will be undertaken.
- d) The Housing Asset Management Strategy will be disseminated to all the relevant staff

Priority: **Medium**

Audit finding / status Through discussion with the Interim Head of Housing and Technical Services, we noted completion of the stock condition survey has not been completed leading to a delay of the implementation of the Housing Asset Management Strategy. Therefore this action is unable to be completed.

3 - The action has not been implemented.

Assignment: 2020/21-12 - Housing Compliance Update

Management Action 3	<p>a) An up to date Housing Asset Management Strategy will be Implemented, following completion of the stock condition survey.</p> <p>b) The frequency of the review of the Housing Asset Management Strategy will be agreed and reviewed accordingly including the addition of version control.</p> <p>c) Once a full review of the Asset Management Strategy has been completed appropriate consultation with tenants and leaseholders will be undertaken.</p> <p>d) The Housing Asset Management Strategy will be disseminated to all the relevant staff</p>	Responsible Owner: Interim Head of Housing (Technical Services)	Date: 31 October 2024	Priority: Medium
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Assignment: 2020/21-06 – Rent Collection and Arrears

Original management action / priority	<p>The South Kesteven District Council Fair Collection and Debt Recovery Policy will be reviewed and updated. Going forward the Fair Collection and Debt recovery Policy will be reviewed every three years as good practice or earlier in an event of a change occurring.</p> <p>Priority: Medium</p>			
Audit finding / status	<p>Discussions with the Head of Service advised the action has not been completed due to two key systems relating to debt recovery being changed over the coming months. The Council aim is to produce a council-wide Debt Recovery Policy no later than October 2024 with a view to approve for implementation from 1 April 2025.</p> <p>2 - The action has been partly though not yet fully implemented.</p>			
Management Action 4	<p>The South Kesteven District Council Fair Collection and Debt Recovery Policy will be reviewed and updated. Going forward the Fair Collection and Debt recovery Policy will be reviewed every three years as good practice or earlier in an event of a change occurring.</p>	Responsible Owner: Head of Service (Revenues, Benefits, Customer and Community)	Date: 1 April 2025	Priority: Medium

Assignment: 2021/22-07 – Housing Compliance

Original management action / priority The Council will start delivering training against their newly devised training matrix.
Priority: **Medium**

Audit finding / status We were advised by the Interim Head of Housing and Technical Services and Housing Compliance Manager that the Compliance Team complete training, however, this is without a training matrix. We noted the Compliance Team complete training modules such as NEBOSH Degree in Occupational Health and Level 2 Asset and Building compliance awareness. However, we were advised the Council are looking to implement a service level training plan for each department which will be managed once a review of the previous training has commenced.
2 - The action has been partly though not yet fully implemented.

Management Action 5	The Council will start delivering training against their newly devised training matrix.	Responsible Owner: Interim Head of Housing (Technical Services)	Date: 30 September 2024	Priority: Low
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EXECUTIVE SUMMARY – SECTION 106 AGREEMENTS

With the use of secure portals for the transfer of information, and through electronic communication means, 100 per cent of our audit has been conducted remotely. Remote working has meant that we have been able to complete our audit and provide you with the assurances you require. Based on the information provided by you, we have been able to sample test to complete the work in line with the agreed scope.

Why we completed this audit

Section 106 Agreements are an aspect of the Town and Country Planning Act (1990) which aims to identify additional funds which are required to offset the effects of development. These additional funds will be agreed between the developer and the Council, and are used to fund specific developments to improve infrastructure and services otherwise affected by new developments. Due to the legally binding nature of these Section 106 Agreements, the Council must ensure that it has sufficient processes in place to monitor available funds, and ensure that they are only spent on projects which are aligned with the stipulations of the individual Section 106 Agreements.

We noted that the new Infrastructure Delivery Officer has undertaken a large piece of work to identify current funds held and identify potential opportunities for their use. As such, we reviewed the processes which have been developed by the new Infrastructure Development Officer, to confirm that the processes allow for appropriate monitoring of all Section 106 obligations, identifies funds held on the ledger and their purpose, and maintains a record of the movement of funds. We also confirmed what processes are in place to appropriately review applications for the use of funds, to ensure that they allow the Council to fully assess whether projects align with the requirements of Section 106 Agreements.

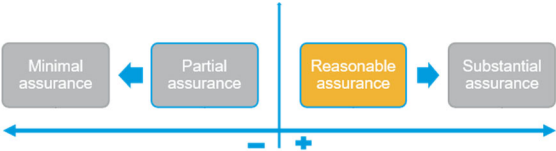
Finally, we reviewed how the Council identifies changes to funds based on Indexation (increases to amounts owed by developers) and Interest (increases to amounts held by the Council) and whether sufficient information is held to allow for monitoring of how this affects funds which may have to be repaid to developers.

Conclusion

Our testing identified that a robust set of processes have been implemented by the Infrastructure Delivery Officer, utilising interlinking spreadsheets to track funds received from developers and sent out to various third parties or Council department budgets. We noted that the Council had not yet implemented an agreed approach to managing accrued interest on Section 106 funds held on the ledger, and as such we have agreed one medium priority action to address this finding. We have also agreed two low priority actions with management, which can be found in Section two of this report.






Internal audit opinion:

Taking account of the issues identified, the Council can take reasonable assurance that the controls upon which the organisation relies to manage this area are suitably designed, consistently applied and effective. However, we have identified issues that need to be addressed in order to ensure that the control framework is effective in managing the identified area.



Key findings

We identified the following findings:

-  The Infrastructure Delivery Officer has documented a suite of processes for managing the monitoring and movement of Section 106 funds. This ensures business continuity in the event of staff unavailability as well as ensuring consistent documentation is used. Various letter templates are attached as appendices to this document for contacting developers and requesting funds.
-  Three inter linked tracking spreadsheets are used to track overall agreements, invoicing and funds received from developers, and payments made to recipients of funding. We noted that all five balances tested matched across from the tracking spreadsheets through to the ledger balance. This provides assurance that the Council is aware of its current Section 106 obligations.
-  The process notes for the Infrastructure Delivery Officer clearly identify their role and responsibilities and how they are expected to work with other departments within the Council. We also noted that regular contact is made with these departments, and with third parties, to keep active communications in place regarding upcoming Section 106 Agreements allowing for timely identification of projects for use of funds.
-  We noted that the Council has developed, but not yet implemented, a new application form for Section 106 funds. We noted that this form ensures sufficient information is obtained to allow for the Council to make an informed decision on a project by project basis regarding if they are financially feasible and align with the relevant Section 106 agreements.
-  While the Infrastructure Delivery Officer informed us that they had not yet returned any funds to developers, the Council has a clear process for returning funds owed. We also noted that the tracking spreadsheets allow for identification of funds which are due to be returned to developers.

We identified the following control weakness resulting in the agreement of one medium priority management action:



Whilst we have identified that indexation had been applied correctly in the four instances tested, and clear evidence to support these calculations was obtained, we noted that there is not currently a process in place for monitoring interest accrued over time. This creates risk that the Council does not have sufficient information to identify all monies owed to developers, as funds must be returned with interest accrued. As such the Council may risk breaching the terms of its Section 106 Agreements or having to identify additional funds to pay back to developers. **Medium**

2. DETAILED FINDINGS AND ACTIONS

This report has been prepared by exception. Therefore, we have included in this section, only those areas of weakness in control or examples of lapses in control identified from our testing and not the outcome of all internal audit testing undertaken.

Area: Section 106 Agreements				
Control	The Council has a tracker which records Section 106 details and retains signed documentation for each Section 106 Agreement.	Assessment:		
		Design		✓
		Compliance		×
Findings / Implications	<p>Review of the Section 106 tracking spreadsheet confirmed that it contained 299 Section 106 Agreements, which also included old agreements which have been previously marked as complete. We have based our sample size on 35 Section 106 Agreements which have been reviewed since the Infrastructure Delivery Officer (IDO). However, it is important that the Council recognises that there are a number of current Section 106 Agreements which have not yet been re-reviewed under the new processes and added to the various tracker documents. As such, this presents risk that, until all current agreements have been reviewed and added to the tracker, the Council is at risk of being unable to identify funds which may be held due to previous Section 106 Agreements which it may at some point be required to repay to developers if not used.</p> <p>We sample tested five Section 106 Agreements from the 35 currently reviewed, to confirm that the data held on file matched to the tracking spreadsheet and that the Section 106 Agreement was in place and signed. We confirmed that all five had full Section 106 Agreements available, with signatures removed for data protection. The trackers held matching information relating to the chosen clause for each of these five agreements.</p>			
Management Action 1	Support from other areas of the Council will be provided to support the Infrastructure Delivery Officer in addressing the Section 106 Agreement backlog and identifying all monies held.	Responsible Owner:	Date:	Priority:
		Infrastructure Delivery Officer	30 June 2024	Low

Area: Section 106 Agreements				
Control	The Council has process notes in place which provides guidance on key contacts who are responsible to ensure issues are dealt with in a timely manner.	Assessment:		
		Design		✓
		Compliance		×

Area: Section 106 Agreements

Findings / Implications	<p>Through review of the Infrastructure Delivery Officer process notes, we identified the following key processes which highlight addressing issues surrounding the Section 106 process:</p> <ul style="list-style-type: none"> • Unspent Contributions - Identify unspent monies which are due for return, agree the repayment with interest accrued and pay back to the developer. All of this responsibility is applied to the Infrastructure Delivery Officer for this process. This includes identification of unspent contributions, which is driven by the accuracy of the tracking spreadsheet. • Legal Process Management - This is a general approach to dealing with any unpaid monies from developers. In these instances, the Infrastructure Delivery Officer is told to contact their Line Manager, providing more seniority. A legal letter is provided in the appendix of the process, and once Legal Services Lincolnshire (LSL) has sent this letter, accountability is handed to LSL as the Council's legal representative. • Enforcement - This highlights the role of the the Infrastructure Delivery Officer, and how they are involved in managing instances where the Council receives complaints in Section 106 Agreements not being complied with. Where the developer still fails to initially rectify matters, the case is escalated with the Enforcement Team and the Development, Management and Enforcement Manager. Once escalated, the Enforcement Team and the Infrastructure Delivery Officer would jointly pursue enforcement • Dealing with queries - Queries are recorded on the Section 106 tracker spreadsheet. The process guidance note that the Infrastructure Delivery Officer should direct queries to the website, as the Section 106 Agreements are all publicly available. <p>While there is clear guidance as to who is responsible for dealing with various instances where the Section 106 process is not fully adhered to, there are not clear guidelines on how the approach to rectifying these should be controlled with regards to timeliness. As such, there is a risk that developers may not pay for extended periods and that inconsistency may also lead to damaging relationships, i.e. if queries are not addressed in a timely manner.</p>			
Management Action 2	The Council will document timeframes for addressing key elements of the Section 106 process such as responding to queries and escalating owed monies through to legal and enforcement teams.	Responsible Owner: Infrastructure Delivery Officer	Date: 30 June 2024	Priority: Low

Area: Section 106 Agreements

Control	The Council utilises information held within its tracking spreadsheets to enable calculations of indexing for developer payments. There is not currently a process in place for monitoring and recording accrued interest.		Assessment:
			Design ✓
			Compliance ×

Area: Section 106 Agreements

Findings / Implications

Indexation

We reviewed a sample of five current Section 106 Agreements, to confirm that indexation had been applied in line with the terms documented in the agreement and that the calculation was available to support the funds requested. We confirmed the following:

- Three calculations had been completed in line with the indexation per the agreement, had been calculated based on the gap between the agreement and the request of funds (supported by screenshots of the request to confirm dates) and the indexation was correctly applied to the initial amount per the contract. In all instances the amount requested correlated to the indexation calculation.
- In one instance, the indexation was not applied, as this was an inherited Section 106 Agreement so the funds were already on the ledger when the Infrastructure Delivery Officer started their new role.
- In the final instance, the Section 106 Agreement related to a newer development, and as such the only funds requested had been the monitoring funds (which did not have indexation applied as they were provided upon signing the agreement).

The tracking spreadsheet retains evidence of the calculation and how it has been applied to all funding pots, allowing for a clear trail of how the Council has applied indexation.

Interest

We noted that there is not a consistent clause within most Section 106 Agreements which highlights the exact application of interest accrued on monies held on the ledger, and as such, the Council has not been applying interest to Section 106 monies held on the ledger. Section 106 Agreements refer to placing monies in an interest bearing account and repaying this to the developer alongside the original funds, if unspent at the expiry date of the Section 106 Agreement. We noted that the Council does not yet have the processes in place to track interest being accrued. The Council must agree an approach to the use of interest which is accrued (i.e. will this be paid to recipients, regardless of the wording of the section 106 agreement) and will also develop a method to calculate interest accrued over time, and alter the balance accordingly to keep track of these changes to funds. Without being able to track accrued interest over time, the Council is at risk of not fully having accounted for the funds owed to developers for repayment, which may lead to the Council not having funds available to make the required repayments.

Management Action 3

The Council will develop an agreed approach to managing accrued interest, will document this approach, and will also develop a standardised approach to calculating and monitoring accrued interest over time.

Responsible Owner:
Infrastructure Delivery Officer

Date:
30 June 2024

Priority:
Medium



JUNE 2024

2024-2027

INTERNAL AUDIT ANNUAL PLAN AND THREE-YEAR STRATEGIC PLAN - DRAFT

SOUTH KESTIVEN DISTRICT COUNCIL

Agenda Item 6

IDEAS | PEOPLE | TRUST



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AUDIT RISK ASSESSMENT



BACKGROUND

Our risk-based approach to internal audit uses South Kesteven District Council's own risk management process and risk register as a starting point for audit planning as this represents your own assessment of the risks to achieving your strategic objectives.

The extent to which we can rely on management's own perception of risk largely depends on the maturity and effectiveness of the Council's own risk management arrangements. In estimating the amount of audit resource required to address the most significant risks, we have also sought to confirm that senior management's own assessment of risk accurately reflects the Council's current risk profile.



PLANNED APPROACH TO INTERNAL AUDIT 2024/25

The indicative Internal Audit programme for 2024/25 is set out on pages 8 to 17. We met with the Corporate Management Team on 1 May 2024 in order to bring together a full draft plan to be presented to the Governance and Audit Committee meeting for formal review and approval. We will keep the programme under continuous review during the year and will introduce to the plan any significant areas of risk identified by management during that period.

The plan is set within the context of a multi-year approach to internal audit planning, such that all areas of key risks would be looked at over a three-year audit cycle. We have suggested future areas of focus as part of the three-year strategic internal audit plan, set out on pages 6 and 7.



INDIVIDUAL AUDITS

When we scope each review, we will reconsider the anticipated coverage to achieve the objectives established for the work and to complete it to a satisfactory standard in light of the control environment identified within the Council. Where revisions are required, we will obtain approval from the appropriate Director prior to commencing fieldwork.

In determining the timing of our individual audits, we will seek to agree a date which is convenient to the Council, and which ensures availability of key management and staff and takes account of any operational pressures being experienced.



VARIATIONS TO THE PLAN

We review the three-year strategic plan each year to ensure we remain aware of your ongoing risks and opportunities. Over the coming pages we have mapped your key risks along with the audit work we propose to undertake, demonstrating we are focussing on your most important issues.

As such, our strategic audit programme follows the risks identified during our planning processes and confirmed via discussions with the Directors. If these were to change, or emerging risks were to develop during this period, we would take stock and evaluate our coverage accordingly.

OUR NEXT GEN INTERNAL AUDIT APPROACH

Our new and innovative Next Gen approach to internal audit ensures you maximise the potential added value from BDO as your internal audit provider and the expertise we bring from our dedicated Public Sector Internal Audit team and wider BDO specialist teams.

The Next Gen approach has allowed us to move away from the traditional approach of compliance auditing, transitioning in to delivering a healthy mix of assurance that is forward looking, flexible and responsive and undertaken in partnership with yourselves. The key components to this approach are outlined below and underpin our proposed plan coverage:

Core assurance

Reviews of fundamental finance and operational systems to provide assurance that core controls and procedures are operating as intended.

Soft controls

Reviews seek to understand the true purpose behind control deficiencies and provide a route map to enhance their effectiveness.

Future focused assurance

Rather than wait for implementation and then comment on identified weaknesses, we will work with you in an upfront / real time way.

Flexible audit resource

Undertake proactive work across the Council, perhaps in preparation for regulatory reviews or change management programmes.



MAPPING YOUR STRATEGIC RISKS (1/2)

Ref	Strategic Risks from your Strategic Risk Register (SRR)	Score
1	Successful/serious cyber security attack on the Council	13
2	Serious Safeguarding failure by the Council	9
3	Serious health, safety, and well-being failure by the Council	9
4	Ineffective financial management	6
5	Unable to maintain and build quality and consistency in service provision by the Council	9
6	Unable to maintain and build sufficient staffing capacity and capability	9
7	Failure to explore digital transformation of Council Services	12

IMPACT

Critical None or very low tolerance to the risk	4		1		
Major Some tolerance to the risk	3	4	2, 3,5,6	7	
Moderate Risk can be tolerated in most cases	2				
Minor Risk can be tolerated	1				
		1	2	3	4
		Unlikely	Possible	Likely	Certain
		Low but not impossible	Fairly likely to occur 21-50%	More likely to occur than not 51%-80%	Expected to occur in most circumstances >80%

LIKELIHOOD

MAPPING YOUR STRATEGIC RISKS (2/2)

Ref	Strategic Risks from your SRR	Score
8	Not maintaining and developing fruitful partnerships and collaborations	9
9	#TeamSK values/culture are not lived	9
10	Unable to meet requirements of new regulations and legislations affecting the Council	6
11	Not sufficiently engaging with and responding to climate change	9
12	Not effectively engaging with our key external stakeholders	5
13	Governance failure	9
14	Significant fraud/theft successfully committed against the Council	10
15	Unable to effectively respond to political priorities	10

IMPACT

Critical None or very low tolerance to the risk	4	14, 15			
Major Some tolerance to the risk	3	10	8,9,11,13		
Moderate Risk can be tolerated in most cases	2		12		
Minor Risk can be tolerated	1				
		1	2	3	4
		Unlikely	Possible	Likely	Certain
		Low but not impossible	Fairly likely to occur 21-50%	More likely to occur than not 51%-80%	Expected to occur in most circumstances >80%

LIKELIHOOD

MAPPING YOUR SRR TO THE STRATEGIC PLAN (1/2)

Ref	Strategic Risks from your SRR	2024/25	2025/26	2026/27
1	Successful/serious cyber security attack on the Council	• Data Protection, FOI, EIR and Subject Access Request	• Cyber Security	• NA
2	Serious Safeguarding failure by the Council.	• NA	• NA	• Safeguarding
3	Serious health, safety, and well-being failure by the Council	• NA	• NA	• Corporate Health and Safety
4	Ineffective financial management	• Main Financial Systems • Council Tax and NNDR • Income generation	• Treasury Management • Account Payables • Account Receivables-Debtors • Housing Revenue Account	• Account Receivables-Debtors • Fixed Asset Register
5	Unable to maintain and build quality and consistency in service provision by the Council	• Homelessness • Business Continuity and Disaster Recovery	• Parking	• Planning Service Review Action Plan
6	Unable to maintain and build sufficient staffing capacity and capability	• Staffing Capacity	and • Recruitment and Retention	• Sickness management and Absence • Payroll
7	Failure to explore digital transformation of Council Services	• NA	• IT Strategy	• NA

MAPPING YOUR SRR TO THE STRATEGIC PLAN (2/2)

Ref	Strategic Risks from your SRR	2024/25	2025/26	2026/27
8	Not maintaining and developing fruitful partnerships and collaborations	• NA	• NA	• NA
9	#TeamSK values/culture are not lived	• NA	• NA	• NA
10	Unable to meet requirements of new regulations and legislations affecting the Council	• NA	• NA	• Payroll • Housing Benefit • Housing Repairs
11	Not sufficiently engaging with and responding to climate change	• Social Housing Decarbonisation Fund	• Climate Plan	• Commercial Waste Services, Bins, Street Care and Recycling
12	Not effectively engaging with our key external stakeholders	• NA	• NA	• NA
13	Governance failure	• NA	• Governance and Performance Management	• NA
14	Significant fraud/theft successfully committed against the Council	• NA	• Counter Fraud and Whistleblowing	• NA
15	Unable to effectively respond to political priorities			

INTERNAL AUDIT OPERATIONAL PLAN 2024/25 (2/8)

Area	SRR	Days	Timing	Description of the Review	Reason for Inclusion
Core Assurance					
Arts Council Grant	N/A	15	Q1	Verify expenditure and income received from an Arts Council grant to satisfy their grant conditions for the funds received by the assurance to the Arts Council as part of grant funding arrangements.	This is a required review to provide independent
Social Housing Decarbonisation Fund	11	20	Q2	<p>To determine whether controls are operating in relation to the £7.26m Social Housing Decarbonisation Fund that has been allocated to upgrade the planned 300 social housing properties and whether energy efficiency targets have been met.</p> <ul style="list-style-type: none"> Inadequate project management leading to project delays, cost overruns and failure to meet decarbonisation targets. Non-alignment of Climate Change Action Strategy to corporate estate policies/procedures leading failed energy efficiency opportunities across sheltered and social housing properties. Ineffective controls which could lead to non-Compliance with the Social Housing Decarbonisation Fund requirements and regulation like eligibility criteria, funding conditions, and reporting requirements, leading to loss of subsequent funding opportunities. Insufficient tenant engagement and support throughout the SHDF retrofit process, including consultation, communication and support for vulnerable or hard to reach households. 	For prevention of financial loss as well as provide assurance that the Council meets its objectives in relation to the climate matters to ensure a clean, green and healthy natural and built environment.

INTERNAL AUDIT OPERATIONAL PLAN 2024/25 (2/8)

100

Area	SRR	Days	Timing	Description of the Review	Reason for Inclusion
Core Assurance					
Business Continuity and Disaster Recovery	5	20	Q3	High level review of the Council's emergency planning and business continuity and disaster recovery arrangements including: <ul style="list-style-type: none">Assessing the availability of a robust, and regularly tested business continuity plan for all critical services and functions.Assessing whether there is sufficient IT disaster recovery plans and the ability to restore critical systems, applications and data in the event of a cyber-attack.	This is a standard review we include in our annual plan to provide us with assurance required to support our annual opinion.

INTERNAL AUDIT OPERATIONAL PLAN 2024/25 (3/8)

101

Area	SRR	Days	Timing	Description of the Review	Reason for Inclusion
Core Assurance					
Homelessness	5	20	Q3	<p>We will review arrangements from policies Key service provided by the Council which requires an assurance procedures, applications, support and on-going review to determine control design and effectiveness. monitoring carried out by Housing Options in relation to homelessness, to assess whether:</p> <ul style="list-style-type: none"> • There is an adequate strategy in place to support homelessness prevention, and if it considers the impact of high housing costs or the availability of housing for temporary accommodation. • An adequate arrangement is in place to monitor the cost of temporary accommodation to prevent overspend of budgets. • Homelessness procedures are documented, communicated and available to managers and staff, and roles and responsibilities are clearly defined. This may lead to an unfair or inconsistent award of temporary accommodation, where a system is not in place. • There is effective reporting to senior officers and Members on homelessness. 	

INTERNAL AUDIT OPERATIONAL PLAN 2024/25 (1/8)

Area	SRR	Days	Timing	Description of the Review	Reason for Inclusion
Core Assurance					
Main Financial Systems	4	20	Q4	<p>Local authorities are required to maintain sufficient effective controls over their main financial systems to support effective management of resources. Financial controls play an important role in ensuring the accuracy of reporting, eliminating fraud, and protecting the organisation's resources, both physical and intangible. These internal control procedures processes at will be assessed through:</p> <p>A review of the Council's main financial systems covering budget setting and accounting to ensure the controls are set out and operating effectively. Looking at key risks like:</p> <ul style="list-style-type: none"> • Inadequate segregation of duties within the main financial systems, leading to an increased risk of fraud, error, or unauthorised transactions. • Weak access controls to financial systems, resulting in unauthorised access, data breaches, or manipulation of financial data. • Ineffective budget management and setting processes, resulting in overspending, underfunding, or misallocation of resources. 	Assurance of main financial systems is critical to support our Annual Opinion.

INTERNAL AUDIT OPERATIONAL PLAN 2024/25 (1/8)

Area	SRR	Days	Timing	Description of the Review	Reason for Inclusion
Core Assurance					
Council Tax and NNDR	4	15	Q4	<p>The Council is responsible for setting, billing, and recovering council tax and NNDR within its jurisdiction. These revenue streams are crucial for funding local services and ensuring the financial stability. The Council recently implemented an online portal to improve efficiency and accessibility of Council Tax management for residents. The audit aims to provide assurance on the effectiveness of procedures for setting, billing and recovering council tax, NNDR, and review the newly implemented council tax online portal to determine whether the portal has met its intended purpose of assisting residents manage council tax accounts. We will evaluate the risk of:</p> <ul style="list-style-type: none"> • Inaccurate billing or new properties missed, with annual demands raised not agreeing to the banding for the property. • System and procedures do not allow correct identification and recording of bill payer. • Failure to effectively identify and pursue outstanding debts leading to increased financial pressure on the Council. 	The purpose of the audit is to provide assurance on the efficiency and effectiveness of the Council's processes for billing, collecting and recovering council tax and NNDR to demonstrate its commitment to financial integrity.

INTERNAL AUDIT OPERATIONAL PLAN 2024/25 (3/8)

Area	SRR	Days	Timing	Description of the Review	Reason for Inclusion
Core Assurance					
Data Protection, FOI, EIR and Subject Access Request	1	15	Q4	<p>Data protection and freedom of information (FOI) are critical areas of compliance for councils as they provide assurance required to support our annual opinion. They are responsible for managing significant amounts of personal and sensitive information about their residents and stakeholders. The audit will review the Council's data processing activities including the collection, storage, use and deletion of personal data, to ensure compliance with GDPR and the Data Protection Act 2018. It will also focus on Environmental Information Regulations compliance and Subject Access Requests by selecting and testing samples.</p> <ul style="list-style-type: none"> Evaluating risk of data breaches, unauthorised access or misuse of personal data leading to financial penalties and reputational damage. Failure to conduct data protection impact assessments when required leading to non-compliance to data protection legislation Inadequate records management evident in a lack of a comprehensive data inventory or information asset register. Failure to respond to FOI requests within the statutory time limit effectively. 	This is a standard review we include in our annual plan to

INTERNAL AUDIT OPERATIONAL PLAN 2024/25 (5/8)

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Area	SRR	Days	Timing	Description of the Review	Reason for Inclusion
Soft Controls					
Staffing Capacity and Capability	6	20	Q2	<p>Apply the BDO toolkit which assesses the Council’s Audit linked to Councils strategic risk numbers 6 and 9 of performance across a number of areas such as senior creating the right culture, capacity and capability. The Council direction and strategy, reporting, data capture, aim to ensure that these principles inform decision-making at networks and groups, listening to the organisation every level within the council, ensuring its strategically position and responding to feedback effectively. We will also to attract younger generation towards driving continuity of determine how the Council’s long-term commitment process and the advancement of equality of opportunity for all, to equalities and continuous improvement will help and foster good relations with communities.</p> <p>mitigate risks like:</p> <ul style="list-style-type: none">• Absence of a robust succession planning strategy to identify and develop future leaders.• Representation in leadership positions, not reflecting the wider workforce and community it serves.• Lack of a strategic plan to engage with and attract younger demographics through apprenticeship, graduate programs or targeted initiatives.• Absence of an inclusive workplace culture like employee resource groups, or other support networks for underrepresented groups, and younger demographics with evolving work preferences.	

INTERNAL AUDIT OPERATIONAL PLAN 2024/25 (6/8)

Area	SRR	Days	Timing	Description of the Review	Reason for Inclusion
Future Focussed Assurance					
Income Generation	4	20	Q3	<p>Review plans and action to generate new income channels and determine if these are sufficient to meet the Council's target of becoming financially sustainable, by assessing risk of:</p> <ul style="list-style-type: none"> Service areas not reviewing fees and charges annually in advance of the financial year leading to insufficient uplifts being implemented and a failure to cover the costs of service provision. Grant opportunities not being identified leading to the Council failing to utilise external funding opportunities to deliver strategic projects. Lack of an overarching Corporate Charging Strategy which sets out clear requirements for calculating fees for services. 	<p>With increasing financial pressures, its crucial for the Council to explore and optimise income generation opportunities to ensure long-term financial sustainability, which is a key part of its 2024-27 Corporate plan.</p>

INTERNAL AUDIT OPERATIONAL PLAN 2024/25 (7/8)

Area	SRR Days	Timing	Description of the Review	Reason for Inclusion
Flexible Live Assurance - To be allocated during the year as required				
Contingency/ Flexible resource	N/A 15	All	Contingency days left to allocate to flexible work.	We have built in an allocation of flexible days into our plan to support the Council on emerging risks or projects during the year.

INTERNAL AUDIT OPERATIONAL PLAN 2024/25 (8/8)

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Area	SRR	Days	Timing	Description of the Review	Reason for Inclusion
Contract Management					
Planning / liaison / management	N/A	8	Q1 - Q4	Creation of audit plan, meeting with Executive Directors	Effective contract management
Recommendation follow up	N/A	7	Q2 and Q4	Assessment and reporting of status of implementation of recommendations raised	Assurance for Council Management Team and Governance and Audit Committee
Governance and Audit Committee	N/A	5	Q1 - Q4	Attendance at Governance and Audit Committee meetings, pre-meets and Governance and Audit Committee Chair liaison	Effective contract management
Summary					
Core assurance	Various	125			
Soft controls	Various	20			
Future focused	Various	20			
Flexible resource		15			
Contract management		20			
Total days		200			

APPENDIX I (1/5)

Internal Audit Charter - Role and Scope of Internal Audit

PURPOSE OF THIS CHARTER

This charter is a requirement of Public Sector Internal Audit Standards (PSIAS).

The charter formally defines internal audit's mission, purpose, authority and responsibility. It establishes internal audit's position within South Kesteven District Council (the Council) and defines the scope of internal audit activities.

Final approval resides with the Full Council (the Board), in practice the charter shall be reviewed and approved annually by management and by the Governance and Audit Committee on behalf of the Board of the Council.

INTERNAL AUDIT'S MISSION

Internal audit's mission is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

STANDARDS OF INTERNAL AUDIT PRACTICE

To fulfil its mission, internal audit will perform its work in accordance with PSIAS, which encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF): Definition of Internal Auditing, Code of Ethics, and International Standards for the Professional Practice of Internal Auditing.

INTERNAL AUDIT DEFINITION AND ROLE

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

Internal audit acts primarily to provide the Governance and Audit Committee with information necessary for it to fulfil its own responsibilities and duties. Implicit in internal audit's role is that it supports management to fulfil its own risk, control and compliance responsibilities. The range of work performed by internal audit is set out in PSIAS and not repeated here.

INTERNAL AUDIT'S SCOPE

The scope of internal audit activities includes all activities conducted by the Council. The Internal Audit Plan sets out those activities that have been identified as the subject of specific internal audit engagements.

The provision of assurance services is the primary role for internal audit in the UK public sector. This role requires the chief audit executive to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control.

Assurance engagements involve the objective assessment of evidence to provide an independent opinion or conclusions regarding an entity, operation, function, process, system or other subject matter. The nature and scope of the assurance engagement are determined by internal audit.

Consulting engagements are advisory in nature and are generally performed at the specific request of management, with the aim of improving governance, risk management and control and contributing to the overall opinion. The nature and scope of consulting engagement are subject to agreement with management. When performing consulting services, internal audit should maintain objectivity and not assume management responsibility.

EFFECTIVE INTERNAL AUDIT

Our internal audit function is effective when:

- It achieves the purpose and responsibility included in the internal audit charter
- It conforms with the Standards
- Its individual members conform with the Code of Ethics and the Standards
- It considers trends and emerging issues that could impact the organisation.

APPENDIX I (2/5)

Internal Audit Charter - Role and Scope of Internal Audit

The internal audit activity adds value to the Council (and its stakeholders) when it considers strategies, objectives and risks, strives to offer ways to enhance governance, risk management and control processes and objectively provides relevant assurance.

We will agree with you an audit plan for a total number of days activity. Once agreed, we will turn this into a cash budget which we will work to, in order to ensure that you have certainty around the fees you will pay us.

INDEPENDENCE AND INTERNAL AUDIT'S POSITION WITHIN SOUTH KESTEVEN DISTRICT COUNCIL

To provide for internal audit's independence, its personnel and external partners report to the Head of Internal Audit, who reports functionally to the Governance and Audit Committee. The Head of Internal Audit has free and full access to the Chair of the Governance and Audit Committee. The Head of Internal Audit reports administratively to the Section 151 Officer who provides day-to-day oversight.

The appointment or removal of the Head of Internal Audit will be performed in accordance with established procedures and subject to the approval of the Chair of the Governance and Audit Committee.

The internal audit service will have an impartial, unbiased attitude and will avoid conflicts of interest. The internal audit service is not ordinarily authorised to perform any operational duties for the Council.

In the event that internal audit undertakes non-audit activities, safeguards will be agreed to ensure that independence or objectivity of the internal audit activity are not impaired. This might include a separate partner review of the work or a different team undertaking the work. Approval of the arrangements for such engagements will be sought from the Governance and Audit Committee prior to commencement.

In the event that internal audit provides assurance services where it had previously performed consulting services, an assessment will be undertaken to confirm that the nature of the consulting activity did not impair objectivity and safeguards will be put in place to manage individual objectivity when assigning resources to the engagement. Such safeguards will be communicated to the Governance and Audit Committee.

Internal audit must be free from interference in determining the scope of internal auditing, performing work and communicating results. Should any interference take place, internal audit will disclose this to the Governance and Audit Committee to discuss the implications.

INTERNAL AUDIT'S ROLE IN COUNTERING FRAUD, BRIBERY AND CORRUPTION

Management, not internal auditors are responsible for the prevention and detection of fraud, bribery and corruption. Auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption as well as seeking to identify indications that fraud and corruption may have been occurring. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud and corruption will be detected. In the event that internal audit suspects a fraud, this will be referred to appropriate management in the first instance and then the Governance and Audit Committee.

ACCESS TO RECORDS AND CONFIDENTIALITY

There are no limitations to internal audit's right of access to the Council's officers, records, information, premises, or meetings which it considers necessary to fulfil its responsibilities.

When the auditors receive confidential information about your affairs it shall at all times be kept confidential, except as required by law or as provided for in regulatory, ethical or other professional pronouncements applicable. All information will be maintained in line with appropriate regulations, for example the Data Protection Act 2018.

APPENDIX I (3/5)

Internal Audit Charter - Role and Scope of Internal Audit

COORDINATION AND RELIANCE WITH OTHER ASSURANCE PROVIDERS

In co-ordinating activities internal audit may rely on the work of other assurance and consulting service providers.

A consistent approach is adopted for the basis of reliance and internal audit will consider the competency, objectivity, and due professional care of the assurance and consulting service providers. Due regard will be given to understanding of the scope, objectives and results of the work performed by other providers of assurance and consulting services.

Where reliance is placed upon the work of others, internal audit is still accountable and responsible for ensuring adequate support for conclusions and opinions reached by the internal audit activity.

INTERNAL AUDIT'S COMMITMENTS TO THE COUNCIL

Internal audit commits to the following:

- Working with management to improve risk management, controls and governance within the organisation
- Performing work in accordance with PSIAS

- Complying with the ethical requirements of PSIAS
- Dealing in a professional manner with the Council's staff, recognising their other commitments and pressures
- Raising issues as they are identified, so there are no surprises and providing practical recommendations
- Liaising with external audit and other regulators to maximise the assurance provided to the Council.
- Reporting honestly on performance against targets to the Governance and Audit Committee.

INTERNAL AUDIT PERFORMANCE MEASURES AND INDICATORS

The tables on the following pages contain some of the performance measures and indicators that are considered to have the most value in assessing the efficiency and effectiveness of internal audit.

The Governance and Audit Committee should approve the measures which will be reported to each meeting and / or annually as appropriate. In addition to those listed here we also report on additional measures as agreed with management and included in our Progress Report.

QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

As required by PSIAS, an external assessment of the service will be performed at least every five years. BDO also has an internal quality assurance review process in place, which takes place annually. This is performed by a separate team independent to the internal audit team.

The results of internal and external assessments will be communicated to the Governance and Audit Committee as part of the internal audit annual report, along with corrective action plans.

APPENDIX I (4/5)

Internal Audit Charter - Role and Scope of Internal Audit

TABLE ONE: PERFORMANCE MEASURES FOR INTERNAL AUDIT

Measure / Indicator
Audit Coverage Annual Audit Plan delivered in line with timetable. Actual days are in accordance with Annual Audit Plan.
Relationships and customer satisfaction Customer satisfaction reports - overall score at average at least 3.5 / 5 for surveys issued at the end of each audit. Annual survey to Governance and Audit Committee to achieve score of at least 70%. External audit can rely on the work undertaken by internal audit (where planned).
Staffing and Training At least 60% input from qualified staff.
Audit Reporting Issuance of draft report within 3 weeks of fieldwork 'closing' meeting. Finalise internal audit report 1 week after management responses to report are received. 90% recommendations to be accepted by management. Information is presented in the format requested by the customer.
Audit Quality High quality documents produced by the auditor that are clear and concise and contain all the information requested. Positive result from any external review.

MANAGEMENT AND STAFF COMMITMENTS TO INTERNAL AUDIT

The management and staff of South Kesteven District Council commit to the following:

- Providing unrestricted access to all of the Council's records, property, and personnel relevant to the performance of engagements
- Responding to internal audit requests and reports within the agreed timeframe and in a professional manner
- Implementing agreed recommendations within the agreed timeframe
- Being open to internal audit about risks and issues within the organisation
- Not requesting any service from internal audit that would impair its independence or objectivity
- Providing honest and constructive feedback on the performance of internal audit.

MANAGEMENT AND STAFF PERFORMANCE MEASURES AND INDICATORS

The three indicators on the following page are considered good practice performance measures but we go beyond this and report on a suite of measures as included in each Governance and Audit Committee Progress Report.

APPENDIX I (5/5)

Internal Audit Charter - Role and Scope of Internal Audit

TABLE TWO: PERFORMANCE MEASURES FOR MANAGEMENT AND STAFF

Measure / Indicator
Response to Reports Audit sponsor to respond to terms of reference within one week of receipt and to draft reports within two weeks of receipt.
Implementation of recommendations Audit sponsor to implement all audit recommendations within the agreed timeframe.
Co-operation with internal audit Internal audit to confirm to each meeting of the Governance and Audit Committee whether appropriate co-operation has been provided by management and staff.

BDO CONTACTS

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**SOUTH
KESTEVEN
DISTRICT
COUNCIL**



Governance & Audit Committee

19 June 2024

Report of Councillor Ashley Baxter,
Leader of the Council and Cabinet
Member for Finance and Economic
Development

2023-2024 Treasury Management Annual Report

Report Author

Paul Sutton, Interim Head of Finance (Deputy 151)



Paul.sutton@southkesteven.gov.uk

Purpose of Report

This report provides Governance & Audit Committee with the details of the Council's Treasury Management activity for the financial year 2023/2024.

Recommendations

The Governance & Audit Committee is requested to:

- 1. Approve the annual report on Treasury Management activity for 2023/2024.**

Decision Information

Does the report contain any exempt or confidential information not for publication?

N/A

What are the relevant corporate priorities?

Connecting communities
Sustainable South Kesteven
Enabling economic opportunities
Housing
Effective council

Which wards are impacted?

Wards

1. Implications

Taking into consideration implications relating to finance and procurement, legal and governance, risk and mitigation, health and safety, diversity and inclusion, safeguarding, staffing, community safety, mental health and wellbeing and the impact on the Council's declaration of a climate change emergency, the following implications have been identified:

Finance and Procurement

1.1 There are financial considerations and information throughout the report.

Completed by: Richard Wyles Deputy Chief Executive and Section 151 Officer.

Legal and Governance

1.2 The Council is under a duty to manage its resources prudently and therefore due consideration must always be given to the borrowing and lending strategy. A wide range of local authority finance activities, including borrowing, lending, financial management and the approval of types of investment vehicle are governed by legislation and various regulations. This report provides details of the Council's performance in respect of Treasury Management against policy set out as part of the Budget and Policy Framework. Members should note the performance and scrutinise any elements to assist the role of the Governance and Audit Committee in its review of the Treasury Management Strategy.

Completed by: James Welbourn, Democratic Services Manager and Deputy Monitoring Officer

2. Background to the Report

2.1 The Local Government Act 2003 and associated regulations require the Council to produce:

- an annual treasury management review of activities
- and the actual prudential and treasury indicators for 2023/2024.

2.2 This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

3. Key Considerations

3.1 For the financial year 2023/2024 the Council adhered to the recommended reporting requirements by providing the Governance and Audit Committee with the

following reports:

- An annual Treasury Management strategy in advance of the year which was approved by Council on 1 March 2023.
- Quarterly Treasury update reports which were approved by Governance and Audit Committee during the year.
- An annual review following the end of the year describing the activity compared to the strategy (this report).

- 3.2 Governance and Audit Committee has delegated powers to deal with matters relating to the Council's treasury management activities. It has the responsibility to monitor, review and amend the Council approved Treasury Management Strategy during the financial year.
- 3.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report provides details of the outturn position for treasury activities and highlights compliance with the policies previously approved and adopted by the Council.

Treasury Position as at 31 March 2024

- 3.4 The Strategy for 2023/24 was approved by Council on 1 March 2023.
- 3.5 A key element of daily operations focuses on comparing current market conditions with the Link credit rating list. The list is a tool for guidance, which would only be deviated from when clear better alternative options are available. Where such decisions are taken a clearly documented audit trail is maintained.
- 3.6 The aim of the Strategy is to generate a list of highly creditworthy counterparties, which enables diversification of investments and thus avoidance of risk whilst providing security.
- 3.7 A summary of the Council's treasury position at 31 March 2024 is as follows:

Actual Debt Management Activity During 2023/24

Actual Borrowing Position	31 March 2023		31 March 2024	
	Principal	Average Rate	Principal	Average Rate
Fixed Interest Rate Debt	£86.213m	2.46%	£82.991m	2.48%
Capital Financing Requirement	£104.145m		£100.876m	
Over/(Under) Borrowing	(£17.932m)		(£17.885m)	

Investment Position	31 March 2023		31 March 2024	
	Principal	Average Rate	Principal	Average Rate
Fixed Interest Investments	£51.000m	4.05%	£55.000m	5.57%
Variable Interest Investments	£18.629m	4.13%	£18.420m	5.26%
Total Investments	£69.629m	4.07%	£73.420m	5.43%

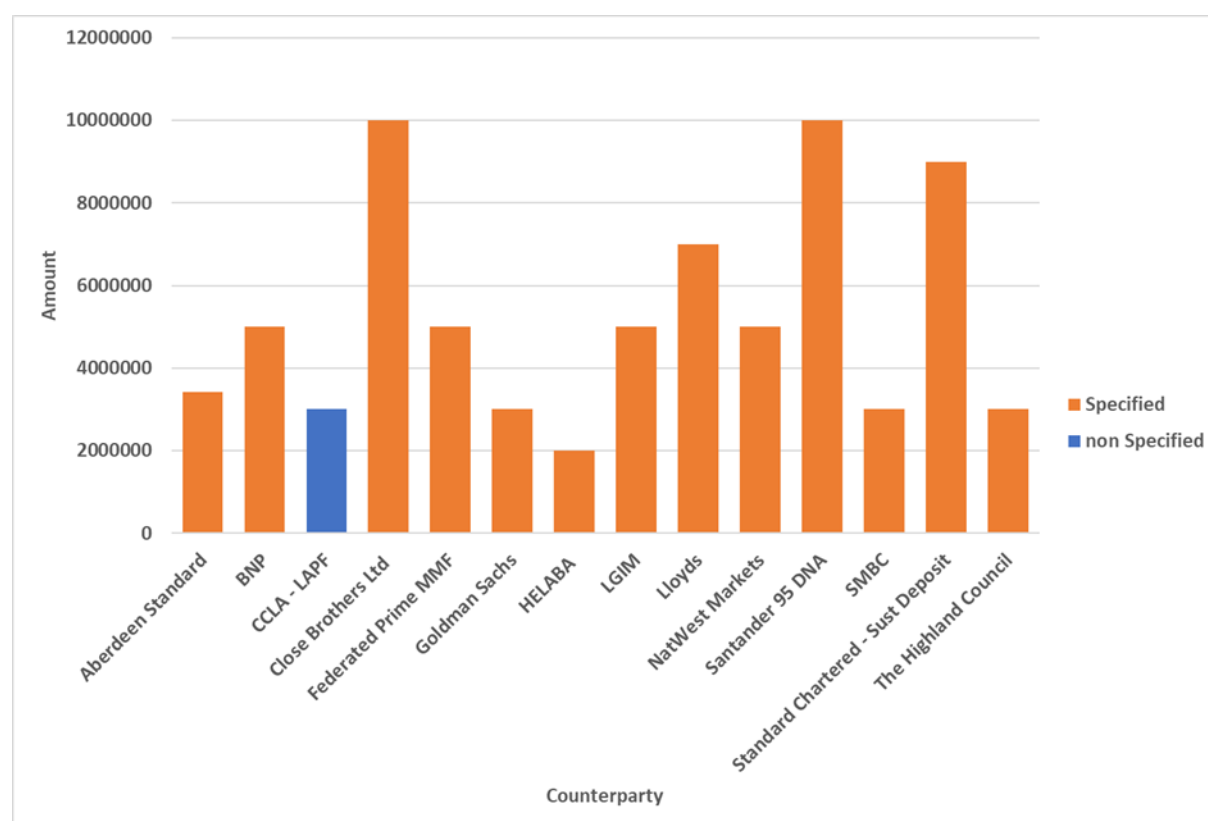
3.8 The £82.991m is split between short term and long-term borrowing as follows:

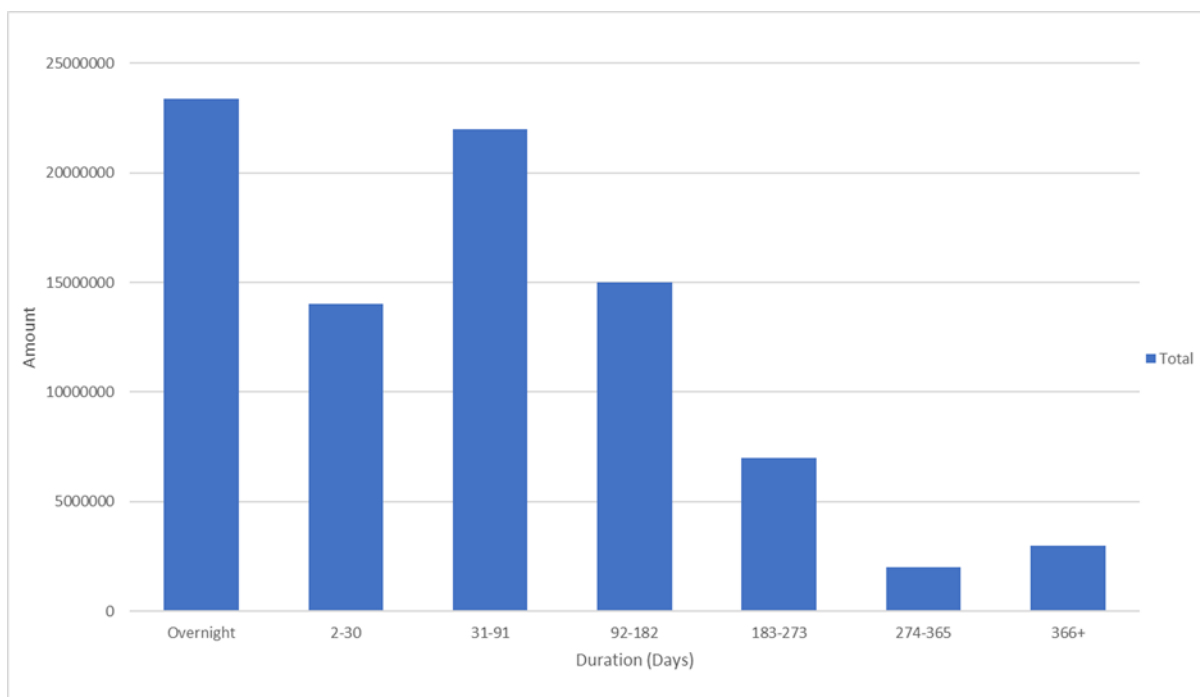
- Short-term - £3.221m (repayable within the next 12 months)
- Long-term - £79.770m.

Actual Investment Activity During 2023/24

- 3.9 The Council's investment policy is governed by Department for Levelling Up, Housing and Communities (DLUHC) guidance, which was implemented in the Annual Investment Strategy approved by the Council on 3 March 2023. The investment activity during the year complied with the approved strategy throughout the whole year. During the year the Council had no liquidity difficulties.
- 3.10 At 31 March 2024 the Council held short and long-term investments of £73.420m and was compliant with the council's policy to hold no more than 35% of investments as long term. This included a £1.12m investment in Gravitas and a £2.529m investment in the CCLA (Church, Charities, and Local Authorities) Local Authority Property Fund.
- 3.11 The CCLA Local Authority Property Fund invests in property, on behalf of the Council. The value of any investment in the fund will fluctuate in line with property market values. The Council considers this a long-term investment that it has entered into for a minimum of five years as this mitigates the risk of fluctuations in the value of the investment which was £2.529m at 31 March 2024.

- 3.12 The primary reason for investing in the fund was that the quarterly dividend payment provides a significantly higher return than other investments. The dividend payable for the year was £132,677.91 which equates to a 4.40% return on the initial £3m investment.
- 3.13 The total amount of variable rate investments has decreased slightly between 31 March 2023 and 31 March 2024 from £18.629m to £18.420m respectively. This was to ensure that the Council was able to achieve a return on investments and manage its cashflow commitments. There were no cashflow issues during 2023/24.
- 3.14 During 2023/24 the Council placed more emphasis on ESG (Environmental, Social and Governance) Investments. It is our aspiration to maintain at least 10% of the portfolio of this type of investment.
- 3.15 In 2023/24 the Council had budgeted investment returns of £760k. The provisional outturn is £1.6m an additional £832k in excess of budget. This was achieved through a combination of attaining higher interest rates and the placement of investments for longer durations.
- 3.16 The duration and counterparties of investments at 31 March 2024 are shown in the following graphs. When investments are placed the duration is determined by taking into consideration the treasury advice received from Link and the cashflow for the Council. A number of counterparties are used as the Council has recommended investment limits that can be placed with each institution which assists with risk management.





3.17 Our treasury advisers, Link, also provide benchmarking of comparative information across all their clients which helps the Council understand how its investment portfolio is performing in relation to others.

3.18 The table below shows for each quarter analysis our average rate of return was 5.51% when compared to other District Councils within the comparative group. This reflects the prudent approach to managing risk and return to maximise our investment returns whilst balancing our exposure to risk.

Quarter Ending	SK WARoR*	District WARoR*	SK WARR**	District WARR**
Q1 June 2023	4.47%	4.33%	3.07%	2.89%
Q2 September 2023	5.10%	5.07%	3.13%	2.78%
Q3 December 2023	5.33%	5.20%	3.67%	2.64%
Q4 March 2024	5.51%	5.24%	4.04%	2.52%

* WARoR – weighted average rate of return

** WARR – weighted average rate of risk

3.19 As part of the prudential code, the Council sets a number of prudential and treasury indicators as part of the Treasury Strategy, the estimated performance against these indicators was provided in the Treasury Strategy approved on 3 March 2023 and the actual performance against these indicators is detailed in Appendix A.

Outlook and Summary

- 3.20 The outlook for 2024/25 remains uncertain due to stubborn inflationary pressure, the invasion of Ukraine, and war in the Middle East. UK interest rates have remained volatile across the curve from Bank Rate through to 50-year gilts throughout 2023/24. Bank Rate remains at 5.25% and is not expected to fall below this until September 2024.
- 3.21 The Council's treasury management functions have operated effectively during 2023/24 and have achieved the following:
- Repayment of principal has been secured in all deposits.
 - The Council's cash liquidity requirement has been met throughout the financial year.
 - Investment income levels have exceeded the amended budget as investment levels were higher than originally estimated.
 - Robust management of the Council's debt position
 - Performance indicators set for 2023/24.

4. Other Options Considered

- 4.1 No other options were considered.

5. Reasons for the Recommendations

- 5.1 To meet statutory obligations for treasury management.

6. Background Papers

Treasury Management Strategy 2023/24

<https://moderngov.southkesteven.gov.uk/documents/s37040/Appendix%20G%20-%202023-24%20Treasury%20Management%20Strategy%20Statement.pdf>

Treasury Management Mid-Year review 2023/24

<https://moderngov.southkesteven.gov.uk/documents/s39789/Treasury%20Update%20Report.pdf>

7. Appendices

- 7.1 Appendix A Capital Prudential and Treasury Indicators 2024/25 - 2026-27

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Appendix A

Debt Maturity Analysis – Public Works Loan Board as at 31 March 2024

All current external borrowing is classified under the HRA

Duration	Amount £000
Less than one year	3,222
Between one and two years	3,222
Between two and five years	9,665
Between five and ten years	16,109
Between ten and fifteen years	41,108
Over fifteen years	9,665
Total	82,991

Investment Maturity Analysis – Schedule of Cash Funds

	As at 31 March 2024 £000	Interest Rate %
<u>Short Term Investments</u>		
Aberdeen Standard MMF	3,420	variable
BNP Paribas MMF	5,000	variable
Federated3	5,000	variable
LGIM MMF	5,000	variable
Santander	10,000	5.95
Standard Chartered	9,000	5.18
Natwest Markets	5,000	5.54
HELABA	2,000	5.71
Goldman Sachs	3,000	5.58
Sumitomo MBC	3,000	5.58
Lloyds	7,000	5.86
Close Brothers	10,000	5.50
Local Authorities	3,000	5.52
Total Short-Term	70,420	(average rate) 5.43
<u>Long Term Investments</u>		
CCLA Local Authority Property Fund	3,000	4.50

Total Long-Term	3,000	(average rate) 4.50

Treasury Management Prudential Code Indicators

Treasury management Indicators – Comparison for 2023/24 to actual position for the 12 months to 31 March 2024.

External Debt Indicators

Authorised Limit

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

Authorised Limit For external debt	2023/24 £000	As at 31 March 2024 £000
Debt (non HRA)	33.000	0.000
HRA Reform	115.000	82.991
Other Long-term liabilities	0.000	0.000
Total	148.000	82.991

Operational Boundary

This indicator is based on the probable external debt during the course of the year; it is not a limit and actual borrowing could vary around this boundary for short times during the year. It should act as an indicator to ensure the authorised limit is not breached.

Operational Limit for external debt	2023-24 £000	As at 31 March 2024 £000
Debt (non HRA)	15.000	0.000
HRA Reform	100.000	82.991
Other Long-term liabilities	0.000	0.000
Total	115.000	82.991



**SOUTH
KESTEVEN
DISTRICT
COUNCIL**



Governance & Audit Committee

19 June 2024

Report of Councillor Ashley Baxter,
Leader of the Council and Cabinet
Member for Finance and Economic
Development

Review of Treasury Management: Environmental, Social and Governance Review Report

Report Author

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Purpose of Report

This report presents the findings of an independent review of Environmental, Social and Governance (ESG) treasury management activities.

Recommendations

The Governance & Audit Committee is requested to:

- 1. Note and approve the findings of the independent review of the Council's environmental, social and governance activities.**
- 2. Continue to review and assess the Council's approach to ESG as part of the annual review of the Treasury Management Strategy Statement.**

Decision Information	
Does the report contain any exempt or confidential information not for publication?	Yes – Appendix A contains exempt information under paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 (Information relating to the financial or business affairs of any particular person (including the authority holding the information)).
What are the relevant corporate priorities?	Effective council
Which wards are impacted?	All Wards

1. Implications

Taking into consideration implications relating to finance and procurement, legal and governance, risk and mitigation, health and safety, diversity and inclusion, safeguarding, staffing, community safety, mental health and wellbeing and the impact on the Council's declaration of a climate change emergency, the following implications have been identified:

Finance and Procurement

1.1 There are no financial implications arising from this report.

Completed by: Richard Wyles Deputy Chief Executive and Section 151 Officer.

Legal and Governance

1.2 There are no legal implications arising from this report.

Completed by: James Welbourn, Democratic Services Manager and Deputy Monitoring Officer

2. Background to the Report

2.1 The report has been commissioned by the Council following a request from the Committee for an independent review in relation to the current ESG approach being taken by the Council as part of its Treasury Management Investment Strategy.

3. Key Considerations

3.1 The independent review is appended to the report and sets out clearly and helpfully the current position relating to Environmental, Social and Governance

factors when making investment decisions.

3.2 The key findings of the review are:

- a. Environmental, Social and Governance factors are now being increasingly used alongside more traditional financial-related assessment metrics by investors when assessing potential counterparties.
- b. The Council's investment portfolio, as at end-September 2023, shows that investments are not being made with any counterparties that, in the view of ESG rating / score providers, face high risks in terms of E, S or G.
- c. Reviewing the wider counterparty options would suggest that use of alternate entities would not have a material impact (either positive or negative) in terms of altering these ESG risks.
- d. The Council should consider how the funds it utilises approach this assessment process, to ensure that this aligns with its own views.
- e. The regulatory backdrop is evolving as the use of ESG metrics becomes more commonplace. Key to the changes is to prevent "greenwashing", increasing transparency and understanding over assessment processes of providers to allow investors to make more informed decisions. The changes cover both ESG data and rating providers, as well as product providers, such as fund managers. Some changes have already been implemented, while others will materialise in the future.
- f. Due to the evolving regulatory background coupled with a lack of widespread demand, Link does not currently provide direct access to ESG metrics to clients as a service. This will likely change, but in the meantime, the Council can access a limited number of data points from providers without cost. Note, that the credit ratings provided by Link do already incorporate ESG factors in their assessments. As such, the Council is already using ESG factors as part of investment decision-making process.
- g. In addition, ESG can be incorporated in a more specific way into how the Council outlines its investment framework and in its day-to-day investment decisions, without directly conflicting with the base tenets of local authority investing – Security and Liquidity. Yield is always a by-product of these but should also not be unduly affected.
- h. The Council includes two Ethical "statements" in its reports. There are some discrepancies between these so some modest adjustments may be required. More wholesale changes could be made if the Council wishes to take a more definitive approach to incorporating ESG into its investment processes. However, this requires due care to ensure it does not conflict with Security and Liquidity considerations.

3.3 The approved Treasury Management Strategy Statement (TMSS) 2024/25 is attached at Appendix B for reference. At paragraph 1.3 of the Statement, changes to the CIPFA Treasury Management Code include addressing Environmental, Social and Governance (ESG) issues within the Council's treasury management

policies and practices (TMP1).

- 3.4 TMP1 is set out at Appendix 3 of the TMSS and includes an Ethical Investment Statement, which addresses the changes to the CIPFA code and ensures the key findings from the ESG review are included.
- 3.5 The report explains that this is an evolving area of investments and therefore the approach should form part of the annual review of the Treasury Management Strategy Statement.

4. Other Options Considered

- 4.1 No other options were considered.

5. Reasons for the Recommendations

- 5.1 The Committee requested that an independent review be undertaken of the Council's Treasury Management activities. This report summarises the findings of that review.

6. Appendices

- 6.1 Appendix A – South Kesteven ESG Review Report
- 6.2 Appendix B – Treasury Management Strategy Statement

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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2024-25 Treasury Management Strategy Statement

1. Introduction

- 1.1 CIPFA published a revised Treasury Management Code and a revised Prudential Code on 20 December 2021. The Code states that revisions need to be included from the financial year 2023/24. Therefore South Kesteven District Council must have to have regard to these Codes of Practice when it prepares the Treasury Management Strategy Statement (TMSS) and Annual Investment Strategy (AIS) reports and also related reports during the financial year which are approved by Full Council.
- 1.2 The revised Treasury Management Code requires all investments and investment income to be attributed to one of the following purposes:
- **Treasury Management** - This type of investment represents balances which are only held until the cash is required.
 - **Service Delivery** – Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is “either related to the financial viability of the project or otherwise incidental to the primary purpose”.
 - **Commercial return** – Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to the Council's financial capacity, i.e., that ‘plausible losses’ could be absorbed in budgets or reserves without unmanageable detriment to local services. The Council must not borrow to invest primarily for financial return.
- 1.3 The revised Treasury Management Code will require the Council to implement the following:
- **Adopt a new liability benchmark treasury indicator** to support the financing risk management of the capital financing requirements. This indicator needs to be shown in chart form for a minimum of ten years, and material differences between the liability benchmark and actual loans must be explained;
 - **Long-term treasury investments**, (including pooled funds), are to be classed as commercial investments unless justified by a cash flow business case;
 - **Pooled funds** are to be included in the indicator for principal sums maturing in years beyond the initial budget year;
 - Amendment to the **knowledge and skills register** for officers and members involved in the treasury management function – to be

proportionate to the size and complexity of treasury management activities conducted by each authority;

- **Quarterly reporting to members.** Specifically, the Chief Finance Officer (CFO) is required to establish procedures to monitor and report performance against all forward-looking prudential indicators at least quarterly. The CFO is expected to establish a measurement and reporting process that highlights significant actual or forecast deviations from the approved indicators.
- **Environmental, social and governance (ESG)** issues to be addressed within the Council's treasury management policies and practices (TMP1).

1.4 The main requirements of the Prudential Code relating to service and commercial investments are:

- The risks associated with service and commercial investments should be proportionate to their financial capacity, i.e. that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to the Council;
- The Council must not borrow to invest for the primary purpose of commercial return;
- It is not prudent for the Council to make any investment or spending decision that will increase the CFR, and lead to new borrowing, unless directly and primarily related to functions of the Council, and where commercial returns are either related to the financial viability of the project or otherwise incidental to the primary purpose;
- An annual review should be completed to evaluate whether commercial investments should be sold to release funds to finance new capital expenditure or to refinance maturing debt;
- A prudential indicator is required for the net income from commercial and service investments as a proportion of the net revenue stream;
- Create new Investment Management Practices to manage risks associated with non-treasury investments.

1.5 The Council's Capital Strategy or Annual Investment Strategy should include:

- The Council's approach to investments for service or commercial purposes (together referred to as non-treasury investments), including defining the Council's objectives, risk appetite and risk management in respect of these investments, and processes ensuring effective due diligence;

- An assessment of affordability, prudence and proportionality in respect of the Council's overall financial capacity (i.e. whether plausible losses could be absorbed in budgets and reserves without unmanageable detriment to local services);
 - Details of financial and other risks of undertaking investments for service or commercial purposes and how these are managed;
 - Limits on total investments for service purposes and for commercial purposes respectively (consistent with any limits required by other statutory guidance on investments);
 - Requirements for independent and expert advice and scrutiny arrangements (while business cases may provide some of this material, the information contained in them will need to be periodically re-evaluated to inform the Council's overall strategy.
 - State compliance with paragraph 51 of the Prudential Code in relation to investments for commercial purposes, in particular the requirement that an authority must not borrow to invest primarily for financial return.
- 1.6 As this TMSS and AIS deal solely with treasury management investments, the categories of service delivery and commercial investments should be addressed as part of the Capital Strategy report.
- 1.7 As investments in commercial property have implications for cash balances managed by the treasury team a high level summary of the impact that commercial investments have, or may have, will be included if the Council plans to liquidate these investments over the 3 year period that the TMSS and AIS covers.

Background

- 1.8 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.
- 1.9 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

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

1.11 CIPFA defines treasury management as:

“The management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

1.12 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities.

Reporting Requirements

1.13 The CIPFA 2021 Prudential and Treasury Management Code requires all Council’s to prepare a Capital Strategy report which will provide the following:

- a high level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

1.14 The aim of the strategy is to ensure all of the Council’s elected members fully understand the overall long-term policy objectives

1.15 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

- **Prudential and treasury indicators and treasury strategy** - The first, and most important report covers:
 - the capital plans (including prudential indicators);
 - a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
 - the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
 - an investment strategy (the parameters on how investments are to be managed).

- **A mid year treasury management report** – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition to this the quarterly update reports will be produced. .
 - **An annual treasury report** – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.
- 1.16 The above reports must be properly scrutinised by the Governance and Audit Committee. This report is presented to Council for approval in February as part of the budget report.
- 1.17 In addition to the three reports detailed above, quarterly reports are also required. These are presented to the Governance and Audit Committee for approval.
- 1.18 **Governance and Audit Committee** – As part of the Committee's terms of reference the above reports are presented for consideration and scrutiny during the year. The Committee also has authority to approve any in year amendments to the Treasury Management Strategy as may be requested by officers.

Treasury Management Strategy for 2024-25

- 1.19 The strategy for 2024-25 covers two main areas:

Capital issues

- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

- 1.20 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, Department for Levelling Up, Housing and Communities (DLUHC) MRP Guidance, the CIPFA Treasury Management Code and DLUHC Investment Guidance.

Training

- 1.21 The CIPFA Treasury Management Code (the Code) requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.
- 1.22 The Code states that that they expect “all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making”.
- 1.23 The scale and nature of this will depend on the size and complexity of the organisation’s treasury management needs. Organisations should consider how to assess whether treasury management staff and board/council members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.
- 1.24 As a minimum, authorities should carry out the following to monitor and review knowledge and skills:
- Record attendance at training and ensure action is taken where poor attendance is identified.
 - Prepare tailored learning plans for treasury management officers and board/council members.
 - Require treasury management officers and board/council members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the organisation).
 - Have regular communication with officers and board/council members, encouraging them to highlight training needs on an ongoing basis.”
- 1.25 In further support of the revised training requirements, CIPFA’s Better Governance Forum and Treasury Management Network have produced a ‘self-assessment by members responsible for the scrutiny of treasury management’, which is available from the CIPFA website to download.
- 1.26 Training was provided to members of the Governance and Audit Committee by the Council’s treasury advisors, Link Group, Treasury Solutions, on 29 November 2023 and further training is implemented as required. The training needs of treasury officers are periodically reviewed.
- 1.27 A formal record of the training received by officers central to the Treasury function will be maintained by the Senior Accountant. Similarly, a formal record of the treasury management/capital finance training received by members will also be maintained by the Members Services Officer.

Treasury management consultants

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

2 The Capital Prudential Indicators 2024/25 to 2026/27

Introduction

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

Capital Expenditure and Financing

- 2.2 This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital Expenditure	2022/23 Actual Outturn £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Non-HRA	5.072	21.639	5.534	3.039	3.036
HRA	6.674	27.793	21.315	21.091	15.152
Total	11.746	49.432	26.849	24.130	18.188

- 2.3 The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Financing of capital expenditure	2022/23 Actual £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Capital receipts reserve	0.965	8.833	10.099	10.117	3.081
Grants and Contributions	2.526	16.877	3.473	0.975	0.975
Reserves	7.858	15.498	13.277	12.169	12.826

Net financing need for the year	0.397	8.224	0	0.869	1.306
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The Council's Borrowing Need (the Capital Financing Requirement)

- 2.4 The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.
- 2.5 The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset life, and so charges the economic consumption of capital assets as they are used.
- 2.6 The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has no such schemes within the CFR.
- 2.7 The Council is asked to approve the CFR projections below:

	2022/23 Actual £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Capital Financing Requirement					
Closing CFR – Non Housing	14.186	22.123	21.841	22.310	22.834
Closing CFR - Housing	89.960	86.738	83.516	80.294	77.072
Total CFR	104.146	108.861	105.357	102.604	99.906
Opening CFR	107.101	104.146	108.861	105.357	102.604
Movement in CFR	(2.956)	4.715	(3.504)	(2.753)	(2.698)

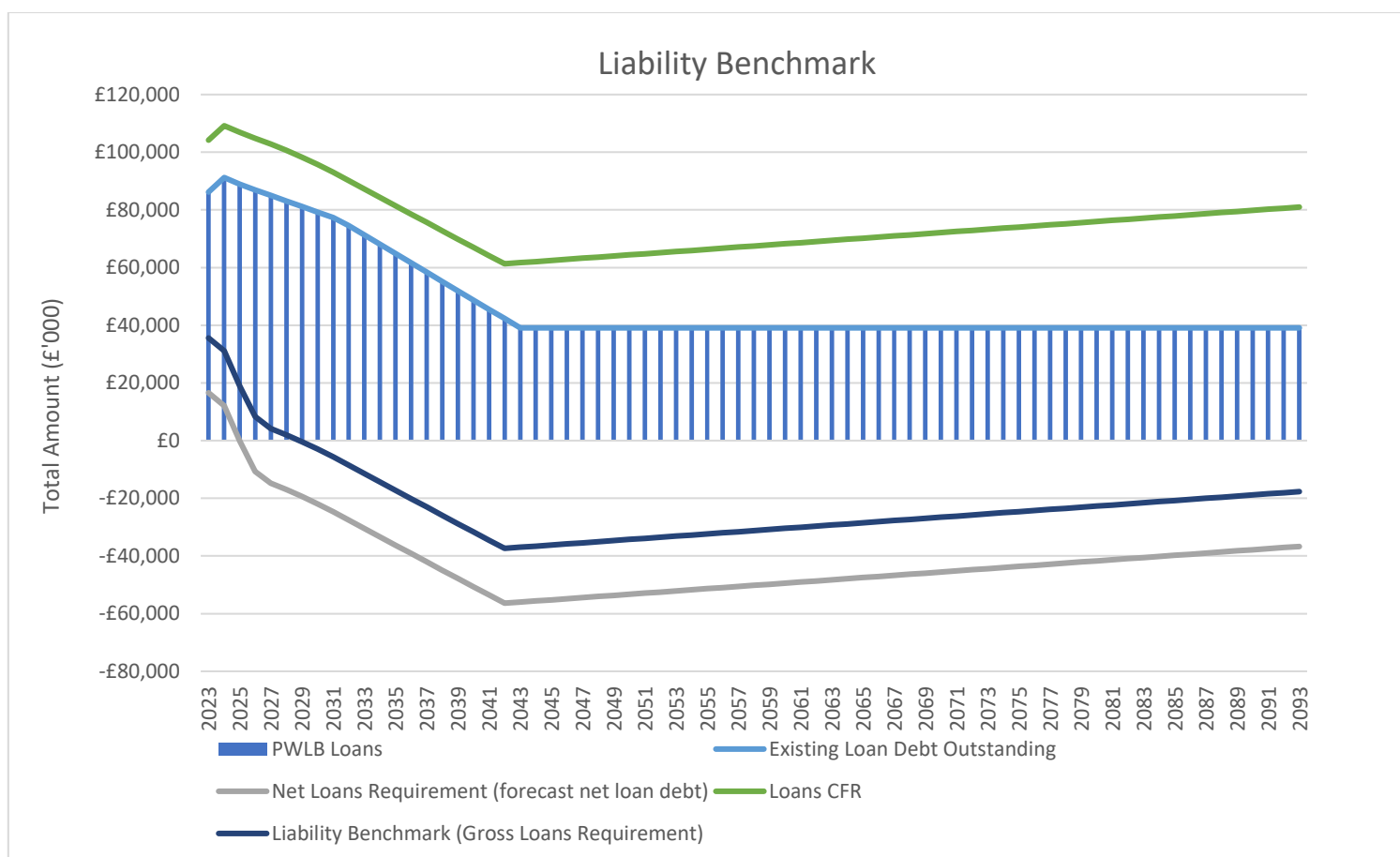
	2022/23 Actual £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Movement in CFR represented by					
Net financing need for the year	0.397	8.224	0	0.869	1.306

Repayment of HRA Borrowing	(3.222)	(3.222)	(3.222)	(3.222)	(3.222)
Less MRP/VRP and other financing movements	(0.131)	(0.287)	(0.282)	(0.400)	(0.782)
Movement in CFR	(2.956)	4.715	(3.504)	(2.753)	(2.698)

Liability Benchmark

2.8 The Council is required to estimate and measure the Liability Benchmark (LB) for the forthcoming year and the following two years, as a minimum. There are four components to the LB:

- **Existing loan debt outstanding:** the Council's existing loans that are still outstanding in future years.
- **Loans CFR:** this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
- **Net loans requirement:** this will show the Council's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
- **Liability Benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.



Core Funds and Expected Investment Balances

2.9 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources	2022/23 Actual £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
General Fund balances	19.971	14.662	12.708	12.650	11.860
Capital reserves – General Fund	3.553	2.143	1.130	0.055	0.055
Capital reserves – HRA	12.156	12.112	7.813	2.671	3.490
HRA reserve	15.414	11.297	11.017	10.917	10.817

Major Repairs Reserve	19.553	21.678	18.049	13.895	9.762
Total Core Funds	70.647	61.892	50.717	40.188	35.984
Working Capital - GF*	1.986	1.958	1.958	1.958	1.958
Working Capital - HRA*	1.762	1.044	2.141	4.151	6.235
Expected Investments	74.395	64.894	54.816	46.297	44.177

Working capital balances shown are estimated year end; these may be higher mid-year.

3 Borrowing

- 3.1 The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional Codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the Annual Investment Strategy.

Current Portfolio Position

- 3.2 The overall treasury management portfolio as at 31 March 2023 and the position as at 31 December 2023 are shown below for both borrowing and investments.

	Balance at 31 March 2023 £'000	Balance at 31 December 2023 £'000
Deposits with Banks and Financial Institutions		
Banks		
Close Brothers Ltd	7,000	10,000
Goldman Sachs International Bank	4,000	3,000
Landesbank Hessen-Thuringen Girozentrale (Helaba)	4,000	4,000
Lloyds Bank Plc	5,000	7,000
SMBC Bank International PLC	3,000	3,000
Standard Chartered Bank	9,000	9,000

Al Rayan Bank	0	1,000
Natwest Markets	0	5,000
Santander	0	10,000
Local Authorities		
Wakefield District Council	5,000	0
Leeds City Council	5,000	0
Cambridgeshire County Council	2,000	2,000
West Dunbartonshire Council	4,000	4,000
The Highland Council	0	3,000
Money Market Funds		
Aberdeen Standard	2,509	0
BNP Paribas	5,000	3,108
CCLA	5,000	0
LGIM	5,000	5,000
Federated Prime	0	5,000
Invesco	0	2,268
Property Funds		
CCLA Property Fund	3,000	3,000
Total Treasury Investments	68,509	79,376
External Borrowing		
PWLB	(86,213)	(84,602)
Total External Borrowing		
Net Treasury Investments/(Borrowing)	(17,704)	(5,226)

3.3 The Council's forward projections for borrowing are summarised in the table below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

	2022/23 Actual £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
External Debt					
Existing debt at 1 April	89.435	86.213	82.991	79.769	76.547
Expected change in debt	0.000	0.000	0.000	0.000	0.000
HRA Settlement	(3.222)	(3.222)	(3.222)	(3.222)	(3.222)
Debt at 31 March	86.213	82.991	79.769	76.547	73.325
Closing CFR	104.146	108.859	105.356	102.726	100.537

Under / (over) borrowing	17.933	25.868	25.587	26.179	27.212
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- 3.4 Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2024/25 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.
- 3.5 The Section 151 Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

Treasury Indicators: Limits to Borrowing Activity

- 3.6 The operational boundary and authorised limit have been increased to reflect the borrowing requirements to facilitate the delivery of the economic regeneration projects and essential service delivery infrastructure. Any capital schemes that have borrowing implications will be fully evaluated to identify the overall impact on the prudential indicators.

3.7 The Operational Boundary.

This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational Boundary	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
General Fund	15.000	22.000	23.000	24.000
HRA	100.000	100.000	100.000	100.000
Other long-term liabilities	0.000	0.000	0.000	0.000
Total	115.000	122.000	123.000	124.000

- 3.8 The operational boundary will be reviewed on an individual project basis as required.
- 3.9 The Authorised Limit for External Debt**

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

3.10 This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although no control has yet been exercised.

3.11 The Council is asked to approve the following authorised limit:

Authorised limit	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
General Fund	33.000	40.000	41.000	42.000
HRA	115.000	115.000	115.000	115.000
Other long-term liabilities	0.000	0.000	0.000	0.000
Total	148.000	155.000	156.000	156.000

Prospects for Interest Rates

3.12 The Council utilises the services of Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives the current Link central view:

Annual Average %	Bank Rate	PWL B Borrowing Rates (including certainty rate adjustment)		
		5 year	25 year	50 year
Dec 2023	5.25	5.00	5.50	5.30
Mar 2024	5.25	4.90	5.30	5.10
Jun 2024	5.25	4.80	5.10	4.90
Sep 2024	5.00	4.70	4.90	4.70
Dec 2024	4.50	4.40	4.70	4.50
Mar 2025	4.00	4.20	4.50	4.30
Jun 2025	3.50	4.00	4.30	4.10
Sep 2025	3.25	3.80	4.20	4.00
Dec 2025	3.00	3.70	4.10	3.90
Mar 2026	3.00	3.60	4.10	3.90
Jun 2026	3.00	3.50	4.00	3.80

Sep 2026	3.00	3.50	4.00	3.80
Dec 2026	3.00	3.50	4.00	3.80

3.13 The PWLB forecasts are based on the Certainty Rate (minus 20 bps) which has been accessible to most authorities since 1 November 2012.

3.14 The interest rates provided by Link reflect the view that the Monetary Policy Committee (MPC) will continue to further demonstrate their anti-inflation credentials by delivering a succession of rate increase. Bank Rate is currently 5.25% and is expected to fall from September 2024.

Borrowing Strategy 2024/25 – 2026/27

3.15 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. That is, Bank Rate remains elevated through to the second half of 2024.

3.16 When the Council is considering undertaking borrowing to fund the capital programme, projects or to fund future debt maturities a clear business case must be developed. The business case will need to take into consideration, the revenue consequences of the borrowing including interest payable, MRP and any future income to be generated from the project. Borrowing can then be undertaken where there is a clear business case and affordability is demonstrated.

3.17 Against this background and the risks within the economic forecast, caution will be adopted with the 2024/25 treasury operations. The Section 151 and Deputy Section 151 Officers will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in borrowing rates then borrowing will be postponed.
- if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

3.18 The option of postponing borrowing and running down investment balances will also be considered. This would reduce counterparty risk and hedge against the expected fall in investments returns.

3.19 Any borrowing decisions will be reported to the Governance and Audit Committee at the next available opportunity.

Policy on Borrowing in Advance of need

3.20 The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

3.21 The Section 151 or Deputy Section 151 Officer may do this under delegated power where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints. Whilst the Section 151 or Deputy section 151 Officer will adopt a cautious approach to any such borrowing, where there is a clear business case for doing so borrowing may be undertaken to fund the approved capital programme or to fund future debt maturities. Borrowing in advance of need will be made within the constraints that:

- It will be limited to no more than 30% of the expected increase in borrowing need (CFR) over the three-year planning period; and
- The Council would not look to borrow more than 24 months in advance of need.

3.22 Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

Debt Rescheduling

3.23 Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates.

3.24 If rescheduling was done, it will be reported to the Governance and Audit Committee at the earliest meeting following its action.

New financial institutions as a source of borrowing and/or types of borrowing

3.25 Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both HRA and non-HRA borrowing. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities)
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of spot or forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years)
- Municipal Bonds Agency (possibly still a viable alternative depending on market circumstances prevailing at the time).

3.26 Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

Approved Sources of Long and Short term Borrowing

On Balance Sheet	Fixed	Variable
PWLB	●	●
Municipal bond agency	●	●
Local authorities	●	●
Banks	●	●
Pension funds	●	●
Insurance companies	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	
Local authority bills	●	●
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Finance leases	●	●

4 Annual Investment Strategy

Investment Policy and Counterparty Selection Criteria

- 4.1 The Department of Levelling Up, Housing and Communities (DLUHC) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets and service investments, are covered in the Capital Strategy.
- 4.2 The Council's investment policy has regard to the following:
- DLUHC's Guidance on Local Government Investments ("the Guidance"),
 - CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
 - CIPFA Treasury Management Guidance Notes 2021.
- 4.3 The Council's investment priorities will be security first, portfolio liquidity second, then yield (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with regard to the Council's risk appetite.

- 4.4 In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but to also consider “laddering” investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated.
- 4.5 The above guidance from the DLUHC and CIPFA places a high priority on the management of risk. This Council has adopted a prudent approach to managing risk and defines its risk appetite by the following means:
- the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.
 - Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings.
 - Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
 - Investment instruments identified for use in the financial year are listed in Appendix 3 under the ‘specified’ and ‘non-specified’ investment categories. Counterparty limits will be as set through the Council’s treasury management practices-schedules.
 - **Specified investments** are those with a high credit quality and subject to a maturity of one year or have less than a year left to run to maturity, if originally they were classified as being non-specified investments solely due to the maturity period exceeding one year.
 - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers being authorised for use.
 - **Non-specified and loan investment limits.** The Council had determined that it will set a limit to the maximum exposure of the total treasury management investment portfolio to non-specified investments of 35%.
 - **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the limits in Appendix 3.

- **Transaction limits** are set for each type of investment in Appendix 3.
 - This Council will set a limit for its investments which are invested for **longer than 365 days** (see paragraph 4.20).
 - This Council has engaged **external consultants** (see paragraph 1.28), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this Council in the context of the expected level of cash balances and need for liquidity throughout the year.
 - All investments will be denominated in **sterling**.
 - As a result of the change in accounting standards for 2023/24 under IFRS 9, this Authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. In November 2018, the MHCLG (now DLUHC), concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31.3.23. More recently, a further extension to the over-ride to 31.5.25 has been agreed by Government.
- 4.6 This Council will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance (see paragraph 4.22). Regular monitoring of investment performance will be carried out during the year.

Creditworthiness policy

- 4.7 This Council applies the creditworthiness service provided by Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:
- credit watches and credit outlooks from credit rating agencies;
 - CDS spreads to give early warning of likely changes in credit ratings;
 - sovereign ratings to select counterparties from only the most creditworthy countries.
- 4.8 This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:
- Yellow 5 years *

- Dark pink score of 1.25 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
- Light pink score of 1.5 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

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

4.9 The Link Group creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue importance to just one agency's ratings.

4.10 Typically the minimum credit ratings criteria the Council uses will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

4.11 All credit ratings are monitored daily. The Council is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

- if a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx European Financials benchmark and other market data on a weekly basis via its Passport website, provided exclusively to it by Link. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

4.12 Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, as well as information on any external support for banks to help support its decision making process.

4.13 The Treasury Management Officer will use the Link Credit Rating weekly listing as a tool for guidance, with the option to deviate from this guidance only when

there are clear alternative options that are available to the Council. Any decision of this nature should be clearly documented for audit purposes.

- 4.14 Significant levels of downgrades to Short and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. Nonetheless, when setting minimum sovereign debt ratings, this Council will not set a minimum rating for the UK.

Investment Strategy

- 4.15 **In-house funds.** Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. The current yield curve suggests that is the case at present, but there is the prospect of Bank Rates having peaked in the second half of 2023 and possibly reducing as early as the second half of 2024 so an agile investment strategy would be appropriate to optimise returns.
- 4.16 While most cash balances are required in order to manage the councils cashflow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.
- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
 - Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment returns expectations.

- 4.17 The current forecast shown in paragraph 3.12 includes a forecast for Bank Rate to have peaked at 5.25% in Q4 2023.
- 4.18 The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows (the long-term forecast is for periods over 10 years in the future):

Average earnings in each year	Link Group	Budgeted*
2023/24	5.30%	4.00%
2024/25	4.70%	5.00%
2025/26	3.20%	4.50%
2026/27	3.00%	3.00%
2027/28	3.25%	
Year 6 onwards	3.25%	

*Budgeted rates are higher than Link's rates as a quarterly dividend is received from the Property Fund which will increase the return the Council earns on investments

4.19 **Investment treasury indicator and limit** - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

4.20 The Council is asked to approve the treasury indicator and limit: -

Maximum principal sums invested > 365 days			
	2024/25 £m	2025/26 £m	2026/27 £m
Principal sums invested > 365 days	15.000	15.000	15.000

4.21 For its cash flow generated balances, the Council will seek to utilise its instant access and notice accounts, money market funds and short-dated deposits, (overnight to 100 days), in order to benefit from the compounding of interest.

Investment Risk Benchmarking

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

Security - The Council's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:

- 0.010% historic risk of default when compared to the whole portfolio.

Liquidity – In respect of this area the Council seeks to maintain:

- Bank overdraft - £0.5m
- Liquid short-term deposits of at least £12m available with a week's notice.
- Weighted Average Life benchmark is not expected to exceed a maximum of 1 year.

Yield - Local measures of yield benchmarks are:

- Investments – Internal returns above the 7-day LIBID rate
- Investments – External fund managers - returns 110% above 7-day compounded LIBID.

4.23 And in addition, that the security benchmark for each individual year is:

	1 year	2 years	3 years	4 years	5 years
Maximum	0.05%	0.14%	0.26%	0.38%	0.54%

Note: This benchmark is an average risk of default measure (potential loss on investments) and would not constitute an expectation of loss against a particular investment.

End of year Investment Report

- 4.24 At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

Appendix 1

THE MRP STATEMENT

Minimum Revenue Provision (MRP) Policy Statement

Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Council has financed capital expenditure by borrowing it is required to make a provision each year through a revenue charge (MRP).

The Council is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonable commensurate with that over which the capital expenditure provides benefits. The MRP Guidance (2018) gives four ready-made options for calculating MRP, but the Council can choose any other reasonable basis that it can justify as prudent.

The MRP policy statement required full council approval in advance of each financial year.

The Council is recommended to approve the following MRP Statement:

For capital expenditure incurred before 1 April 2008 which forms part of the supported capital expenditure, the MRP policy will be:

- **4% reducing balance (regulatory method)** – MRP will follow the historical practice outlined in former regulations as 4% of the opening General Fund CFR balance less adjustment A.

From 1 April 2008 for all unsupported borrowing the MRP policy will be:

- Asset life method – MRP will be based on the estimated life of the assets.

Capital expenditure incurred during 2023/24 will not be subject to an MRP charge until 2024/25, or in the year after the asset becomes operational.

The Council will apply the asset life method for any expenditure capitalised under the Capitalisation Direction.

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

MRP in respect of assets acquired under Finance Leases or PFI will be charged at an amount equal to the principal element of the annual repayment. For capital expenditure on loans to third parties where the principal element of the loan is being repaid in annual instalments, the capital receipts arising from the principal loan repayments will be used to reduce the CFR instead of MRP.

Where no principal repayment is made in a given year, MRP will be charged at a rate in line with the life of the assets funded by the loan.

MRP Overpayments – Under the MRP guidance, any charges made in excess of the statutory MRP can be made, known as voluntary revenue provision (VRP).

VRP can be reclaimed in later years if deemed necessary or prudent.

Appendix 2

CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2024/25 – 2026/27

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

Capital Expenditure	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Corporate Governance & Public Protection	1.409	3.533	0.975	0.975	0.975
Finance, Property and Waste Services	1.382	2.583	3.961	1.964	1.961
Growth & Culture	2.281	5.868	0.598	0.100	0.100
Non-HRA	5.072	21.639	5.534	3.039	3.036
HRA	6.674	27.793	21.315	21.091	15.152
Total	11.746	49.432	26.849	24.130	18.188

Affordability Prudential Indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the net revenue stream.

%	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Non-HRA	(4.61)	(4.52)	(4.93)	(4.46)	(2.68)
HRA	5.26	7.30	0.19	2.52	5.14

The estimates of financing costs include current commitments and the proposals in this budget report.

HRA Ratios

	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
HRA debt £m	86.213	82.991	79.769	76.547	73.325
HRA Revenues £m	(25.892)	(28.403)	(30.190)	(31.886)	(32.885)
Ratio of debt to revenues	(3.33)	(2.92)	(2.64)	(2.40)	(2.23)

	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
HRA debt £m	86.213	82.991	79.769	76.547	73.325
Number of HRA dwellings	5,848	5,827	5,809	5,787	5,762
Debt per dwelling £	14,742	14,242	13,732	13,227	12,726

Maturity Structure of Borrowing

Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing and are required for upper and lower limits.

Maturity structure of fixed interest rate borrowing 2023/24		
	Lower	Upper
Under 12 months	0%	20%
12 months to 2 years	0%	20%
2 years to 5 years	0%	50%
5 years to 10 years	0%	60%
10 years and above	0%	80%
Maturity structure of variable interest rate borrowing 2023/24		
	Lower	Upper
Under 12 months	0%	20%
12 months to 2 years	0%	20%
2 years to 5 years	0%	20%
5 years to 10 years	0%	20%
10 years and above	0%	20%

Appendix 3

Treasury Management Practice (TMP) 1 – Credit and Counterparty Risk Management

The investment policy proposed for the Council is:

Strategy Guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement.

Specified Investments – all such investments will be sterling denominated, with maturities up to maximum 1 year, meeting the ‘high’ quality criteria where applicable.

Table A – Specified Investments

	Specified Investments Category	Limit
a	<p>A body of high credit quality, this category includes the following –</p> <ul style="list-style-type: none"> <input type="checkbox"/> Any bank or building society using Sector Creditworthiness service, following the suggested duration on the list up to a maximum of 365 days. <input type="checkbox"/> Nationalised and Part nationalised banks can be included within specified investments as long as they remain part-nationalised 	<p>£15m per institution or a maximum of 30% of total investment (whichever is the greatest), £15m per corporate group</p>
b	The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or a Gilt with less than one year to maturity)	no amount limit
c	UK local authorities, Parish Council or Community Council	£5m per institution
d	<p>Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. This category covers pooled investment vehicles, such as money market funds, rated AAA by Standard and Poor’s, Moody’s or Fitch rating agencies.</p> <p>DLUHC Investment Guidance specifies that Money Market Funds with high credit ratings are classified as Specified Investment. These funds are instant access investment. There is possibility that part of the investment may be exposed to counterparties the Council would not approve normally or invest directly. The counterparty risk is mitigated by that –</p> <ul style="list-style-type: none"> • The Fund Managers diversify investment in a range of counterparties; 	£5m per fund

	<ul style="list-style-type: none"> • The Funds are instant access; • The Council only invests in funds rated AAA; • DLUHC Investment Guidance classifying such funds as Specified Investment. 	
e	Enhanced Money Market Funds These are similar to normal money market funds but operate on a variable rate basis. The selection criteria will be on the same basis as the pooled investment vehicles with only funds rated AAA by Standard and Poor's, Moody's or Fitch rating agencies being used. In addition to this only EMMF's with a credit score of 1.25 and above will be used.	£5m per fund
f	Ultra Short Dated Bond Funds These are similar to normal money market funds but operate on a variable rate basis. The selection criteria will be on the same basis as the pooled investment vehicles with only funds with a credit score of 1.25 and rated AAA by Standard and Poor's, Moody's or Fitch rating agencies being used.	£5m per fund
g	Corporate Bond Funds	£5m per fund

Non-Specified Investments – These are any investments which do not meet the specified investment criteria. Amounts invested with any one corporate group shall not exceed £5m (with the exception of the Councils own bank and the top 10 rated building societies).

Amounts invested in non-specified fixed term investments would normally not exceed 35% of the total Invested. The Section 151 or Deputy Section 151 has the discretion if required to exceed this, and the limits detailed below, should the rate of return on Investment be beneficial to the council. Any decision will be based on taking into account current and future market conditions as well as counterparty strength and rating. If these circumstances are required this will be reported back to the Governance and Audit Committee through the annual reporting cycle.

The table below is not an exhaustive list of all non-specified investments; further options are identified in the narrative section within the strategy.

Table B – Non Specified Investments

	Non Specified Investment Category	Limit
a.	Any institutions meeting the criteria set out for Specified Investments , with a maturity of greater than 1 year following the suggested duration on the list up to a maximum of 5 years. (including forward deals in excess of one year from inception to repayment).	£4m maximum of 3-years per institution
b.	Council's Bank – Should it fail to meet the basic credit criteria, monies will be restricted to instant access and will be minimised as far as is possible.	£7m
c.	Top 10 building societies, by asset value – The operation of some building societies does not require a credit rating, although in every other respect the security would match similarly sized societies with ratings. The Council may use such building societies that all placed within the top 10 by asset value.	£2m maximum of 3-years per institution. £10m for all top 10 building societies
d.	UK Local Authorities, Parish Council or Community Council	£5m per institution
e.	Property funds The use of these instruments can be deemed capital expenditure, and as such will be an application (spending) of capital resources. This Authority will seek guidance on the status of any fund it may consider using.	£5m No maximum duration period.

Note: This Authority will seek further advice on the appropriateness and associated risks with investments in these categories.

Maximum limit per institution – The maximum limit for both specified and non-specified investments is a total of £15m per corporate group with a higher limit of £18m at the discretion of the Section 151 Officer (or deputy) where an institution is considered to be of a higher credit quality.

The monitoring of investment counterparties – The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Link Group as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principle and interest. Any counterparty failing to meet the criteria will be

removed from the list immediately by the Section 151 Officer (or Deputy), and if required new counterparties which meet the criteria will be added to the list.

Ethical Investment Statement

Investment guidance, both statutory and from CIPFA makes clear that all investing must adopt the key Treasury Management principles of security, liquidity and yield (SLY) in this order of priority. The Council is however, committed to Environmental, Social and Governance (ESG) factors. Through the Treasury Management Strategy, in terms of ESG investment considerations, ESG metrics, will be used where appropriate and available in the credit rating agency assessments when considering investment opportunities.

Typical areas of consideration include:

- (i) Environmental: Emissions and air quality, energy and waste management, waste and hazardous material, exposure to environmental impact.
- (ii) Social: Human rights, community relations, customer welfare, labour relations, employee wellbeing, exposure to social impacts.
- (iii) Governance: Management structure, governance structure, group structure, financial transparency.

Local Authority Controlled Company – LACC.

The Council has the ability to make loans to a Local Authority Controlled Company. The criteria for a loan being made with a LACC will be that there is a clear business plan that demonstrates the affordability of the investment for the LACC.

Use of External Fund Managers – The Council is not restricted to placing funds with cash managers, and will manage funds in house, use fund managers, or brokers if it is appropriate to do so.

The fund managers will use both specified and non-specified investment categories and are contractually committed to keep to the Council's investment strategy. Currently the Council has an agreement with King & Shaxson, Tradition UK, Imperial Treasury and Sterling International. The fund managers are required to adhere to the following:

- All investments restricted to sterling denominated instruments;
- Amounts invested with any one institution or Corporate Group should not exceed the limits specified in Table A and Table B.
- Portfolio management is measured against the return provided by the 3-month sterling LIBID, or in accordance with the measures specified in the contract.

The performance of investment managed by Fund Managers is reviewed at least quarterly by the Section 151 or Deputy Section 151 Officer.

Appendix 4

TREASURY MANAGEMENT SCHEME OF DELEGATION

i. Council

- Approval of the annual Treasury Management Strategy Statement
- Approval of the budget framework

ii. Governance and Audit Committee

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

Appendix 5

THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (responsible) officer is responsible for:

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.



SOUTH
KESTEVEN
DISTRICT
COUNCIL



Governance and Audit Committee


19 June 2024

Report of Councillor Philip Knowles,
Cabinet Member for Corporate
Governance and Licensing

Whistleblowing Policy 2024 - 2026

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Purpose of Report

One of the key areas for Governance and Audit Committee, as part of its terms of reference, is to monitor and review the whistleblowing arrangements in place and action taken as a result of whistleblowing disclosures.

Recommendations

That the Committee notes the contents of this report and approves the revised Whistleblowing Policy 2024 - 2026 attached at Appendix A.

Decision Information

Does the report contain any exempt or confidential information not for publication?

No

What are the relevant corporate priorities?

Effective Council

Which wards are impacted?

All

1 Implications

Taking into consideration implications relating to finance and procurement, legal and governance, risk and mitigation, health and safety, diversity and inclusion, safeguarding, staffing, community safety, mental health and wellbeing and the impact on the Council's declaration of a climate change emergency, the following implications have been identified:

Finance and Procurement

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

Completed by: Paul Sutton, Interim Head of Finance (Deputy 151).

Legal and Governance

- 1.2 The Governance and Audit Committee have the necessary authority at Part 2 of the Constitution (Articles), paragraph 9.1 (xx) to approve the revised whistleblowing Policy. Relevant legislation is referenced within the report.

Completed by: James Welbourn, Democratic Services Manager and Deputy Monitoring Officer

2 Background to the Report

- 2.1 The Council is committed to the highest standards of quality, probity, openness, and accountability. As part of the Committee's terms of reference, whistleblowing is one of the key areas of focus being an essential element of delivering good governance.
- 2.2 To develop and promote greater awareness, and in line with best practice, a review of the Council's whistleblowing arrangements has been undertaken.
- 2.3 Whistleblowing is the term used when a worker passes on information concerning wrongdoing i.e. "making a disclosure" or "blowing the whistle". The wrongdoing will typically, although not necessarily, be something they have witnessed at work.
- 2.4 To be covered by whistleblowing law, a worker who makes a disclosure must reasonably believe two things:
- That they are acting in the public interest i.e. this means that personal grievances and complaints are not usually covered by whistleblowing law; and
 - That they must reasonably believe that the disclosure tends to show past, present, or likely future wrongdoing falling into one or more of the following categories:

- Criminal offences
 - Failing to comply with a legal obligation
 - Miscarriages of justice
 - Endangering someone's health and safety
 - Damaging the environment
 - Covering up wrongdoing in the above categories
- 2.5 Whistleblowing law is set out in the Employment Rights Act 1996 (as amended by the Public Interest Disclosure Act 1998). It provides the right for a worker to take a case to an employment tribunal if they have been victimised at work or lost their job because they have 'blown the whistle'.
- 2.6 The Council's Whistleblowing Policy makes it clear that all concerns raised about actual or potential misconduct, or wrongdoing in the Council, are taken seriously. For matters relating to fraud and corruption, and all other concerns which fall under one of the categories above, these are considered by Statutory Officers Group.
- 2.7 This report provides an update to the Council's Whistleblowing Policy ahead of a report to the next Committee, which will set out the whistleblowing responses received during 2023/24 and how the Council has dealt with them.

3 Whistleblowing Policy

- 3.1 The Whistleblowing Policy was last approved on 26 January 2022 as part of the Counter Fraud Framework.
- 3.2 The Whistleblowing Policy, attached at Appendix A, has been separated from the Counter Fraud Framework as whistleblowing disclosures will not always be in connection with fraud and will usually be in connection with the categories listed in 2.4.
- 3.3 The Whistleblowing Policy has been updated to include the new arrangements for reporting whistleblowing with effect from 1 April 2024 following the new external reporting service that has been established. This service also ensures complete confidentiality and integrity for any whistleblowing referral that is made.
- 3.4 The Committee monitors and reviews the whistleblowing arrangements currently in place and the activities that are being undertaken to mitigate those risks.

4 Other Options Considered

- 4.1 None.

5 Reasons for the Recommendations

- 5.1 Governance and Audit Committee, as part of its terms of reference approves the Counter Fraud, Bribery and Corruption Framework, including Whistleblowing Policy and Anti-Money Laundering Policy and monitors and reviews the counter fraud arrangements currently in place and the activities that are being undertaken to mitigate those risks.

Whistleblowing Policy

2024/26



SOUTH
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DISTRICT
COUNCIL

Introduction

At South Kesteven District Council we want to ensure we are providing excellent services to the residents of our District. Our Officers, Members, partners and contractors have an important role to play in achieving this goal and we expect everyone to be committed to our high standards of service which are based on the principles of honesty, openness and accountability.

We know we face the risk that something may go wrong or that someone may ignore our policies, procedures or the law which can result in some serious consequences. Experience shows that Officers, or others who work on behalf of an organisation, often have worries or suspicions and could, by reporting their concerns at an early stage, help put things right or identify and stop potential wrongdoing.

A whistleblower is a term used for a person who works for an organisation and raises an honest and reasonable concern about a possible fraud, crime, danger or other serious risk that could threaten colleagues, service users, customers, members of the public or the success and reputation of the organisation.

We want you to feel that it is safe and acceptable to tell us about your concerns so that we can investigate and take action as soon as possible. We recognise that you may be worried about reporting for a number of reasons:

- fear of reprisal or victimisation (eg loss of job)
- too much to lose (reputation, damage to career etc)
- feelings of disloyalty
- worries about who may be involved
- you have no proof only suspicions
- fear of repercussions if there is no evidence or you are proved wrong

We welcome all genuine concerns and will treat your issues seriously. This policy explains how to raise a concern, the types of activity you should report, the protection we can provide, confidentiality, our response and how you can take matters further, if necessary.

We want to assure you that there is no reason to remain silent – your decision to talk to us may be difficult but, if you believe what you are saying is true, you have nothing to fear as you are following the Council's Code of Conduct that applies to you and helping to protect the users of our services and the residents of our District.

We will not tolerate any harassment or victimisation and we will take action to protect those who raise concerns that you believe to be in the public interest.

UK law protects employees from dismissal, harassment or victimisation if such treatment occurs as a result of having made a whistleblowing disclosure considered to be in the public interest. In addition to the employer's liability, the individual who subjects the employee to such treatment may also be held personally liable.

This policy does not replace our existing employment policies: grievance, dignity at work and disciplinary. You should use these policies if you have a personal grievance or are unhappy with the way you are being treated. Our whistleblowing arrangements are not intended to give you a further opportunity to pursue a grievance or complaint once you have exhausted the relevant employment procedures.

If you are a member of the public with concerns or information which you think we should know about or look into, you should follow the [Customer Feedback Process](#).

Scope

You can use our whistleblowing arrangements if you are a Member, Council employee, a contractor, partner or member of the public. Our policy also applies to agency staff, contractors and suppliers providing goods or services to, or on behalf of, the Council.

Our whistleblowing arrangements do not replace the following:

- Customer Feedback Process
- Disciplinary Policy
- Grievance Policy
- Child Protection Safeguarding reporting
- Adult Care Safeguarding reporting

You should only consider raising concerns through our whistleblowing arrangements if:

- you have genuine reasons why you cannot use the above policies and procedures
- you have reason to believe that these policies are failing or are not being properly applied
- there is a public interest aspect

Protection and confidentiality

Whistleblowing law is contained in the Public Interest Disclosure Act 1998 (PIDA – amended by the Enterprise and Regulatory Reform Act 2013). Public bodies, such as this Council, are required to have a whistleblowing policy and to ensure that employees are not victimised or dismissed for raising their concerns internally. This also applies to those who, as a last resort, feel they need to take their concerns to an outside body, such as the Local Government Ombudsman.

Members of the public who raise concerns are not legally protected by PIDA, so we do offer the option for the person making the allegations to withhold their identity at the time concerns are raised.

You may feel that the only way you can raise your concerns is if we protect your identity. If the whistleblower does choose to disclose their identity, we will respect confidentiality as far as possible, but there are times when we cannot guarantee this, for example, where a criminal offence is involved or if there are child protection or adult safeguarding issues.

We will attempt to ensure the whistleblower's identity is not disclosed to third parties and information will not be disclosed unless the law allows or compels us to do so, for example in order to comply with a court order. If the information you provide includes personal information about another person, then that person may be entitled to access it under subject access provisions of the Data Protection Act or General Data Protection Regulations (GDPR). If releasing that information could reveal identifying information about the whistleblower, we will always ask for your consent prior to releasing the information.

We will not tolerate any harassment or victimisation (including informal pressure) and we will take action to protect you when you raise a concern believed to be in the public interest. We will take any disciplinary or corrective action should anyone attempt to victimise the whistleblower or prevent concerns being raised. If we proceed to a formal investigation, we may require you to give evidence along with other employees and witnesses. We are, in some circumstances, able to do this without disclosing the identity of the whistleblower. A statement from you may also be required as part of criminal proceedings or Employment Tribunal – this depends on the nature of the concern.

If your whistleblowing disclosure results in an internal investigation, and you provide a witness statement under that process, your statement may be used for disciplinary purposes. This means your statement may be given to the subject as part of a disciplinary hearing. An employee subject to the disciplinary process can ask to see personal information held about them at any time under the subject access

provisions of the Data Protection Act – this may include information within your statement. If it is possible to provide access to personal information within your statement without revealing any information about you, we will do so. If this is not possible, we will always seek your consent before releasing any information.

If your statement is not required for disciplinary purposes it will be held confidentially on our case file (until the case file is destroyed after seven years) and released only with your consent or a Police/Court Order.

The Council does not expect you to give us your consent – this is your decision alone – but we are required by law to ask you. The Council does not need a reason should you choose to refuse the request.

If you find yourself the subject of a whistleblowing disclosure, and a decision is made to investigate, the Council will follow the appropriate employment procedure: grievance, dignity at work or disciplinary. This means you will have all the rights contained in that procedure, such as the opportunity to respond to the allegation and representation at the investigatory interview.

What you should report

We encourage you to use our whistleblowing arrangements for issues such as:

- conduct which is a criminal offence or breach of law
- a breach of our Code of Conduct for Officers or Members
- sexual, physical or verbal abuse of our clients, employees or public
- dangerous procedures risking the health and safety of our clients, employees or public
- unauthorised use of public funds
- suspected fraud or corruption
- damage to the environment (eg land, buildings, water, air, waste, energy,

transport, natural habitat etc)

- unethical or improper conduct
- services that fall seriously below approved standards or practice
- failure to follow the Council's policies and procedures

Anonymous or untrue allegations

We do not encourage anonymous reporting as the concerns are more difficult to investigate and are generally less powerful. We would like you to put your name to the allegations whenever possible and remind you of the protection we can provide if we know who you are.

Anonymous whistleblowing referrals will be considered at the discretion of the Officers handling your concern, in consultation with the service area, where appropriate. This discretion will be based on the:

- seriousness of the issues raised
- credibility of the concern
- likelihood of confirming the allegation from an attributable source
- evidence base

It may be that our investigations do not confirm your allegation. We take all concerns seriously and can assure you that no action will be taken against you if you have raised a concern in the genuine belief that it is, or may be, true.

If we find that you have maliciously made a false allegation we will take action and you will not be eligible for protection under PIDA.

How to raise a concern

We encourage you initially to raise your concern internally – this allows the Council the opportunity to right the wrong and explain the behaviour or activity. We also advise Officers to report any allegation to their line manager. We recognise that your first actions will depend upon the seriousness and sensitivity of the issues and who you believe to be involved. We advise that you make it clear that you are raising your concerns under the Council's whistleblowing arrangements – this will help managers respond in line with this policy (see Whistleblowing Process Flowchart).

If you are in any doubt about what you should do, you can contact:

Karen Bradford – Chief Executive
karen.bradford@southkesteven.gov.uk

**Graham Watts – Assistant Director
(Governance and Public Protection) and
Monitoring Officer**
graham.watts@southkesteven.gov.uk

**Richard Wyles – Deputy Chief Executive
and Section 151 Officer**
richard.wyles@southkesteven.gov.uk

You may wish to raise the matter in person, and you can do this by using one of the contacts above or alternatively you can contact the Council's confidential Whistleblowing facility.

Concerns are better submitted in writing – we need the background and history of your concern, giving names, copies of any documents, dates and places (where possible).

We would like you to explain why you are concerned about the situation – we do not expect you to prove the truth of an allegation, but you will need to show that there are sufficient grounds for your concern.

You can write directly to one of the Officers named above or you can use the Whistleblowing

facility to [Report Fraud Online](#) or email reportfraud@southkesteven.gov.uk

Officers have the option to seek independent advice from their trade union representative or professional association or can invite a work colleague to raise a concern on their behalf. Further advice may be sought from [Protect](#) (formerly known as Public Concern at Work) the whistleblowing charity.

Remember – the earlier you raise the concern, the easier it is to take action.



How we will respond

Our response will depend on the nature of the concern raised and may be:

- advice only
- resolved by agreed action without the need for investigation
- investigated internally (by management or other independent investigators)
- referred to the police if a criminal matter
- referred to the external auditor
- the subject of an independent inquiry
- referred to the relevant safeguarding team (child protection or vulnerable adults)

The officer receiving the whistleblowing allegation (if a major issue) will immediately notify the Section 151 Officer for discussion with the Statutory Officers Group.

We may carry out initial enquiries in order to protect individuals or employees and those accused of wrongdoing. We will use the results of these enquiries to decide whether an investigation is needed and if so, what form it should take. If urgent action is required this will be taken before we start any investigation.

Concerns of fraud, bribery or corruption will be followed up by the Accredited Counter Fraud

Specialist. If there are other serious concerns of a potentially criminal nature, the complaint will be referred to the Council's Statutory Officers Group. They will determine whether the concern should be referred to the police directly by the Council.

If the Statutory Officers Group decides that the matter should be referred to the police by the Council, advice will be sought from the police to establish if a simultaneous internal investigation can be conducted, and whether or not they consent for the subject of the complaint to be informed of allegations.

The Council's Code of Conduct requires employees to notify their line manager immediately of any criminal investigation. Failure to do so could result in disciplinary action being taken.

We will acknowledge your whistleblowing disclosure within five working days. Within the next 10 working days we will write and explain how we propose to deal with the matter. The whistleblower will be:

- given an estimate of how long it will take to provide a final response
- told if initial enquiries have been made
- told if further investigation is required, and if

- not, why not (where appropriate)
- given details of support mechanisms
- advised of the investigating officer (where appropriate)
- advised how we will inform you of progress

The amount of contact between you and the investigating officer considering your whistleblowing disclosure will depend on the nature of the concerns raised. For example, if further investigation is required, the investigator may need to seek additional information from you.

If a meeting is necessary, this can be held off site if preferred. If you are an employee you will have a right to be accompanied – this can be a union representative or work colleague (not involved in the area where the concern exists). If you are not an employee you may wish to bring a friend with you – a neutral venue can be arranged, where required.

We will help with any difficulties you may experience as a result of raising a concern – we will, for example, provide advice if you are required to give evidence for criminal or disciplinary proceedings. Sometimes whistleblowers have counter-allegations made against them. The Council has a duty to investigate any concerns that it receives and that will apply in these circumstances. However this will not detract from the principles, as set out in this policy, which govern how the Council will respond to whistleblowers. The overriding objective will be to establish the truth.

Records will be retained of all work carried out and actions taken to address the concerns raised by the whistleblower, including the investigator's case file, where relevant. All files will be held securely and confidentially, in accordance with the Council's retention of records policy.

At the end of our investigations we will provide feedback to the whistleblower (if known) on actions taken and limited detail on the outcome of investigations. Feedback will be subject to legal constraints, but we do recognise the importance of providing you with assurances

Taking the matter further

If you have genuine concerns about how we have handled your whistleblowing disclosure you can raise this with the investigating officer and/or the Monitoring Officer. We hope that you will be able to reach a suitable conclusion to the matter but if you remain dissatisfied you can contact the Council's external auditors:



KPMG LLP (UK), 1 Sovereign Street,
Leeds, LS1 4DA

You may also refer your concern to the [Local Government Ombudsman](#) – they generally do not take any action until the matter has been dealt with internally first.

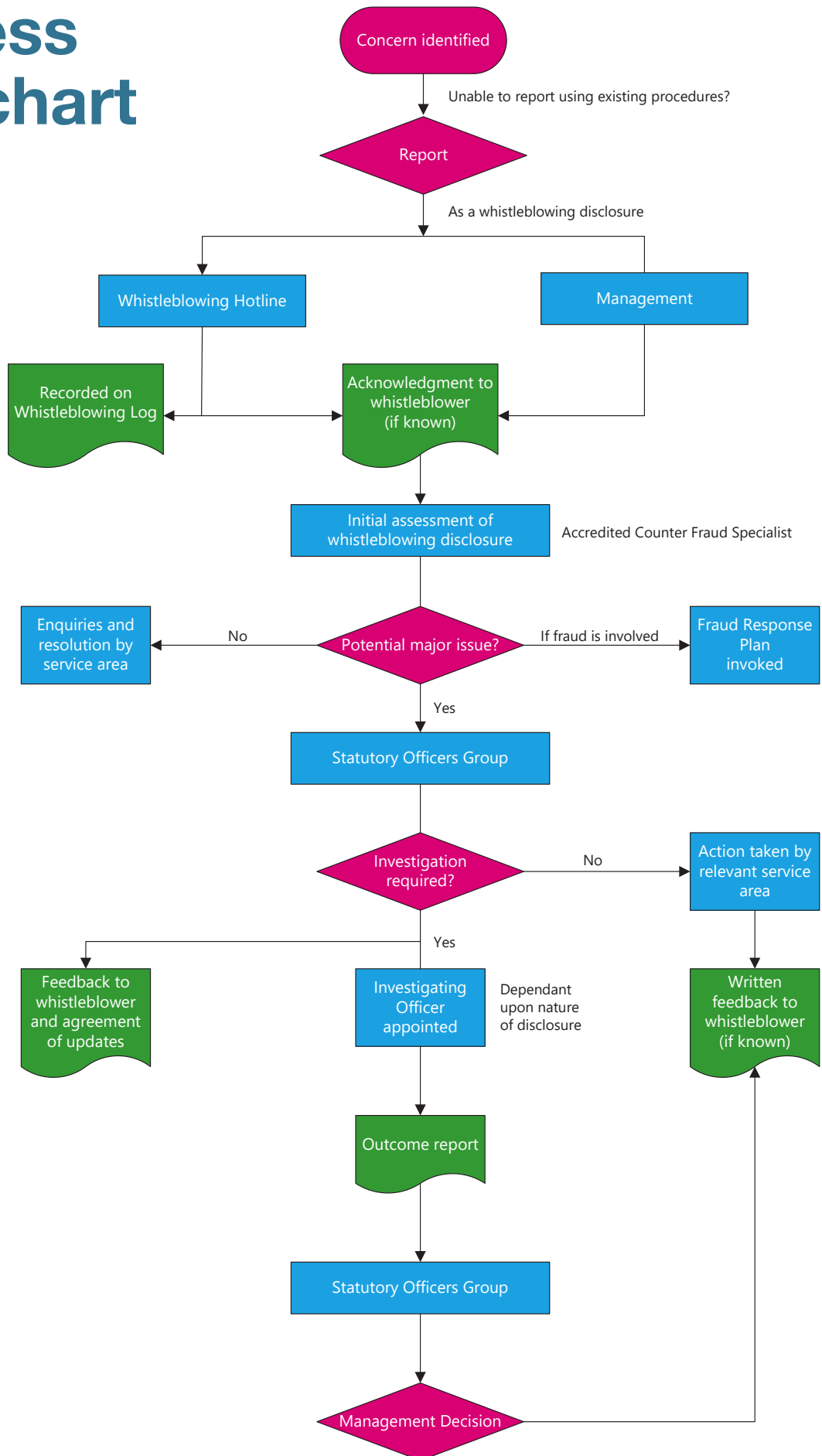
We would remind you that employees are not to report any Council related issues to the media – to do so may be considered a breach of the Council's Disciplinary Policy and Code of Conduct.

Monitoring

The Deputy Chief Executive and Section 151 Officer will provide an annual report to the Council's Governance and Audit Committee which has responsibilities for overseeing the effectiveness of the Council's governance arrangements. All reporting will be anonymised and will only identify common themes, numbers of disclosures year on year and will highlight actions taken to improve systems and policies.


The Council's Statutory Officers Group will monitor the effectiveness of this policy and take the necessary action.

Whistleblowing Process Flowchart



Contact Details

Alternative formats are available on request:
audio, large print and Braille

South Kesteven District Council
01476 40 60 80
 www.southkesteven.gov.uk



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Governance and Audit Committee

19 June 2024

Report of Councillor Philip Knowles,
Cabinet Member for Corporate
Governance and Licensing

Anti-Money Laundering Policy 2024 - 2026

Report Author

Tracey Elliott, Governance & Risk Officer

 tracey.elliott@southkesteven.gov.uk

Purpose of Report

One of the key areas for Governance and Audit Committee, as part of its terms of reference, is to approve the Anti-Money Laundering Policy.

Recommendations

That the Committee:

- 1. **Notes the contents of this report, and;**
- 2. **Approves the revised Anti-Money Laundering Policy 2024 - 2026 attached at Appendix A.**

Decision Information

Does the report contain any
exempt or confidential
information not for publication?

No

What are the relevant
corporate priorities?

Effective Council

Which wards are impacted?

All

1 Implications

Taking into consideration implications relating to finance and procurement, legal and governance, risk and mitigation, health and safety, diversity and inclusion, safeguarding, staffing, community safety, mental health and wellbeing and the impact on the Council's declaration of a climate change emergency, the following implications have been identified:

Finance and Procurement

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

Completed by: Paul Sutton, Interim Head of Finance (Deputy 151)

Legal and Governance

- 1.2 The Governance and Audit Committee have the necessary powers at Part 2 of the Constitution (Articles), paragraph 9.1 (xx) to approve the Anti-Money Laundering Policy.

Legislation related to the prevention of money laundering is referenced within the report.

Completed by: James Welbourn, Democratic Services Manager and Deputy Monitoring Officer

2 Background to the Report

- 2.1 The Council is committed to the highest standards of quality, probity, openness, and accountability. As part of the Committee's terms of reference, Anti-Money Laundering is one of the key areas of focus being an essential element of delivering good governance. To develop and promote greater awareness, and in line with best practice, a review of the Council's Anti-Money Laundering arrangements has been undertaken.
- 2.2 Money laundering is the process by which the proceeds of crime are converted into assets which appear to have a legitimate origin in order that they can be retained permanently or recycled into further criminal enterprises. Money laundering may range from a single act to complex and sophisticated schemes involving multiple parties.
- 2.3 The Proceeds of Crime Act 2002, Terrorism Act 2000, and The Money Laundering and Terrorist Financing (Amendment) Regulations 2019 place obligations on the Council and its employees to establish internal procedures to prevent the use of their services for money laundering.

- 2.4 Whilst the risk to the Council of contravening the Act and the Regulations is very low, the obligations impact on certain areas of local authority business and require the establishment of internal procedures to prevent the use of services for money laundering.
- 2.5 The Anti-Money Laundering Policy was last reviewed by the Committee on 26 January 2022 and the attached Policy has been reviewed to reflect best practice and the latest legislation.

3 Scope of the policy

- 3.1 The Anti-Money Laundering Policy outlines the Council's responsibility to comply with the relevant legislation.
- 3.2 The policy sits alongside the Council's Whistleblowing Policy, Counter Fraud Policy, and the Council's Code of Conduct for Employees.

4 Key Considerations

- 4.1 The Committee should monitor and review the anti-money laundering arrangements currently in place and the activities that are being undertaken to mitigate those risks.

5 Other Options Considered

- 5.1 None.

6 Reasons for the Recommendations

- 6.1 Governance and Audit Committee, as part of its terms of reference approve the Counter Fraud, Bribery and Corruption Framework, which includes the Whistleblowing Policy and Anti-Money Laundering Policy.
- 6.2 The Committee should monitor and review the counter fraud arrangements currently in place and the activities that are being undertaken to mitigate those risks.

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Anti-Money Laundering Policy

2024/26



SOUTH
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COUNCIL

Introduction

South Kesteven District Council is committed to preventing the Council and its employees being exposed to money laundering, to identify the risks where it may occur and to comply with legal and regulatory requirements.

The Proceeds of Crime Act 2002, Terrorism Act 2000 and Terrorist Financing and Transfer of Funds Regulations 2017 places obligations on the Council and its employees to ensure procedures are in place to prevent services being used for money laundering or terrorist financing.

Money laundering can be linked to Terrorist Financing - this is the process by which terrorists fund operations in order to perform terrorist acts. Terrorists need financial support to carry out their activities and achieve their goals.

Any business in any sector can be subject to money laundering risks – local government is no exception.

Definition

Money laundering is the process by which the proceeds of crime are converted into assets which appear to have a legitimate origin in order that they can be retained permanently or recycled into further criminal enterprises.

Money laundering often involves three steps:

Placement	'Dirty' cash is introduced into the financial system
Layering	Proceeds are moved through a series of transactions to conceal the illegal source
Integration	Legitimate explanation for the source of funds is created and financial wealth can be retained, and potentially invested, or assets acquired

Money laundering may range from a single act to complex and sophisticated schemes involving multiple parties.

Scope

All employees should be vigilant for signs of money laundering.

This policy applies to all employees of South Kesteven District Council and sets out procedures to be followed when there are suspicions of money laundering activity. Not all Officers will need detailed knowledge of the criminal offences covered by the legislation although some employees will require additional guidance to ensure awareness of money laundering.

The policy is consistent with other Council policies including the Counter Fraud Policy and the Whistleblowing Policy.

Failure by a Council employee to comply with the procedures set out in this policy may lead to disciplinary action being taken against them.

Objectives

The policy outlines the Council's arrangements around:

- Role of the Money Laundering Reporting Officer (MLRO)
- Arrangements to receive and manage concerns of Officers about money laundering and to make reports to the National Crime Agency (NCA) where required
- Ensuring those Officers most likely to be exposed to money laundering situations are aware of the requirements placed on the organisation and them as individuals by the relevant legislation
- Procedures designed to prevent money laundering
- Provision of training to those most likely to encounter money laundering

Money Laundering Reporting Officer (MLRO)

South Kesteven District Council is required to appoint a Money Laundering Reporting Officer (MLRO) to receive disclosures from employees of money laundering activity.

The nominated Officer to receive disclosures about money laundering activity is:

Richard Wyles, Deputy Chief Executive and Section 151 Officer

✉ Email: richard.wyles@southkesteven.gov.uk

The main functions of the MLRO are:

- Producing a risk assessment for the business
- Point of contact between the business and the NCA
- Receiving notifications of potential terrorist money laundering or terrorist financing
- Analysing notifications to reach a decision on whether to file a Suspicious Activity Report (SAR)
- Considering Officer training needs
- Responsibility for policies and controls
- Guardian of records relating to SARs

Reporting concerns to the Money Laundering Reporting Officer (MLRO)

Officers that know or suspect they may have encountered criminal activity, and that they may be at risk of contravening the legislation in place, should contact the MLRO to notify their concerns – the disclosure should be made at the earliest opportunity. Confidentiality does not apply if money laundering is at issue.

The employee must follow any subsequent instructions made by the Council's MLRO – no further enquiries into the matter may be taken without authorisation from the MLRO.

All disclosure reports made to the MLRO (and the reports submitted to the NCA) must be retained by the MLRO for a minimum of five years – the MLRO will keep a record of all referrals received and any action taken to ensure an audit trail is maintained. The Money Laundering Disclosure Form should be used to record any action taken.

Reporting to the National Crime Agency (NCA)

The disclosure will be noted by the MLRO, and they will evaluate the information provided to identify if there are reasonable grounds for suspicion of money laundering. The MLRO may commence an investigation to enable a decision on whether to report the matter to the NCA.

If a decision is made to submit a report, the NCA provide forms for completion to enable a SAR to be submitted. The MLRO must promptly make a Suspicious Activity Report (SAR) to the [National Crime Agency](#).

If the MLRO know or suspect that a person is engaged in money laundering, and they do not disclose this to the NCA, they are committing a criminal offence. Care should be taken that the client suspected of money laundering is not alerted that a report has been made to the NCA – tipping off is a specific offence under the Proceeds of Crime Act 2002.

If no report is made, the reasons for this must be recorded by the MLRO.

Money laundering offences

There are three principal money laundering offences under Proceeds of Crime Act 2002.

An offence is committed if a person knows, or suspects property has been purchased with the proceeds from a criminal act and:

- conceals, disguises, converts or transfers or removes the property from the UK – Section 327
- enters into arrangement which they know, or suspect, will facilitate another person to acquire, retain, use or control that property – Section 328
- acquires, uses or possesses the property – Section 329

Property can include money, real or moveable property including inherited assets and also intangible property (eg mortgages, leases, rights etc).

The money laundering offences are aimed at criminals and their associates, but any person can be caught by the offences if they suspect money laundering and either become involved or do nothing about it. It is not necessary to have benefitted in any way to be guilty of the offences.

The key requirement for Council employees and partners is to promptly report (Section 337 disclosure) any suspected money laundering activity to the Council's MLRO. While the risk to the Council of contravening the legislation is low, it is important that all employees are familiar with their responsibilities as serious criminal sanctions can be imposed for breaches of legislation.

Section 337 of the Proceeds of Crime Act 2002 provides protection to employees when they report suspected money laundering. There are conditions to this:

- the information must come to the employee's notice in the course of their trade, profession, business or employment and

- causes the employee to know or suspect (or give reasonable ground to know or suspect) that another person is engaged in money laundering and
- the disclosure is made to a constable, customs officer or the nominated MLRO

It is also important to note that when a proposed act or transaction is a suspected money laundering offence anyone knowing or suspecting money laundering who is then involved in the act or transaction is guilty of the same offence unless they have made a Section 337 disclosure and appropriate consent has been given.

A Section 337 money laundering disclosure is strictly confidential. There must be no disclosure or other indication to the person suspected of money laundering. Section 342 of the Proceeds of Crime Act states that a person may be guilty of this offence if they:

- make a disclosure likely to prejudice the investigation
- falsify, conceal, destroy or dispose of documents relevant to the investigation
- failure to comply with these requirements could amount to the criminal offence of Prejudicing an Investigation

General procedures

Cash Payments

No cash payment to the Council will be accepted if it exceeds £1,000. Cash is defined as notes, coins or any currency.

Identification of new clients

It is important to 'know your customer'. Employees should be wary of situations where funds flow through the Council from sources with which it is not familiar. Where the Council is forming a new business relationship and/or is considering a significant one-off transaction with a new client, evidence of identity of the prospective client should be obtained before proceeding

It is good practice to have either:

- one government document that verifies the name, address and date of birth or
- a government document that verifies their full name and another supporting document which verifies name and either their date of birth or address

Where it is not possible to obtain such documents, it is necessary to consider the risks associated with the client and seek advice from the MLRO or Deputy MLRO.

Possible signs of money laundering

The following signs may be indicators of money laundering taking place and employees should be vigilant about:

- Concerns about honesty, integrity or location of the client
- Secretive behaviour eg refusal to provide information
- Attempted payment of a substantial sum of cash
- Transactions which appear uneconomic, inefficient or irrational
- Illogical third-party transactions – unnecessary routing of funds from third parties
- Illogical involvement of an unconnected third-party
- Funds received from an unexpected source
- Instructions for payment to an unexpected source
- Significant overpayments (and subsequent request for refund)
- Refunds following reversal or cancellation of an earlier transaction
- No obvious legitimate source of funds
- Unusual request for client account details
- Poor business records or internal controls

Officer training and awareness

Officers can undertake a fraud awareness elearning course which includes money laundering. There are some areas of the Council's activities that may be more vulnerable to attempts to launder money.

Further information

Further information can be obtained from the MLRO and the following sources:

[National Crime Agency](#)

[UK Legislation](#)

[Terrorism Act 2000](#)

[Proceeds of Crime Act 2002](#)

[The Money Laundering, Terrorist Financing and Transfer of Funds \(Information on the Payer\) Regulations 2017](#)

Money laundering report form

Report to Money Laundering Reporting Officer	
Officer name	
Title and department	
Telephone	
Email	
Details of suspected offence	
Names and addresses of persons involved	
Nature of activity	
Value of activity	
Nature of suspicions	
Have you discussed your suspicions with anybody?	
Do you have any reason not to disclose the matter to NCA?	
For completion by the MLRO	
Date received	
Date acknowledged	
Case number reference	
Are there reasonable grounds for suspecting money laundering?	
Confirm date of report to NCA (if yes)	
Category	1 – Debt or charge 2 – Overpayment 3 – Refund 4 – Cashier or error 5 – Land or building resale within 3-12 months 6 – House or asset resale within 3 months
Signed and dated	
This report should be retained for a minimum of 5 years	

Contact Details

Alternative formats are available on request:
audio, large print and Braille

South Kesteven District Council
01476 40 60 80

 www.southkesteven.gov.uk



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Governance & Audit Committee

19 June 2024

Report of Councillor Philip Knowles,
Cabinet Member for Corporate
Governance and Licensing

Corporate Plan 2024-27: Key Performance Indicators

Report Author

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Purpose of Report

To present the proposed key performance indicators (KPIs) for the Corporate Plan 2024-27, to be monitored by this Committee, and to recommend the approval and adoption of the KPI suite.

Recommendations

That the Committee:

- 1. Approves the key performance indicators it wishes to review associated with the actions in the Corporate Plan 2024-27.**
- 2. Notes that key performance indicators will be monitored throughout the year as determined by the Committee in agreeing its work programme.**
- 3. Notes that the KPI suite will be reviewed and if necessary revised as part of the annual review process.**

Decision Information

Does the report contain any exempt or confidential information not for publication?	No
What are the relevant corporate priorities?	High performing Council
Which wards are impacted?	All

1. Implications

Taking into consideration implications relating to finance and procurement, legal and governance, risk and mitigation, health and safety, diversity and inclusion, safeguarding, staffing, community safety, mental health and wellbeing and the impact on the Council's declaration of a climate change emergency, the following implications have been identified:

Finance and Procurement

1.1 There are no financial implications associated with this report.

Completed by: Paul Sutton Interim Head of Finance (Deputy 151)

Legal and Governance

1.2 There are no significant legal or governance implications associated with this report which are not already highlighted in the body of the report.

Completed by: James Welbourn, Democratic Services Manager and Deputy Monitoring Officer

2. Background to the Report

2.1 The Corporate Plan (the Plan) sets out the strategic vision and key priorities of the Council. The Plan underpins the delivery of all of the Council's strategic activity and provides the performance framework for managing the delivery of the actions and priorities in the Plan. It is good practice for a public sector organisation seeking to deliver a wide set of aims and objectives to produce a Corporate Plan and regularly review the activity and achievements against it.

2.2 The Corporate Plan 2024-2027 was adopted by Council on 25 January 2024 (see <https://www.southkesteven.gov.uk/sites/default/files/2024-02/South%20Kesteven%20District%20Council%20Corporate%20Plan%20-%202024%20to%202027.pdf>). It proposed actions, key performance indicators (KPIs) and targets that would be developed by the relevant Overview and Scrutiny Committees (OSCs), which would retain oversight of the performance

management arrangements at a strategic level. Cabinet will receive performance reports on a quarterly basis. Scrutiny committees will also be able to take a deeper dive into any areas of concern.

3. Key Considerations

Performance Management Framework

- 3.1 Effective performance management is essential to the success of the Plan. It establishes how delivery will be monitored, improvements driven, and open and transparent accountability upheld.
- 3.2 There are two suites of performance indicators to support the Plan.
 - a) The Key Performance Indicators (KPIs) will monitor the **delivery of the Corporate Plan Actions and the overall performance of the Council**. This report proposes the KPI suite for the 2 actions that fall within the scope of the Governance & Audit Committee. Accountability for delivery of these actions rests with the Senior Management Team. A table of the proposed KPIs is available in Appendix 1.
 - b) The Strategic Socio-Economic Indicators (SSEIs) will monitor the progress towards the fulfilment of the Council's vision, 2034 outcomes, and the **overall performance of the district**. Each SSEI is benchmarkable against other local authorities, aligned to the Office for Local Government (OFLOG) suite, and will be reported in the annual State of the District report (SOTD). The SSEIs will be kept under constant revision, enabling immediate incorporation of new OFLOG metrics etc. The Council has limited influence over the SSEIs. Reporting will evidence whether the district is on the right trajectory and provide insight into the Council's operating environment, enable the identification of challenges and shape the service response.
- 3.3 Accompanying the KPI report will be a performance indicator (PI) dashboard. This will present information regarding the performance of the relevant Service, which are out of the KPI measures scope. The intention is to present the 'story' of the Service to Committee, providing as meaningful and robust performance data as possible. These measures are not KPIs and will be kept under constant review by Officers to ensure the most useful data is being captured for the Committee.
- 3.4 Once approved, reporting on the KPIs will be a regular part of the OSC workplans. Mid-year (quarter 2) and end-of-year (quarter 4) reports will be presented to the OSCs. Quarterly reports will be presented to Cabinet and the Corporate Management Team (CMT).
- 3.5 An annual performance report that considers all aspects of the Corporate Plan will be presented to Cabinet. This report will have been to relevant scrutiny committees, to consider any changes required to the KPI suite and the actions of

the Corporate Plan. Changes may be required in response to the external operating environment or policy context. As an agile organisation it is crucial for the Council to retain this flexibility.

- 3.6 Work is underway to strengthen the Performance Management page of the Council's website. To improve openness and transparency it is intended this page will host the KPI reports, link to the relevant Committee meetings and publish data pertaining to the performance of the Council, but not directly captured by the measures of the KPI suite. The PI dashboards will all be hosted on the page.

Development and Design

- 3.7 An effective KPI suite must be able to perform three functions:
- Measure activity and performance.
 - Understand experiences and outcomes.
 - Use evidence to inform and drive improvement.
- 3.8 Meeting these functions has underpinned the approach to developing the KPI suite. To do this, two basic foundational principles have been observed:
- The selected metrics must be wholly within the Council's control, so offering accountability and stimulating continuous improvement.
 - The selected metrics must be SMART (Specific, Measurable, Attainable, Relevant & Timely).
- 3.9 Each KPI has quantitative (i.e. numerical or measurable data telling us how many, how much or how often) and qualitative (i.e. non-numerical data to understand underlying reasons, opinions and motivations) measures. The quantitative measures enable progress over time to be monitored and are benchmarkable where appropriate. The qualitative measures enable the quantitative measures to be contextualised and the experience of service delivery to be understood. This latter function will be provided by the commentary on each KPI produced by the responsible Officer.
- 3.10 The draft KPIs have been developed in close consultation with the relevant Officers for each service. It is expected that the KPI suite will experience a degree of evolution over the next four years. This improvement will be prompted by the needs of decision makers and the Overview and Scrutiny Committees, and further consideration of how to best meet those needs by Officers.

4. Other Options Considered

- 4.1 As Council has agreed the OSCs will lead on this invaluable work of agreeing KPIs they wish to keep under review, there are no viable alternatives. An absence of success criteria would mean the delivery of the Corporate Plan is

unmonitored and prevent continuous improvement. Having a purely internal KPI suite would prevent effective and transparent scrutiny and accountability.

- 4.2 The Department for Levelling Up, Housing & Communities (DLUHC) published draft statutory guidance on compliance with the Best Value Duty for local authorities in July 2023. The Best Value Duty relates to the statutory requirement for local authorities and other public bodies defined as best value authorities in Part 1 of the Local Government Act 1999 (“the 1999 Act”) to “make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness”.
- 4.3 The guidance provides greater clarity to Local Government on how to fulfil the Best Value Duty by describing what constitutes best value, the standards expected by the department and the models of intervention at the Secretary of State for Levelling Up, Housing and Communities’ disposal in the event of failure to uphold these standards. DLUHC is currently analysing consultation responses to the draft guidance. The final document is expected in 2024.
- 4.4 The draft guidance is clear that *‘Making arrangements to secure continuous improvement in performance and outcomes is a core requirement for achieving best value.’* This will require robust and effective performance management and scrutiny. The presence and practice of these arrangements are characteristics of a well-functioning authority. The absence or poor functioning of said arrangements are indicators of potential failure.

5. Reasons for the Recommendations

- 5.1 The adoption of the KPIs and targets set out in Appendix 1 of this report (and encompassing any changes agreed by the committee) will provide a basis for effective performance management of the Corporate Plan 2024-2027 and enables the committee to input on the development of the targets.
- 5.2 The annual review process will ensure Cabinet is provided with a clear overview of progress against targets for the previous financial year, along with the opportunity of ensuring the Council’s activities are focussed on the highest priority areas (i.e. a refocussing based upon any changes to the external environment or policy context).

6. Consultation

- 6.1 The draft KPIs and targets set out in Appendix 1 have been developed in consultation with relevant officers. This report provides the Committee members with the opportunity to input on the development (and ongoing management) of relevant KPIs and targets.

7. Appendices

- Appendix 1 – Proposed KPI Suite 2024-27: Governance & Audit Committee

Corporate Plan 2024-27 – Draft Provisional KPI Suite – Governance & Audit Committee									
Priority	Code	Overview & Scrutiny Committee	Provisional Action	Action Summary	Service Area	Provisional Owner/s	Proposed KPI Measure/s	Provisional Targets	Notes
Effective Council	COUN4	Governance & Audit	Produce and deliver a Councillor Development Strategy and accompanying programme to achieve accredited Councillor Development Charter status.	Member development	Governance – Democratic Services	Assistant Director: Governance and Public Protection (Monitoring Officer)	Produce and adopt the Strategy	TBC	Mandatory sessions to be clarified as part of upcoming constitutional amendment.
							Achievement of Councillor Development Charter Status	Accreditation by end of 2025	
							% of Councillors attending mandatory training	100%	
							% of Councillors with personal development plans	100%	
Effective Council	COUN15	Governance & Audit	Complaints, Freedom of Information (FOI) and Subject Access Request (SAR) reporting.	Mid-year and end year report on complaints, FOIs and SARS.	Governance	Data and Information Governance Officer	Number of Complaints (% dealt with within defined timescales)	TBC	N/A
							Number of FOIs (% dealt with within defined timescales)	90%	
							Number SARs (% dealt with within defined timescales)	85%	

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Governance and Audit Committee Work Plan 2024-2025

Committee Membership:

Chairman: Councillor Tim Harrison

Vice-Chairman: Councillor Helen Crawford

Item	Current Issues/Status	Outcome Sought
16 July 2024		
Internal Audit Progress Report	Update from the Council's Internal Auditors	To review and note the contents of the report
External Audit Plan	Overview of the planned scope and timing of the statutory audit of the final accounts and the Value for Money work.	To consider accepting the External Audit Plan.
Draft Financial Outturn 23/24	Detail of the Council's outturn position for the financial year 2023/2024.	To review the contents of the report and consider approving any reserve movements, Capital slippages and creation of reserves.
Annual Governance Statement	To consider the Draft Annual Governance Statement for 2023/2024	To consider the Draft Annual Governance Statement for 2023/2024
Whistleblowing Annual Report 23/24	To consider the whistleblowing activity from 2023/2024.	To note the report
Counter Fraud Annual Report 23/24	To consider counter fraud activity from 2023/2024.	To note the report
Counter Fraud Strategy 24/26	A report on The Counter Fraud Strategy 2024/2026.	To review and note the contents of the report.

Item	Current Issues/Status	Outcome Sought
Section 106 Process Update	To consider the update.	To review and note the contents of the report.
24 September 2024		
Internal Audit Progress Report	Update from the Council's Internal Auditors	To review and note the contents of the report
Treasury Management Activity Updates	Update on treasury and debt management operations during the financial year.	To review and note the contents of the report.
Strategic Risk Register	The Strategic Risk Register is presented to the Committee bi-annually as part of the monitoring and review of the risk management arrangements.	To review and consider approving the Strategic Risk Register.
Risk Management Annual Report 23/24	The Annual Report on Risk Management Procedure and Policy.	To review and note the contents of the report.
Risk Management Framework 2024/2026	A presentation of the Risk Management Framework 2024/2026	To review and note the contents of the report.
Health and Safety Annual Report 2023/2024	Report to give an overview of the health and safety management arrangements within South Kesteven District Council and identify key areas of focus.	To review and note the contents of the report.
Ombudsman Annual Report 2023/2024	Annual review of complaints received and decisions made from the Local Government Ombudsman Letter.	To review and note the contents of the report.
27 November 2024		
Internal Audit Progress Report	Update from the Council's Internal Auditors	To review and note the contents of the report
Annual Governance Report	Report outlining the key findings arising from the statutory audit of South Kesteven District Council.	To review and note the contents of the report.

Item	Current Issues/Status	Outcome Sought
Internal Audit Progress Report	Update from the Council's Internal Auditors	To review and note the contents of the report
Statement of Accounts 2023/2024	To be approved each year by the statutory deadline.	To approve the 2023/2024 Statement of Accounts and their publication on the Council's website.
Annual Governance Statement	To consider the Draft Annual Governance Statement for 2023/2024	To consider approving the Draft Annual Governance Statement for 2023/2024
Review of Effectiveness and Terms of Reference	Consider the outcome of a self-assessment of the effectiveness of the Committee's work.	To consider amending Terms of Reference
Safeguarding Report 2023/2024	An overview of the Council's involvement in the safeguarding of children, young people and vulnerable adults for 2023/2024.	To review and note the contents of the report.
Review Appointments to LeisureSK Limited	6 monthly review of Director appointments to LeisureSK Limited	To consider the report and any recommendations.
22 January 2025		
Internal Audit Progress Report	Update from the Council's Internal Auditors	To review and note the contents of the report
Indicative Internal Audit Plan 2025/2026	Internal Audit to present the indicative Internal Audit Plan for 2025/2026.	To review and note the contents of the report.
Treasury Management Activity Updates	Update on treasury and debt management operations during the financial year.	To review and note the contents of the report.
Treasury Management Strategy	Monitor the Council's Treasury Management Strategy.	Monitor, review and amend as appropriate.

Item	Current Issues/Status	Outcome Sought
19 March 2025		
Internal Audit Progress Report	Update from the Council's Internal Auditors	To review and note the contents of the report
Annual Report on Grants and Returns	To review activity from grants and returns for the year.	To review and note the contents of the report.
Indicative Internal Audit Plan 2025/2026	Internal Audit to present the indicative Internal Audit Plan for 2025/2026.	To agree the Plan for 25/26
Statement of Accounting Policies	Annual report prior to the preparation of the Statement of Accounts to ensure that the policies are up to date and in line with the CIPFA Code of Practice.	To consider approving the Statement of Accounting Policies.
Strategic Risk Register	The Strategic Risk Register is presented to the Committee bi-annually as part of the monitoring and review of the risk management arrangements.	To review and consider approving the Strategic Risk Register.
Review of RIPA Programme	Annual review of RIPA activity	To review and note the contents of the report.
Items to be allocated as and when required		
Financial Regulations		
Constitutional Amendments		
Code of Corporate Governance		
Code of Conduct		
Contract Procedure Rules		

Item	Current Issues/Status	Outcome Sought
Risk Management Framework		
Committee Members Meeting with Auditors		
Counter Fraud Framework		
Review of Subject Access Requests		

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