Governance and Audit Committee

SOUTH KESTEVEN DISTRICT COUNCIL

Wednesday, 22 January 2025 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 Shorrock, 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]

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Karen Bradford, Chief Executive
www.southkesteven.gov.uk

7. **Indicative Internal Audit Plan 2025/26** (Pages 39 - 60)

8. **2025/26 Treasury Management Strategy Statement** (Pages 61 - 96)
The Council is required by regulations issued under the Local Government Act 2003 to produce a Treasury Management Statement for each financial year. The draft Statement meets the requirements of the CIPFA Code of Practice on Treasury Management (the Code) and the Prudential Code.

9. **Proposed amendments to the Council's Constitution** (Pages 97 - 103)
To consider amendments to the Council's Constitution.

10. **Risk Management Annual Report 2023-24 including Risk Management Framework 2025-27** (Pages 105 - 124)
Approve risk management annual report.

11. **Work Programme 2024 - 2025** (Pages 125 - 127)
To consider the Committee's Work Programme for 2024 – 2025.

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

Meeting of the Governance and Audit Committee Minutes

Wednesday, 27 November 2024, 10.00 am

SOUTH KESTEVEN DISTRICT COUNCIL

Committee Members present

Councillor Tim Harrison (Chairman)
Councillor Helen Crawford (Vice-Chairman)
Councillor Bridget Ley
Councillor Peter Stephens
Councillor Paul Stokes
Councillor Mark Whittington
Councillor Sue Woolley

Cabinet Members
Councillor Ashley Baxter
Councillor Philip Knowles

Officers
Graham Watts, Assistant Director (Governance and Public Protection) and Monitoring Officer.
Richard Wyles, Deputy Chief Executive, Section 151 Officer
Alison Hall-Wright, Director of Housing and Projects
Carol Drury, Community Engagement & Manager
Tracey Elliott, Governance and Risk Officer
Charles James, Policy Officer
Sarah McQueen, Head of Service (Housing Options)
Hannah Rowe, Performance Analyst
Paul Sutton, Assistant Director of Finance/Deputy Section 151 Officer
Phil Swinton, Emergency Planning and Health & Safety Lead
Joshua Mann, Democratic Services Officer

41. Apologies for absence

An apology for absence was received from Councillor Charmaine Morgan.

42. Disclosure of interests

There were none.

43. Minutes of the meeting held on 24 September 2024

The minutes of the meeting held on 24 September were proposed, seconded and AGREED as an accurate record.

44. Updates from previous meeting

It was noted that the co-opted Member action agreed at the previous meeting would be included within the agenda.

45. Corporate Plan 2024-27 Key Performance Indicators: 2024/25 Mid-Year (Q2) Report

The Corporate Plan 2024-27 Key Performance Indicators: 2024/25 Mid-Year (Q2) Report was presented by the Cabinet Member for Corporate Governance and Licensing.

Appendix A presented the overall performance against the fourteen actions being presented in the session. Nine of the actions were rated Green (on or above target) and two were rated as Amber (off target by less than 10% or where milestone achievement was delayed but with resolution in place to be achieved within a reasonable timeframe). There were zero actions rated as Red (significantly below target). Three actions were rated as N/A where work had not yet meaningfully commenced.

During discussions, Members commented on the following:

- As Appendix A demonstrated that 90% of Councillors had completed their mandatory training at the time of the report’s publication, it was queried what sanctions were in place for those Members that had failed to undertake the mandatory training. The Leader responded by expressing their disappointment that four Members were yet to complete their mandatory training and confirmed that they were unable to sit on any bodies or committees in the meantime. There were no further sanctions that could be undertaken. It was confirmed that Full Council was the exception and that a Member could not be prevented from attending and participating in this meeting as a consequence of not completing the mandatory training.
- It was queried whether the four Members who were yet to undertake the training had been notified directly. The Monitoring Officer confirmed that not only had the Members been notified directly, but both discussions with group leaders and extra training sessions had also been facilitated.
- The nature of the Councillor Development Strategy action within Appendix A was also queried. It was confirmed by the Monitoring Officer that the Councillor Development Strategy was an opportunity for self-reflection of Members to identify areas that they wished to develop within their role as a Councillor. For example, this could be a skill such as public speaking.
- It was queried who identified gaps in the skills of a Member. The Monitoring Officer confirmed that this would be a self-assessment of the Member in consultation with their group leader.

- A comment was made that a self-assessment may fail to be self-critical and therefore the strategy seemed to be a tick box exercise to work towards the accreditation. However, it was noted that the accreditation was gained for offering the service and whilst there may be some Members who fail to engage, the strategy could be a useful tool to support the growth and improvement of the Members that did engage.
- A Member queried if more external training opportunities provided by organisations such as the Local Government Association (LGA) or East Midlands Councils could be exploited. The Monitoring Officer agreed to take this away as an **ACTION**.
- It was queried whether there had been a new Complaints Administrator post, as implied by the report. The Director of Housing and Projects confirmed that this was an existing post but had been restructured so that the one individual was dealing with the workload that had previously been shared across their team.
- It was queried whether the Complaints Administrator position covered housing-related complaints. The Director of Housing and Projects confirmed that the position covers all complaints across the authority.

The report was noted by the Committee.

46. Safeguarding Annual Report 2024

The Safeguarding Annual Report 2024 was presented by the Leader of the Council.

The annual report attached at Appendix One provided details of the Council’s safeguarding responsibilities. Details of the training and development provided to officers and elected Members was included along with information regarding the number of modules that had been completed during 2023/24. The report outlined the safeguarding interventions undertaken within the timeframe, including short case studies to provide a background to some of the interactions between residents and officers.

Section Five of the report provided details of the Lincolnshire Safeguarding Children Partnership Section 11 (Children Act 2004) Audit which the Council was required to complete in 2024. The Council passed the audit with 100% of the criteria being rated green.

The Annual report also encapsulated the following:

1. The responsibilities as a district council in relation to safeguarding and Prevent,
2. Training and development opportunities and outcomes for officers and elected Members,
3. Safeguarding Interactions,

4. The current position in relation to the Council's submission to the Lincolnshire Safeguarding Children Partnership Section 11 (Children Act 2004) Audit,
5. The updated safeguarding arrangements within South Kesteven District Council.

It was recognised that as a housing authority, most interactions with vulnerable people were carried out by housing colleagues so Sarah McQueen, Head of Housing Service, was appointed as the Council's Designated Safeguarding Lead. However, officers from other service areas, particularly Neighbourhoods, Environmental Health and other front-line colleagues also encountered and supported vulnerable people. For this reason, deputy responsibility for safeguarding was spread across the organisation with Carol Drury, Community Engagement Manager appointed as Prevent Lead and Deputy Safeguarding Lead and Kati Conway, Senior Neighbourhoods Officer appointed as Deputy Safeguarding Officer.

The report was noted by the Committee.

47. 2024-25 Quarter 2 Treasury Management Activity

The 2024-25 Quarter 2 Treasury Management Activity Report was presented by the Leader of the Council.

The Leader confirmed that no additional borrowing was required during the first half of 2024/25. At the time of the report's publication, all current outstanding Council borrowing was with the Public Works Loan Board (PWLB) and the average rate of interest paid on the debt portfolio was 2.49%. Appendix A showed loans outstanding as at 30 September 2024. Regular reviews were undertaken to consider redemption costs of natural maturity against new borrowing to settle the outstanding debt early.

As of 30 September 2024, the Council had short-term borrowing which was defined as borrowing due to be repaid within 365 days of £3.221m. This will be repaid in instalments of £1.611m on 28 March 2025 and 28 September 2025. The average annual rate of interest of these loan repayments was 3.03%.

The average size of the investment portfolio for the 6-month period was £82.853m compared to an average portfolio size of £76.440m during the same period in 2023/24.

As of 30 September 2024 the Council held short term investments of £80.61m (specified investments) and £3m (non-specified investments).

The key indicator affecting the Councils treasury management was the base rate, which fell from 5% in October to 4.75% in November. Link, the Council's

Treasury Management providers, were predicting a fall to 4.5% by the end of 2024/25.

Inflation also impacted both the base rate and the Council's budgets. CPI fell to 1.7% in September helping to trigger the fall in the base rate. The Government target for CPI remained at 2% at the time of the report's publication. Links forecasted for CPI to be 2.8% by the end of the year.

During discussions, Members commented on the following:

- A Member queried that it was their understanding that interest rates were likely to increase, and it was their view that there was potential for economic stagflation. The Member inquired as to the thoughts of the Officers. The Deputy Section 151 Officer confirmed that in their quarterly meetings, Link were predicting a drop in interest rates.
- The Leader confirmed their position that SKDC needed to hope for the best but prepare for the worst.

The report was noted by the Committee.

48. Internal Audit Progress Report

The Internal Audit Progress Report was presented by the representative from BDO. The report included audits of the following areas:

- Homelessness
- Income Generation
- Business Continuity and Disaster Recovery.

<u>Homelessness</u>

BDO concluded that the Council had a Moderate design of controls and Moderate effectiveness of controls for Temporary Accommodation Management.

The control design was Moderate because while the Council had established a system of internal controls, there were some areas requiring improvement. While BDO acknowledged some factors were influenced by national challenges, these specifically related to the following findings:

- The Housing Strategy 2020-2024 requires review and alignment of homelessness prevention initiatives to the Corporate Plan 2024-2027

Similarly, the control effectiveness was Moderate as while there were areas of non-compliance, some challenges aligned with national trends. This opinion was principally driven by the following medium and low findings:

- Extended stays in temporary accommodation potentially impacting stability, mental health and wellbeing of families and children though

often involving complex cases requiring specific requirements and multi-agency support.
- Need to update the procedure documents in line with the system update as well as the need to have a formalised approach for temporary accommodation provision.

During discussions about the Homelessness aspect of the audit, Members commented on the following:

- Satisfaction that funding had been increased in the national Autumn budget for implementing homelessness services.
- Assurance was sought that multi-partner working arrangements with other services in Lincolnshire was not duplicating work. The Housing Options Manager confirmed that careful co-ordination had ensured that the multi-agency Lincolnshire Homelessness Strategy complimented SKDC's Homelessness Strategy. Attention was also drawn to the operational nature of the Change4Lincs initiative which covered several local authorities in Lincolnshire.
- It was queried whether SKDC were engaging with other organisations in Grantham that were supporting individuals facing Homelessness. The Housing Options Manager confirmed this to be the case with quarterly meetings of the Homelessness Forum allowing for dialogue between SKDC and local organisations.
- The Leader of the Council recognised the positive progress made by SKDC's Homelessness services.

<u>Income Generation</u>

BDO concluded that SKDC had a Substantial design of controls and Moderate effectiveness of controls for Income Generation.

The Control design was Substantial because SKDC had established comprehensive systems of internal controls and processes for managing income generation to achieve objectives. While some documentation updates would have been beneficial, core controls were in place including:

- Multiple marketing channels with demonstrated reach and engagement
- Established grant funding processes with successful outcomes
- Strong analytical capabilities of Marketing reach through platforms like Onclusive.

The control effectiveness was Moderate as there were some areas where implementation could be strengthened. This primarily relates to:

- Variation in cost analysis in fees setting processes across services with some services
- Lacking documented rationale to support price changes.

- Potential to enhance revenue generation from existing marketing channels
- Opportunity to formalise grant funding practices.

During discussions about the Income Recovery aspect of the audit, Members commented on the following:

- Whether Officers had been trained in the fee setting process. The Section 151 Officer confirmed that the fees were set by either the heads of service or their superiors who possessed the necessary competence required. A Member requested further clarity about this as the report had implied that training and guidance was required for all staff. Upon reflection, BDO acknowledged the Section 151 Officer's response to be in the intended spirit of their comment.
- It was the belief of a Member that SKDC should be clearer as to where subsidies were being spent, particularly for residents in rural areas who are more isolated from the urban investments. It was suggested that this can be fed into the 2025 review.

Business Continuity and Disaster Recovery.

BDO raised three medium priority recommendations and one low priority recommendations to improve the Council's control arrangements for business continuity and disaster recovery.

BDO concluded moderate assurance for the design of the controls as there was a sound system of internal control designed to achieve system objectives with a few exceptions. This could be seen in the lack of fully defined BCPs, however BDO noted that SKDC were in the process of revising how it conducted business continuity which was expected to conclude in January 2025.

BDO concluded moderate assurance for the effectiveness of the controls as some exceptions were identified during the review. This could be seen with the service area plans not being subject to testing at the time of the review in addition to the lack of consideration in eight of the BIAs for whether BCPs were accounted for with third party service providers.

During discussions about the Business Continuity and Disaster Recovery aspect of the audit, Members commented on the following:

- Whether Parish Council's were encouraged to have Category Two Disaster Recovery Plan's in place. It was confirmed that Parish Council's were not recorded as Category One or Two respondents.
- It was noted that a disaster recovery test had been undertaken in the week prior to the meeting with IT services dropping out. The response demonstrated the resilience of services, and the Emergency Planning

and Health & Safety Lead pledged to continue tests for different service areas.

The Internal Audit Progress Report was noted.

49. Internal Audit Follow Up Report

The Internal Audit Follow Up Report was presented by the representative from BDO.

The report confirmed that all of the 2023/24 responsive repairs recommendations were complete or in progress with no recommendations overdue. At the time of the reports publication, eight of the recommendations had been completed (two high and six medium), leaving two recommendations still in progress.

BDO praised this success rate of 80% completion and noted that it was higher than the average across the sector.

BDO also noted that they would continue to follow up on the two outstanding recommendations until completion.

The Committee noted the Internal Audit Follow Up Report.

50. Work Programme 2024-25

It was confirmed that the meeting of the Governance and Audit Committee scheduled for December 19th was to be rescheduled for the week commencing February 10th 2025.

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

There was none.

52. Co-opted Member

It was proposed, seconded and AGREED to exclude the press and public during the discussion of this agenda item because of the likelihood that information that is exempt under paragraph 1 of Schedule 12A of the Local Government Act 1972 (as amended) was to be disclosed as the information relates to personal information about candidates.

Following discussions, the Committee voted to accept the recommendation of the Employment Committee and appoint the candidate to serve as an externally co-opted Member of the Governance and Audit Committee. This was agreed on an initial term of one-year following review.

South Kesteven District Council

Value for money risk assessment

Year ended 31 March 2024

January 2025

Value for money

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For 2023/24 our value for money reporting requirements have been designed to follow the guidance in the Audit Code of Practice.

Our responsibility to conclude on significant weaknesses in value for money arrangements.

The main output is a narrative on each of the three domains, summarising the work performed, any significant weaknesses and any recommendations for improvement.

We have set out the key methodology and reporting requirements on this slide and provided an overview of the process and reporting on the following pages.

Risk assessment processes

Our responsibility is to assess whether there are any significant weaknesses in the Council's arrangements to secure value for money. Our risk assessment will continue to consider whether there are any significant risks that the Council does not have appropriate arrangements in place.

In undertaking our risk assessment we will be required to obtain an understanding of the key processes the Council has in place to ensure this, including financial management, risk management and partnership working arrangements. We will complete this through review of the Council's documentation in these areas and performing inquiries of management as well as reviewing reports, such as internal audit assessments.

Reporting

Our approach to value for money reporting aligns to the NAO guidance and includes:

- A summary of our commentary on the arrangements in place against each of the three value for money criteria, setting out our view of the arrangements in place compared to industry standards;
- A summary of any further work undertaken against identified significant risks and the findings from this work; and
- Recommendations raised as a result of any significant weaknesses identified and follow up of your previous auditor's recommendations.

The Council will be required to publish the commentary on its website at the same time as publishing its annual report online.

Financial sustainability

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

Governance

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

Improving economy, efficiency and effectiveness

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

Value for money

Approach we take to completing our work to form and report our conclusion:

Process

Understanding the entity's arrangements → **Evaluation of entity's value for money arrangements** → **Value for money conclusion and reporting**

Understanding the entity's arrangements:
- Financial statements planning
- Internal reports, e.g. IA
- Management Inquiries
- External reports, e.g. regulators
- Assessment of key processes
- Annual report

Evaluation of entity's value for money arrangements:
- Targeted follow up of identified value for money significant risks
- Continual update of risk assessment

Value for money conclusion and reporting:
- Conclusion whether significant weaknesses exist

Outputs

Risk assessment to Governance and Audit Committee

Our risk assessment will provide a summary of the procedures undertaken and our findings against each of the three value for money domains. This will conclude on whether we have identified any significant risks that the entity does not have appropriate arrangements in place to achieve VFM.

Value for money assessment

We will report by exception as to whether we have identified any significant weaknesses in arrangements.

Public commentary

Our draft public commentary will be prepared for the Audit Committee alongside our annual report on the accounts.

Public commentary

The commentary is required to be published alongside the annual report.

Summary of risk assessment

Summary of risk assessment

As set out in our methodology we have evaluated the design of controls in place for a number of the Council's systems, reviewed reports from external organisations and internal audit and performed inquiries of management.

Based on these procedures the table below summarises our assessment of whether there is a significant risk that appropriate arrangements are not in place to achieve value for money at the Trust for each of the relevant domains:

Domain	Significant risk identified?
Financial sustainability	No significant risk identified.
Governance	No significant risk identified.
Improving economy, efficiency and effectiveness	No significant risk identified.

As a result of our risk assessment, we have not identified any significant risks at this stage. Details of our findings for the three domains can be found on the following pages.

We have identified a number of other recommendations and points for improvement within our risk assessment. These are all detailed in Appendix 1.

VfM risk assessment

We note that management's responses to our initial VfM risk assessment requests were delayed due to a number of competing pressures being experienced by the finance team. An introductory meeting took place during November 2023 but we were informed that the Council was still supporting the audit of the 2022/23 accounts and so the team would be unable to undertake responses to the initial VFM questions. Although an initial management questionnaire response was submitted in September 2024, further information was requested. This was delayed due to the team being focused on budget setting for 2024/25, the implementation of a new finance system and responding to the audit of the 2023/24 accounts.

The initial completed questionnaire was also lacking detailed responses in some areas and was primarily focused on financial performance. We raised our concerns with the Chief Executive and the s151 Officer and subsequent meetings were then arranged, further detailed information was provided, thus enabling us to conclude the VfM risk assessment.

Going forward, we recommend a named individual is assigned ownership of the VfM work within the Council. Their role would include oversight of the completeness of the VfM management questionnaire, collation of supporting documentation, liaison across the Council directorates to give a balanced perspective of arrangements in place, and act as the point of contact for the audit team. Recommendation 1 (Appendix 1).

Value for money arrangements

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Financial sustainability

In assessing whether there was a significant risk of financial sustainability we reviewed:

- The processes for setting the 2023/24 financial plan to ensure that it is achievable and based on realistic assumptions;
- How the 2023/24 efficiency plan was developed and monitoring of delivery against the requirements;
- Processes for ensuring consistency between the financial plan set for 2023/24 and the workforce and operational plans;
- The process for assessing risks to financial sustainability;
- Processes in place for managing identified financial sustainability risks; and;
- Performance for the year to date against the financial plan

Summary of risk assessment

The budget setting process is a rolling process as part of the medium-term financial plan, this usually starts in the autumn of the previous year. For 2023/24, the preparation of the budget began in October 2022 with draft budgets approved in January 2023. A detailed timetable is agreed by Executive and Council to ensure appropriate scrutiny and challenge can occur throughout the process.

Budgets are initially prepared at a service level with budget holders producing initial expectations of requirements using their knowledge of the directorate through ongoing budget planning meetings. This is then presented to the Finance team for challenge of assumptions. Individual budget lines are analysed by finance looking at the previous three years to establish trends which are then discussed with budget holders to ensure pressures or potential savings are identified at an early stage. These savings are then incorporated into the plan. Our discussions with finance team and services identified that detailed analysis on both demographic pressures and inflationary pressures for each directorate are considered during the initial budget preparation stage. Communications take place prior to setting the budgets to allow review and challenge of any assumptions. The Budget Joint Scrutiny Overview and Scrutiny Committee provide cross party challenge of the budget and budget proposal.

Financial Performance is reported to the Finance and Economic Overview and Scrutiny Committee ahead of reporting to Cabinet on a quarterly basis. Forecasts are developed with budget holders using year to date performance and commitments to help inform the forecasting. The Finance team meet with budget holders to agree forecast outturn positions these are then agreed with Directors. These are detailed through the quarterly monitoring reports. The overall position is then presented to the S151 Officer for agreement prior to reporting to Members.

For 2023-24, the Council set a balanced budget, with a planned use of £1,534k from the Budget Stabilisation Reserve. Throughout the year there were lower than expected adjustments to budget however the Council ultimately reported a net underspend of £1,958k against the adjusted budget with no need to use the Budget Stabilisation Reserve. The key drivers of these positive movements in the forecast were an underspend on Utilities (£757k) and Fuel (£173k) driven by lower than expected increases and improved investment income (£832k) due to higher interest rates. Overall, the Council is expecting closing General Fund reserves of £25.3m, which is above the Council’s stated prudent minimum.

Value for money arrangements

Financial sustainability

In assessing whether there was a significant risk of financial sustainability we reviewed:

- The processes for setting the 2023/24 financial plan to ensure that it is achievable and based on realistic assumptions;
- How the 2023/24 efficiency plan was developed and monitoring of delivery against the requirements;
- Processes for ensuring consistency between the financial plan set for 2023/24 and the workforce and operational plans;
- The process for assessing risks to financial sustainability;
- Processes in place for managing identified financial sustainability risks; and;
- Performance for the year to date against the financial plan

The Council's budget for 2023-24 included the requirement to deliver savings of £600k. Savings plans are developed as part of the overall budget setting process and therefore encounter the same levels of challenge, scrutiny and approval as the budget. Actions were identified where there were risks in financial performance for each service through the year. Savings are not separately reported but key savings identified in year are detailed in the reporting on significant variances to budget, for example, as a result of the corporate restructure. This demonstrates the Council's arrangements are operating effectively however we have raised a recommendation in relation to savings. There will be increased financial pressures in 2024/25 with a focus on achieving specific savings therefore we recommend management consider separately monitoring achievements against savings targets as part of quarterly financial reporting (Recommendation 2 in Appendix 1).

Under the medium-term financial plan, the Council has identified outstanding savings total for 2024/25 and 2025/26. Overall, as per the Corporate plan to 2027, the Council has identified a savings requirement of £1.15m. The objectives of the corporate plan, including key capital projects, are identified within the budget setting process to ensure consistency.

The Council's Risk Management Policy details a clear process and reporting structure in how the entity is to respond and manage risks. Various risks relating to financial sustainability have been identified by the Council including risks related to future financial deficits, continued inflationary pressures and requirement for borrowing to fund capital projects. Actions identified to mitigate these include regular monitoring of overspend and use of sensitivity to identify worst case scenarios for inflation. The Council has also identified savings plans and is modelling the impact of any borrowing that might be undertaken.

The Council continues to support its wholly owned subsidiary Leisure SK Ltd. Leisure SK was in a deficit position through 2023/24 due to increased staff costs, utilities and an issue around irrecoverable VAT. In January 2024 subsidiary management requested an additional contribution from the Council of £273k. This was brought to the Culture and Leisure Overview and Scrutiny Committee in January 2024 and approved by Cabinet in February 2024. As part of this decision, Cabinet requested management prepare a viable financial plan for 2024/25 that would put the company on a sustainable footing, this would then undergo an independent review. We have identified a recommendation in relation to Leisure SK, to ensure the Council has appropriate oversight of the subsidiary to avoid unplanned financial contributions. This could include training for Directors appointed to Leisure SK board from the Council members. (Recommendation 3 in Appendix 1).

Risk assessment conclusion

Based on the risk assessment procedures performed to date, we have not identified a significant risk associated with financial sustainability.

Value for money arrangements

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Governance

In assessing whether there was a significant risk relating to governance we reviewed:

- Processes for the identification, monitoring and management of risk;
- Controls in place to prevent and detect fraud;
- The review and approval of the 2023/24 financial plan by the Authority, including how financial risks were communicated;
- Processes for monitoring performance against budgets and taking actions in response to adverse variances;
- How compliance with laws and regulations is monitored;
- Processes in place to monitor officer compliance with expected standards of behaviour, including recording of interests, gifts and hospitality; and
- How the Authority ensures decisions receive appropriate scrutiny.

Summary of risk assessment

- Risks are identified in line with the Council's Risk Management Strategy. There are several levels of risk management identified - Strategic, Service and Project – and these are monitored through regular review by the register owners, Corporate Management Team (CMT), Heads of Service and Governance and Risk Officer. Assessing the impact and likelihood of each risk is done through a matrix which uses a likelihood/impact model to calculate a risk score. The score is assigned as per the strategy guidance. Challenge comes through a range of officer involvement through project boards. Support is also bought in from the Risk Management Group as required to provide further support and challenge.
- The Strategic risk register is presented to Governance and Audit Committee twice a year for review. As at 31 March 2024, there were 15 risks contained within the strategic risk register; 12 were rated high (almost certain/critical) and 3 were rated medium (probable/major). The development of actions is completed using the risk management framework guidance. Actions use the Treat, Tolerate, Transfer, Terminate matrix to evaluate responses to the risk depending on the severity and likelihood. Monitoring is undertaken through either project management teams or boards. When reported to Governance and Audit committee, members are asked to consider the register and report any comments/issues to CMT and Cabinet who also receive the register. Committee reports for all key decisions are mandated to set out the key risk associated with the proposed decision.
- The Council undertake a number of measures to prevent and detect fraud. There is a Counter Fraud policy and strategy which complies with the requirements of the Code, this sets out key actions for the Council to ensure compliance. We note a review is currently underway of the policy and strategy. The Council also receives assurance through the work of internal audit, and all staff are required to complete the e-learning on fraud which is held centrally. An annual fraud report is presented to the Governance and Audit Committee including the counter fraud action plan and fraud risk register.
- The 2023/24 financial plan, as part of the medium-term financial plan, went through several levels of review prior to approval by the Council in March 2023. The financial plan includes a risk assessment of the key financial risks that the Council faces over the period. These risks are modelled to include increased utility and fuel costs, impact of national pay award, changes to council tax base, business rates base, interest rates etc. The analysis identifies a likelihood percentage and risk value amount, with a worst-case scenario impact on the current reserves.

Value for money arrangements

Governance

In assessing whether there was a significant risk relating to governance we reviewed:

- Processes for the identification, monitoring and management of risk;
- Controls in place to prevent and detect fraud;
- The review and approval of the 2023/24 financial plan by the Authority, including how financial risks were communicated;
- Processes for monitoring performance against budgets and taking actions in response to adverse variances;
- How compliance with laws and regulations is monitored;
- Processes in place to monitor officer compliance with expected standards of behaviour, including recording of interests, gifts and hospitality; and
- How the Authority ensures decisions receive appropriate scrutiny.

- Financial performance is monitored against budget regularly as outlined in the Financial Sustainability section. As part of reporting to Overview and Scrutiny Committee, variances against budget are clearly identified and explained. Any mitigating actions are also identified. During 2023/24 the Council has been able to manage increases in costs with increased investment income and car park income to mitigate the need for using the Budget Stabilisation Reserve.
- The Monitoring Officer is responsible for monitoring compliance with all relevant/applicable legal requirements. All Executive reports are subject to mandatory consultation with the Chief Executive, Section 151 Officer and Monitoring Officer. Where required Executive Reports are supported by Equality Impact Assessments. Management inquiries have confirmed there have been no breaches of legislation or regulatory standards that has led to an investigation by any legal or regulatory body during the year.
- The Council's Code of Conduct communicates values and expected behaviours of staff and Council members, this is covered through the Code of Conduct and Disciplinary Policy. This is communicated to staff as part of the recruitment process and is available on the staff intranet. This also covers requirements with regard to gifts and hospitality and the register of interests. There are a number of other policies available to view on the Council's website as well as the Constitution which details the Terms of Reference for each committee and the responsibilities of key officers.
- We reviewed a number of key decisions made by the Council in year to assess the effectiveness of the arrangements in place. Key decision making is subject to discussion and scrutiny at executive team level and relevant sub-committees such as Governance and Audit and Overview and Scrutiny, followed by formal approval by the Council. All key decision records are available to view on the Council's website.
- One such decision was to sell land at St Martin's Park. The Council purchased this land in 2019 as part of it's economic development strategy. A demolition programme commenced in 2022 to remove the former factory on the site. This identified significantly higher levels of remediation work than initially planned for and as a result the costs of restoring the site was seen as a financial risk. In October 2023, the Council engaged an independent Valuer to perform an options appraisal of the project. These were presented to the Finance and Economic Overview and Scrutiny Committee in January 2024 and recommendations were sent to Cabinet for approval in February 2024.

Value for money arrangements

Governance

In assessing whether there was a significant risk relating to governance we reviewed:

- Processes for the identification, monitoring and management of risk;
- Controls in place to prevent and detect fraud;
- The review and approval of the 2023/24 financial plan by the Authority, including how financial risks were communicated;
- Processes for monitoring performance against budgets and taking actions in response to adverse variances;
- How compliance with laws and regulations is monitored;
- Processes in place to monitor officer compliance with expected standards of behaviour, including recording of interests, gifts and hospitality; and
- How the Authority ensures decisions receive appropriate scrutiny.

- The decision was taken by the Council to proceed with the disposal of the land and a number of actions were agreed to ensure the overall project would be delivered. This would help mitigate the deficit on the project. We have identified a recommendation for management to undertake a 'lessons learnt' exercise following the sale of the land focusing on the need for completing appropriate due diligence for similar transactions. (Recommendation 4 in Appendix 1).
- The Council had also made key decisions in year in relation to new IT projects with a new Housing and Finance system due to be introduced in year.
  - From inquiries with the housing team we confirmed there was a project plan in place for the delivery of the project, with weekly meetings to ensure actions on each area were progressing. The go-live date for this project was January 2024 and no significant issues were identified in the initial roll-out. Some issues were noted in relation to the reporting from the system and this was one of the contributing factors in the delay in production of the Council's statement of accounts.
  - The Council had planned to implement a new finance system from April 2024, however a decision was made to postpone this to April 2025 due to changes in key finance team members, to enable the Council to engage specialist support for the roll-out to mitigate any risks. It is also a lower risk if a new system is implemented at the commencement of the new financial year. The Council extended the software licence for its existing finance system and the additional cost was approved as part of the 2024/25 budget. We recommend the Council ensures there is appropriate project management in place to introduce the new finance system for the planned April 2025 go-live and avoid any further delay and associated cost (recommendation 5 in Appendix 1).
- During the year, there have been some changes in senior staffing. The Interim Director of Housing left in October 2023, with the Chief Executive taking on this role until March when the Deputy s151 officer at the time seconded to the Housing role. An interim replacement was appointed to the Deputy s151 role. The Council has subsequently confirmed the Housing Director position and a permanent replacement for s151 has been agreed.
- The change in the finance team impacted on the production of the draft annual statement of accounts, and they were published in September 2024 rather than the planned May 2024 deadline. We recommend management review the accounts production processes and timetable for 2024/25 to ensure they have necessary capacity to meet the regulatory deadline and reporting timetable (Recommendation 6 in Appendix 1).

Risk assessment conclusion

Based on the risk assessment procedures performed to date, we have not identified a significant risk associated with governance.

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Value for money arrangements

Improving economy, efficiency and effectiveness

In assessing whether there was a significant risk relating to improving economy, efficiency and effectiveness we reviewed:

- The processes in place for assessing the level of value for money being achieved and where there are opportunities for these to be improved;
- How the performance of services is monitored and actions identified in response to areas of poor performance;
- How the Council has engaged with other stakeholder and wider partners in development of the organisation;
- How the performance of those partnerships is monitored and reported; and
- The monitoring of outsourced services to verify that they are delivering expected standards.

Summary of risk assessment

- We note that the Council takes part in national benchmarking exercises but does not routinely use benchmarking in reviewing performance. The Council does have processes in place to support it in using information about costs, through financial monitoring, and performance to improve the way services are managed and delivered, with a focus on the level of value for money being achieved. This is reported quarterly through Overview and Scrutiny Committee and Cabinet.
- The Council reviews its corporate performance measures as part of the three-year Corporate Plan through a target setting process. The process is co-ordinated by the Corporate Management team, with input from all directorates. Target setting incorporates benchmarking, assessment of local conditions, and national indicators/reporting requirements.
- The Council's performance framework is driven by the Corporate Plan priorities: Healthy & Strong Communities, Growth & Our economy and High Performing Council. The most recent performance reports is that for Q4, with monitoring of actions split across the different Overview and Scrutiny Committees. The Finance and Economic committee had 22 actions. Of those within Council control, 17 had been achieved and 1 was outstanding – this related to investment in new leisure centres. For those deemed either substantially or significantly outside Council control 1 had been achieved and 3 were outstanding – these related to delivery of St Martin's Park development scheme, opening of the University Centre in Grantham and the opening of the Grantham Southern relief road.
- The Finance and Economic Overview and Scrutiny committee also reviews financial performance on a quarterly basis and this covers key services, helping to identify any services off target and what actions are being taken to address/mitigate the financial risks. Quarterly reports are also presented to the Cabinet.
- The Council has a number of key partnerships to help deliver support and services, such as the Building Control Partnership with Newark and Sherwood District Council and Rushcliffe Borough Council, where a partnership agreement is in place and performance is monitored through this arrangement. The council also has an collaboration agreement in place with Burghley Land Ltd in relation to the land at St Martin's park. There is a partnership policy that details the governance framework for partnership working and all partnerships are recorded in the partnerships register held by Governance team. Monitoring is performed through reporting through relevant Overview and Scrutiny committees.

Value for money arrangements

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Improving economy, efficiency and effectiveness

In assessing whether there was a significant risk relating to improving economy, efficiency and effectiveness we reviewed:

- The processes in place for assessing the level of value for money being achieved and where there are opportunities for these to be improved;
- How the performance of services is monitored and actions identified in response to areas of poor performance;
- How the Council has engaged with other stakeholder and wider partners in development of the organisation;
- How the performance of those partnerships is monitored and reported; and
- The monitoring of outsourced services to verify that they are delivering expected standards.

- The Council engages with key stakeholders to help develop the Council as an organisation. There have been numerous consultation with the public around Community Governance in year and Council tax and rate payers were consulted on proposed changes. In preparing the Council's Corporate Plan, residents are encouraged to comment on the Council's priorities, for example in relation to sustainability. Response rates are published in the plan and the 2023/24 narrative report to the accounts.
- The Council has robust arrangements in place to deal with residents' complaints, FOI requests, Subject Access Requests, data breaches and whistleblowing allegations. The Council also engages with other local partners such as Legal Services Lincolnshire, Lincolnshire Police, Lincolnshire County Council. We note there has been no outsourcing of services in year.

Risk assessment conclusion

Based on the risk assessment procedures performed to date, we have not identified a significant risk associated with improving economy, efficiency and effectiveness.

Recommendations

We raised the following recommendations as part our value for money risk assessment procedures.

#	Recommendation	Management Response
1	**Management response to VfM** We note that managements response to our initial VfM risk assessment requests was significantly delayed – the process was initially started in November 2023 but we were only able to start our detailed review from October 2024 onwards due to delayed receipt of the completed management questionnaire and supporting documentation. The completed questionnaire was also was lacking sufficient detail, in-depth responses and was focused on financial performance. Thus, the opportunity for the Council to promote itself and share insight on good examples of VFM arrangements was lost somewhat. We recommend a named individual is assigned ownership of the VfM work within the Council. Their role would include oversight of the completeness of the VfM management questionnaire, collation of supporting documentation, liaison across the Council directorates to give a balanced perspective of arrangements in place, and act as the point of contact for the audit team.	Response: The Council's s151 Officer will be the primary contact for receiving and coordinating the response to the VFM and liaising with colleagues to ensure a comprehensive response. Officer responsible: s151 Officer Action Date: April 2025
2	**Reporting on financial savings** We recognise that there will be significant financial pressures in future years due to cost pressures and we expect the Council will have a greater focus on achieving specific savings to meet its financial targets, as identified in the Corporate plan. Currently we note that while savings are highlighted within quarterly financial reporting, achievement is not separately reported against savings plans. We recommend management consider separately monitoring achievements against savings targets as part of quarterly financial reporting to better understand the effectiveness of Council's savings plans.	Response: There is currently no savings built into the 2024/25 budget framework. However, should there be savings built into future budgets, then appropriate monitoring will be put in place. Officer responsible: s151 Officer Action Date: n/a
3	**Leisure SK Ltd** The Council as parent company has overall responsibility for the governance and performance of its subsidiary Leisure SK. Due to Leisure SK's financial difficulties in recent years, its management had to request additional unplanned contribution from the Council for 23/24. We note that Leisure SK also had significant changes in its Board of Directors through the year with a number of directors resigning and being replaced. We recommend the Council takes measures to ensure it has appropriate oversight of the subsidiary to avoid unplanned financial contributions and become help the company become financially sustainable. This could include tailored training for Directors appointed to Leisure SK board (from Council members) to improve their understanding of the company's financial position and performance.	Response: An action plan has already been put in place following the request for additional funding to further strengthen the governance and financial controls. Officer responsible: s151 Officer Action Date: January 2025

Recommendations

We raised the following recommendations as part our value for money risk assessment procedures.

#	Recommendation	Management Response
4	**St Martin's Park land purchase** The purchase of the land at St Martin's Park in 2019 and subsequent identification of unplanned remediation costs posed a significant financial impact to the Council. The Council engaged external independent commercial assets consultants to detail options on the way forward to ensure the project was delivered and would meet the agreed objectives, including the mitigation of the deficit on the project. These were presented to the Council in February 24 and actions agreed. We recommend management undertake a 'lessons learnt' exercise following the sale of the land at St Martin's Park, focusing on the need for completing appropriate due diligence for similar transactions.	Response: A lessons learnt report will be undertaken once the project has been successfully completed. Officer responsible: s151 Officer Action date: June 2025
5	**Implementation of new finance system** The Council made the decision in year to delay the introduction of a new finance system (Unit 4) and have proposed a go-live date in April 2025. This will be a significant piece of work at a time when there have been changes in senior staff. We recommend the Council ensures there is appropriate project management in place to introduce the new finance system for the planned April 2025 date and avoid any further delay and associated cost.	Response: Robust project management is already in place and the Council has further strengthened this by engaging with an external project management consultancy firm to ensure successful system implementation of April 2025. Officer responsible: s151 Officer Action date: January 2025
6	**Accounts preparation** The change in the finance team impacted on the production of the annual statement of accounts for 2023/24, and they were published in draft in September 2024 rather than the planned May 2024 deadline. We recommend management review the accounts production processes and timetable for 2024/25 to ensure they have necessary capacity to meet the regulatory deadline and reporting timetable	Response: The timetabling and resource allocation for the closure and preparation of the draft 2024/25 accounts is already in place and interim support has also been implemented. Officer responsible: s151 Officer Action date: January 2025

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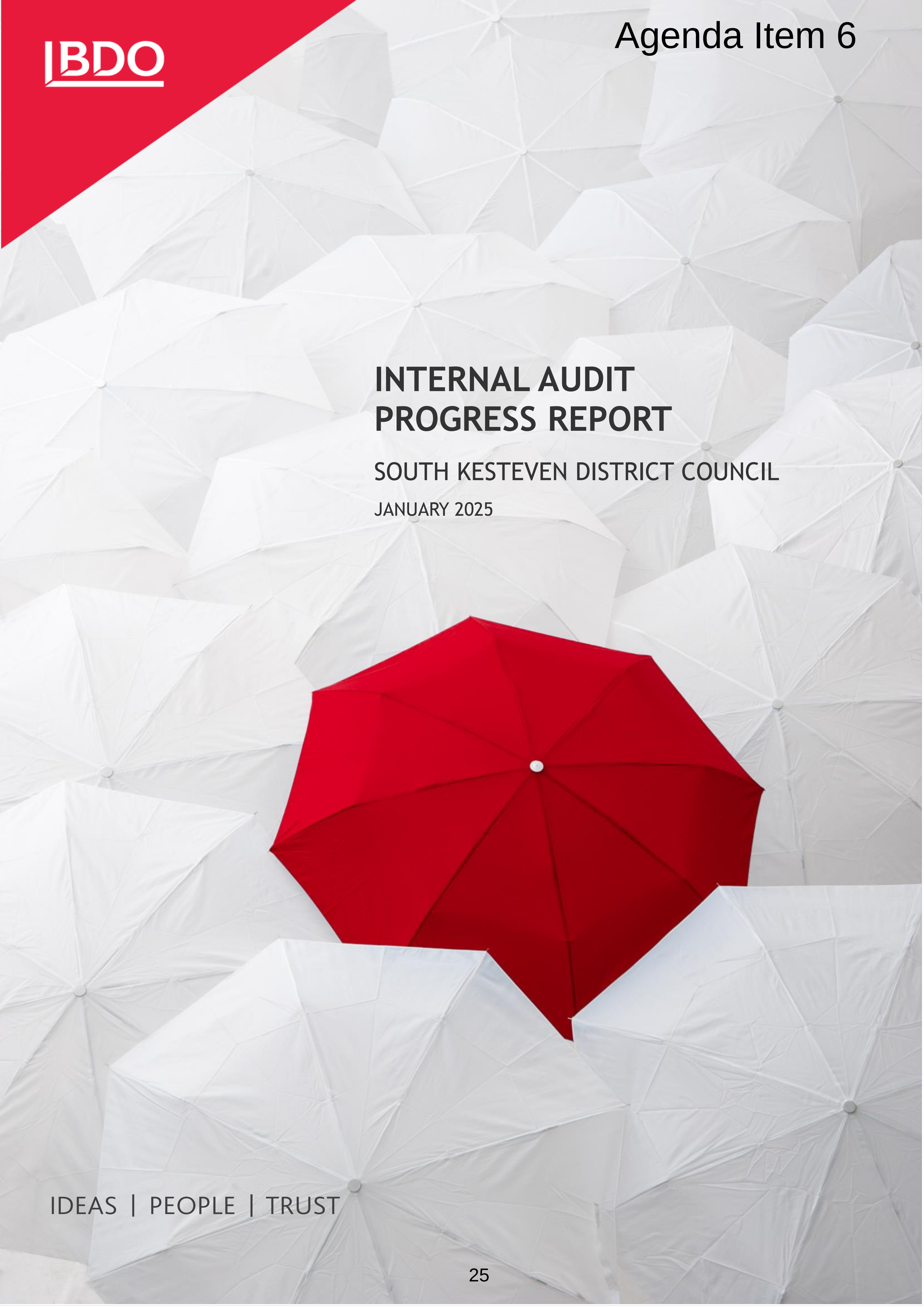
Agenda Item 6



INTERNAL AUDIT PROGRESS REPORT

SOUTH KESTEVEN DISTRICT COUNCIL

JANUARY 2025

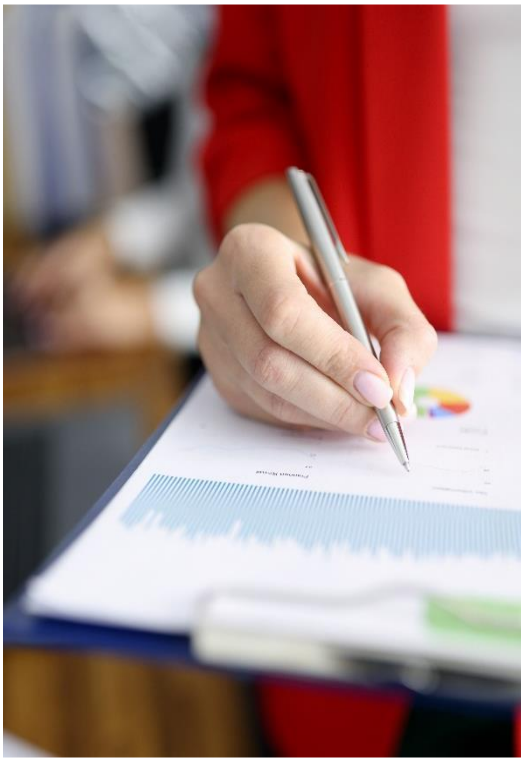
IDEAS | PEOPLE | TRUST

CONTENTS

SUMMARY OFJANUARY 2025/25 WORK

INTERNAL AUDIT

This report is intended to inform the Governance and Audit Committee of progress made against the 2024/25 internal audit plan. It summarises the work we have done, together with our assessment of the systems reviewed and the recommendations we have raised. Our work complies with Public Sector Internal Audit Standards. As part of our audit approach, we have agreed terms of reference for each piece of work with the risk owner, identifying the headline and sub-risks, which have been covered as part of the assignment. This approach is designed to enable us to give assurance on the risk management and internal control processes in place to mitigate the risks identified.



INTERNAL AUDIT METHODOLOGY

Our methodology is based on four assurance levels in respect of our overall conclusion as to the design and operational effectiveness of controls within the system reviewed. The assurance levels are set out in Appendix 1 of this report and are based on us giving either ‘substantial’, ‘moderate’, ‘limited’ or ‘no’. The four assurance levels are designed to ensure that the opinion given does not gravitate to a ‘satisfactory’ or middle band grading. Under any system we are required to make a judgement when making our overall assessment.

JANUARY 2025/25 INTERNAL AUDIT PLAN

We have made good progress in the delivery of theJANUARY 2025/25 audit plan.

We have completed and are pleased to present the following final report to this Governance and Audit Committee meeting:

- Council Tax and NNDR.

Planning is underway in respect of the following audits:

- Data Protection and Freedom of Information (FOI), Environment Information Regulations (EIR) and Subject Access Requests (SAR)

We anticipate presenting this final report at the next Governance and Audit Committee meeting.

CHANGES TO THE 2024/25 INTERNAL AUDIT PLAN

Due to the changes in the transition date of the Council’s financial management system, we propose the Main Financial Systems audit planned for Q4 2024/25 be moved to Q3 2025/26. The Main Financial Systems audit will be delivered in Q3 2025/26, focusing on the effectiveness and efficiency of the new system that is being implemented.

This proposal has been discussed with the Senior Leadership team.

REVIEW OF JANUARY 2025/25 WORK

AUDIT	EXEC LEAD	GOVERNANACE AND AUDIT COMMITTEE	PLANNING	FIELD WORK	REPORTING	DESIGN	EFFECTIVENESS
Staffing Capacity and Capability	Fran Beckitt	24 September 2024	✓	✓	✓	M	S
Social Housing Decarbonisation Fund	Alison Hall-Wright	24 September 2024	✓	✓	✓	M	M
Art Council Grant Review (3rd party assurance)	Richard Wyles	24 September 2024	✓	✓	✓	N/A	N/A
Homelessness	Alison Hall-Wright	27 November 2024	✓	✓	✓	M	M
Income Generation	Paul Sutton	27 November 2024	✓	✓	✓	S	M
Business Continuity and Disaster Recovery	Alison Hall-Wright	27 November 2024	✓	✓	✓	M	M
Council Tax and NNDR	Richard Wyles	22 January 2025	✓	✓	✓	S	M
~~Main Financial Systems~~	Paul Sutton	19 March 2025	✓				
Data Protection and FOI, EIR and SAR	Graham Watts	19 March 2025	✓				

COUNCIL TAX AND NNDR

SRR REFERENCE: 4 - INEFFECTIVE FINANCIAL MANAGEMENT

Design Opinion	S	Substantial	Design Effectiveness	M	Moderate
Recommendations	0	1	1		

SCOPE

BACKGROUND

- South Kesteven District Council (the Council) are responsible for setting, billing, and recovering council tax and national non-domestic rates (NNDR) within its jurisdiction. These revenue streams are crucial for funding local services and ensuring financial stability. All residential properties are allocated to a council tax band between band A-H, set by the Valuation Office Agency (VOA) and the Council charge an annual council tax fee for each band. Discounts and exemptions are available to qualifying residents, based on national legislation and local discretionary powers. For example, single person discount, student exemption, etc.
- The Council receive NNDR, also known as business rates, from commercial properties. Business rates are a tax on the occupation of non-domestic properties like shops, offices, pubs, warehouses, and factories. The VOA calculates a rateable value for each commercial property every three years. To calculate an occupier's business rates liability a multiplier is applied to the rateable value. For properties with a rateable value over £51,000 the higher multiplier of 54.6% is used and for properties below £51,000 the lower multiplier of 49.9% is used. In the Autumn Budget, the Chancellor announced that for 2025/26, the lower multiplier will remain stable, but the higher multiplier will increase to 55.5%. The Retail, Hospitality and Leisure relief scheme will be extended for one year for 2025/26, retaining the existing eligibility criteria but reducing the level of relief to 40%, up to a cap of £110,000 per business.
- Council tax and business rates are managed on the NEC (Northgate) Revenues and Benefits system. It recently launched the Citizens Access Revenue portal; an online self-service portal for residents to register, view their bills and pay their council tax, as well as apply for and register for discounts and exemptions to improve efficiency and accessibility of council tax management for residents.
- In 2023/24, the Council collected £98.02m in council tax representing a collection rate of 98.4%, and £39.81m in business rates at a collection rate of 99.1%, surpassing its collection rate target of 97.9%. We have provided further details on the collection performance against other local authorities in Lincolnshire in the 'Added Value' section of this report.

PURPOSE

- The purpose of the audit was to provide assurance on the effectiveness of procedures for setting, billing and recovering council tax and NNDR, and to review the newly implemented Citizens Access Revenue portal to determine whether the portal has met its intended purpose of assisting residents to manage council tax.

AREAS REVIEWED

As part of the scope of this audit the following areas were reviewed:

- The Council's policies and procedures for managing council tax and NNDR, including the Council Tax Reduction Scheme, to verify whether these have been reviewed and approved in a timely manner. We also assessed whether these clearly outlined the procedures for billing and collecting council tax and NNDR and recovering outstanding payments from customers.

- The Revenues team have an Annual Billing Plan to coordinate its activities during the billing period, to ensure that annual bills are issued in a timely manner prior to the start of the financial year. The plan identifies lessons learnt from the prior year's billing process to support improvements in the service.
- The process for identifying and billing new properties and occupants, including verification of VOA banding, billing accuracy, and timeliness of new account setup.
- The Senior Recovery Officer performs a weekly reconciliation between the rateable values and banding of properties on the VOA's listing and the Northgate system to confirm that properties are accurately recorded in the system.
- Ten council tax and NNDR (20 in total) accounts for new properties/occupiers set up between August 2023 and September 2024 to assess whether:
    - The property had been given the correct banding, per the VOA records
    - The occupier had been billed accurately and in a timely manner
    - Payments had been received from occupiers for council tax and NNDR liabilities.
- The implementation and operation of the Citizens Access Portal, including user authentication controls, how the system integrates with other systems, and how it is used for performance monitoring against targets.
- The Council's debt recovery processes, including the annual recovery timetable, enforcement actions, and monitoring of recovery performance.
- Ten accounts in arrears for council tax and NNDR (five for each) to assess whether adequate debt recovery activity had taken place. Our sample focused on larger and longer overdue debts.
- Ten debts written off between September 2023 and July 2024 to assess whether these were approved in accordance with the Scheme of Delegations and followed the write-off procedures.
- Performance monitoring and reporting arrangements, including collection reporting in the Recovery Matters newsletters monthly finance updates to Portfolio Holder and quarterly collection rates reporting to the Finance and Economic Overview and Scrutiny Committee. We assessed whether the reports were robust and clear over the collection performance to support effective scrutiny and monitoring.
- Walkthrough of the Northgate system with key staff to assess the adequacy of automatic controls within the system to calculate and bill customers.

AREAS OF STRENGTH

We identified the following areas of good practice:

Procedures and Billing

- The Council has a comprehensive policy framework for revenue collection, demonstrating robust governance arrangements and processes for council tax and NNDR. The procedure notes provided clear guidance to staff responsible for processing bills and collecting income and were updated yearly.

Citizens Access Portal

- The Citizens Access Portal was implemented in November 2023 and there has been a steady growth in user registration and use of e-billing (87.9% of registered users have selected this option). There were robust authentication controls requiring users to provide a minimum of two forms of identification to register, including their property's postcode, the three last digits of their phone number and their council tax account number before creating a username and password. The portal also integrates with Northgate on a real-time basis which has reduced the response times to customer queries.
- The Council have created a set of user-friendly guides, with screenshots of each screen on the portal, to help customers navigate the system. To support proactive engagement with customers, a formal consultation with users has been scheduled

for February 2025 to obtain feedback from customers for further improvements to the portal.

Debt Recovery and Write-Off

- The Council have effective debt recovery processes built on a structured annual timetable with clear progression stages, systematic enforcement actions, and appropriate monitoring by senior staff. This is supported by comprehensive system records.
- We reviewed a sample of ten debts and identified that adequate actions had been taken, in accordance with the Council's procedures, to escalate and recover the debts. The full amount had been recovered in three cases and reminders (or further escalation) had been issued in the other seven cases.
- The Council has introduced arrears reduction targets for 2024/25, to reduce council tax and NNDR arrears by 40% and 50% respectively. It has reduced their council tax arrears by 31% and business rate by 39.2% in the year up to September 2024 and is performing in line with the targets set. This is due to the automation of processes and procedures through the implementation of the Client Access Portal which has reduced service turnaround time and provided timely notification of residents.
- There was a separation of duties for writing off aged council tax and NNDR debts, with different staff proposing, authorising and actioning the write-offs. This reduces the risk of debts being inappropriately or fraudulently written off. The authorisation levels were based on thresholds, set out in the Council's Scheme of Delegations.

Reporting

- Council tax and NNDR collection performance monitoring was robust, with detailed monthly reporting through multiple channels including Recovery Matters newsletter, updates to the S151 Officer, and to the Finance and Economic Overview and Scrutiny Committee. The Council had high collection rates, ranking second highest in Lincolnshire for 2023/24 for council tax at 98.4% and the highest for NNDR at 99.1%.

AREAS OF CONCERN

Finding	Recommendation and Management Response
There were delays in processing debts to be written off, up to 210 days in some instances, despite a monthly process for writing off debts and a business rate case written off has no documentary evidence to support consultation with Cabinet Member for Finance. Extended delays in processing write-offs could result in Council not being able to demonstrate transparency and accountability in managing its financial processes, while gaps in documentary evidence could impact the Council's ability to evidence appropriate decision making (Finding 1 - Medium).	A. The Head of Revenues, Benefits, Customer and Community should update the debt write off procedures with a clear timescale by which debts should be authorised once they have been proposed for a write-off. B. The Head of Revenues, Benefits, Customer and Community should implement a centralised document management system within the Revenues team for write-off authorisation, with clear tracking to ensure all supporting documentation is properly stored and easily retrievable for audit purposes. Management Response A. Write offs for individual debts that exceed the £25k threshold will be reported to the Cabinet Member for Finance in accordance with the Scheme of Delegation. The write off procedure will be as follows:

	• Write off spreadsheet to be updated by proposing officers during the month as required • All write offs to be authorised and actioned within 90 days • Quarterly write off report to be issued to the Cabinet Member for Finance B. This is already in place with a centralised folder on the SK network which includes the write off spreadsheet and email confirming authorisation <u>Responsible Officer and Implementation date</u> Head of Revenues, Benefits, Customer and Community 7 January 2025 7 January 2025

CONCLUSION

We conclude that the Council has a Substantial design of controls and Moderate effectiveness of controls for the setting, billing and recovering council tax and NNDR.

<u>Control Design</u>

The control design is Substantial as the Council has a robust system of internal controls designed to achieve its objectives. There were clear policies in place to outline discounts and reductions that can be applied and procedures to support the consistent processing of applications. Similarly, there were robust policies for writing off council tax and NNDR debts, although these were not always followed.

The Council has implemented the Citizens Access Portal to streamline the process for amending council tax and NNDR accounts, applying for discounts, paying bills, etc. This has enabled occupiers to easily self-amend details, reducing the time for processing changes and improve Council collection rate through timely and instant notification.

<u>Control Effectiveness</u>

The control effectiveness is Moderate as there was evidence of non-compliance with some controls that may put some of the system objectives at risk.

There were significant delays in writing council tax and NNDR debts off, once they had been proposed for a write off and new bills not being issued to new occupiers in a timely manner. The Council have some resource challenges in its Enforcement team and have failed to fill the vacant Visiting Officer roles which could impact its enforcement activity. However, our benchmarking to other local authorities in Lincolnshire identified that the Council were among the highest performing for council tax and NNDR collection. This indicates that despite the resource challenges, it continues to have effective arrangements for collecting income.

SECTOR UPDATE

Our quarterly Local Government briefing summarises recent publications and emerging issues relevant to local authority providers that may be of interest to your organisation. It is intended to provide a snapshot of current issues for Senior management and Members.

THE RULES GOVERNING PUBLIC PROCUREMENT ARE CHANGING - THE NEW PROCUREMENT ACT INTRODUCES SEVERAL KEY BENEFITS WHICH ARE DUE TO GO LIVE ON MONDAY 24 FEBRUARY 2025

One in every three pounds of public money, some £400 Billion a year, is spent on public procurement.

The reforms proposed within the Procurement Act are important, because they will shake up the outdated procurement system, so that every pound goes further for our communities and public services. They will place value for money, public benefit, transparency and integrity at the heart of then procurement system; they will modernise and unify systems and processes; and they will get tough on the poor performers and fraudsters.

The Act will reform the UK's public procurement regime, making it quicker, simpler, more transparent and better able to meet the UK's needs while remaining compliant with international obligations. It will introduce a new regime that is based on value for money, competition and objective criteria in decision-making. It will create a simpler and more flexible, commercial system that better meets our country's needs. And it will more effectively open public procurement to new entrants such as small businesses and social enterprises so that they can compete for and win more public contracts. It will strengthen the approach to excluding suppliers where there is clear evidence of their involvement in Modern Slavery practices, and running throughout each part of the Bill is the theme of transparency.

In summary, the Transforming Public Procurement programme aims to improve the way public procurement is regulated in order to:

- Create a simpler and more flexible, commercial system that better meets our country's needs while remaining compliant with international obligations
- Open up public procurement to new entrants such as small businesses and social enterprises so that they can compete for and win more public contracts
- Embed transparency throughout the commercial lifecycle so that the spending of taxpayers' money can be properly scrutinised.

The Procurement Bill, which will reform the existing Procurement Rules, has now received Royal Assent. You can view the new Procurement Act on the UK legislation website, and the official record of the Bill's progress through Parliament, with all supporting documents on the Parliamentary website.

https://www.gov.uk/guidance/the-official-transforming-public-procurement-knowledge-drops

FOR INFORMATION

For the Governance and Audit Committee and Executive Directors

BDO: THE NEW WORKER PROTECTION ACT & SEXUAL HARASSMENT IN THE WORKPLACE NEW GLOBAL INTERNAL AUDIT STANDARDS

We explore the introduction of the Worker Protection Act 2023; outlining what the Act is, the intended impact, implications for employers and reasonable steps to addressing the compliance requirements.

We also explore how employers can go beyond compliance to create a psychologically safe and ethical working environment for their people.

The Worker Protection Act 2023 comes into effect in October 2024 and places a legal duty on UK employers to actively prevent and address sexual harassment in the workplace. The Act is an amendment of the 2010 Equality Act and holds employers accountable to "take reasonable steps to prevent sexual harassment of employees in the course of their employment".

Rather than redressing past incidents, the Act will introduce the requirement for employers to take reasonable steps to protect their employees from the occurrence of sexual harassment. This includes when employees are working outside of their normal workplace and at workplace social events which will be considered an extension of the workplace under the Act.

At this time, it isn’t clear what these "reasonable steps" will look like. However, as the guidance will introduce a mandate and onus for organisations to define and embed ethical preventative measures into their workplaces to prevent sexual harassment, it will require the urgent proactive assessment of processes, policies and working practices for many UK employers against the new requirements.

The New Worker Protection Act & sexual harassment in the workplace - BDO

FOR INFORMATION

For the Governance and Audit Committee and Executive Directors

NEW GLOBAL INTERNAL AUDIT STANDARDS AND SUPPORTING CIPFA PUBLICATIONS

In January 2024, the Institute of Internal Auditors (IIA) published the new Global Internal Audit Standards (GIAS) to replace the International Professional Practices Framework with effect from January 2025. This was followed by the publication of the Internal Audit Code of Practice by the Chartered Institute of Internal Auditors in UK in September 2024, applicable to internal auditors in financial services, private and third sectors with effect from January 2025, however, this was not drafted with the public sector in mind.

In December 2024, the Internal Audit Standards Advisory Board (IASAB) published Application Note Global Internal Audit Standards in the UK Public Sector. This, together with the GIAS, comprises the “Public Sector GIAS”, which will replace the current Public Sector Internal Audit Standards from 1 April 2025. The Application Note sets out the expectations of internal audit providers and chief audit executives under the new standards. Auditors working in the UK public sector must follow the requirements of the GIAS subject to the interpretations and additional requirements set out in the Application Note.

Our existing processes meet the requirements of the new Public Sector GIAS. We will ensure that this is clearly set out in our audit plan for 2025/26 and further reporting to the Council.

In addition, CIPFA has developed a Code of Practice for the Governance of Internal Audit in UK Local Government (the Code) to support local authorities in establishing their internal audit arrangements and providing oversight and support for internal audit. The Code is designed to work alongside the new GIAS and replaces the organisational responsibilities set out in the Statement on the role of the head of internal audit (CIPFA, 2019). It is aimed at those responsible for ensuring effective governance arrangements for internal audit:

- The body or individual charged with governance
- The Audit Committee
- Senior management of the authority, including the statutory officers, head of paid service, monitoring officer and section 151 officer.

Global Internal Audit Standards

Global Internal Audit Standards in the UK Public Sector | CIPFA

Code-of-Practice-for-the-Governance-of-Internal-Audit-in-UK-Local-Government-for-consultation (5).pdf

FOR INFORMATION

For the Governance and Audit Committee and Executive Directors

KEY PERFORMANCE INDICATORS

QUALITY ASSURANCE	KPI	RAG RATING
The auditor attends the necessary, meetings as agreed between the parties at the start of the contract	All meetings attended including Governance and Audit Committee meetings, pre-meetings, individual audit meetings and contract reviews have been attended by either the Partner or Audit Manager.	G
Positive result from any external review	Following an External Quality Assessment by the Institute of Internal Auditors in May 2021, BDO were found to 'generally conform' (the highest rating) to the International Professional Practice Framework and Public Sector Internal Audit Standards.	G

DELIVERY	KPI	RAG RATING
Completion of audit plan	More than 75% of the Plan is completed and the remaining either at fieldwork or reporting stage, representing significant progress and likelihood of full completion of the plan by March 2025.	G

APPENDIX I

OPINION SIGNIFICANCE DEFINITION

LEVEL OF ASSURANCE	DESIGN OPINION	FINDINGS FROM REVIEW	EFFECTIVENESS OPINION	FINDINGS FROM REVIEW
Substantial	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
Moderate	In the main, there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally, a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non-compliance with some controls, that may put some of the system objectives at risk.
Limited	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
No	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non-compliance and/or compliance with inadequate controls.

RECOMMENDATION SIGNIFICANCE DEFINITION

RECOMMENDATION SIGNIFICANCE	
High	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
Medium	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
Low	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.

FOR MORE INFORMATION:

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

SOUTH KESTEVEN DISTRICT COUNCIL

2025/26

Agenda Item 7

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 2025/26

The indicative Internal Audit programme for 2025/26 is set out on pages 8 to 14. We met with the Corporate Management Team on 27 November 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 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 occure in most circumstances >80%

LIKELIHOOD

MAPPING YOUR STRATEGIC RISKS (2/2)

Ref	Strategic Risks from your SRR (continued)	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 occure in most circumstances >80%

LIKELIHOOD

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

Ref	Strategic Risks from your SRR	2025/26	2026/27	2027/28
1	Successful/serious cyber security attack on the Council	• N/A	• Cyber Security	• Data Protection, FOI, EIR and Subject Access Request • Cyber Security
2	Serious safeguarding failure by the Council	• Voids Management	• N/A	• Safeguarding
3	Serious health, safety, and well-being failure by the Council	• Market Services • Voids Management • Building Control	• N/A	• Corporate Health and Safety
4	Ineffective financial management	• Accounts Payable • Payroll • Treasury Management • Main Financial Systems	• Fixed Asset Register • Housing Revenue Account	• Main Financial Systems • Council Tax and NNDR • Income generation
5	Unable to maintain and build quality and consistency in service provision by the Council	• Building Control • Voids Management	• Planning Service Review Action Plan • Parking	• Homelessness • Business Continuity and Disaster Recovery
6	Unable to maintain and build sufficient staffing capacity and capability	• Payroll	• Sickness and Absence management	• Recruitment and Retention
7	Failure to explore digital transformation of Council Services	• IT Strategy	• N/A	• Cyber Security • IT Strategy

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

Ref	Strategic Risks from your SRR	2025/26	2026/27	2027/28
8	Not maintaining and developing fruitful partnerships and collaborations	• Building Control	• N/A	• N/A
9	#TeamSK values/culture are not lived	• N/A	• Equality Diversity and Inclusion	• N/A
10	Unable to meet requirements of new regulations and legislations affecting the Council	• N/A	• N/A	• Housing Benefit • Housing Repairs
11	Not sufficiently engaging with and responding to climate change	• Climate Plan	• Social Housing Decarbonisation Fund (Wave 3)	• Commercial Waste Services, Bins, Street Care and Recycling
12	Not effectively engaging with our key external stakeholders	• N/A	• N/A	• N/A
13	Governance failure	• Performance Management	• N/A	• N/A
14	Significant fraud/theft successfully committed against the Council	• Payroll • Treasury Management	• N/A	• Main Financial Systems • Housing Benefit
15	Unable to effectively respond to political priorities	• Performance Management	• N/A	• N/A

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INTERNAL AUDIT OPERATIONAL PLAN 2025/26 (1/7)

Area	SRR	Days	Timing	Description of the Review	Reason for Inclusion
Core Assurance					
Voids Management	2,3	20	Q1	To review the Council's void property management process to assess efficiency and effectiveness of procedures for returning empty properties back to use. This will include: • Property inspection and void classifications • Contractor scheduling and work scheduling • Quality assurance processes for completed works	Void properties represent a significant loss of rental income for the Council and impact availability of social housing for those in need. Effective void management is crucial for minimising rental income loss. A previous audit by our predecessors provided Limited assurance over the effectiveness of controls particularly around the ineffective management of voids, with properties left empty for extended periods.
Payroll	4,14	20	Q1	To evaluate the effectiveness of payroll controls and system access management by examining: • User access rights and permissions mapping • Segregation of duties in system roles • Super user access monitoring • Interface access controls between HR/Payroll systems • Audit trail monitoring and review	The payroll system contains sensitive personal and financial data and represents significant expenditure for the Council. Therefore, robust controls are needed to limit system access, fraud prevention and maintaining the accuracy of payments to staff.
Treasury Management	4,14	20	Q3	To evaluate the controls over treasury management activities by examining: • Investment decisions and authorisation processes • Counterparty risk assessment and monitoring • Monitor compliance with investment strategy • Accuracy and timeliness of Management reporting • Segregation of duties in investment operations	The Council manages an investment portfolio of c£83M requiring robust controls to protect public funds and ensure compliance with regulatory requirements, especially seeing the increased risks around investment decisions and counterparty exposures due to current economic volatility and interest rate environment.

INTERNAL AUDIT OPERATIONAL PLAN 2025/26 (2/7)

Area	SRR	Days	Timing	Description of the Review	Reason for Inclusion
Core Assurance					
Climate Plan	11	20	Q1	A review of the Climate Reserve to determine how £300,000 allocated was specifically spent and provide assurance over whether this is adequate to meet the councils target of a 30% reduction in carbon emissions by 2030. The review will provide assurance over the progress the Council have made in implementing its Climate Action Plan.	Climate plan and reduction of emissions is a key objective of the Council. The Council declared a climate emergency in September 2019 and has committed to reducing the carbon emissions generated by its operations by at least 30% by 2030. A more ambitions target to be a Net Zero District by 2041. To provide the Governance and Audit Committee with assurance over its progress against these ambitions, we will assess the governance and operational delivery of the Climate Action Plan
Market Services	3	20	Q4	We will review the progress of the Operational Action Plan to improve the Market Service and assess whether sufficient action has been taken against the issues raised. Specifically, we will assess whether appropriate processes have been implemented for fee collections and correct fees and charges are collected for market stalls, the status of the 17 actions that are either not started or in progress as well as operational efficiency of market services	A report on the operational practice of Markets was presented to the Governance and Audit Committee in June 2023, which identified a significant number of issues resulting from inadequate management. These includes; inconsistent fee collection and cash-only payments creating avoidable risks, heavy reliance on casual staff, aged equipment with inadequate maintenance, unauthorised access to Council stores by former employees, health and safety concerns around outdated risk assessments, poor welfare facilities for staff. The report resulted in the production of an action plan to improve procedures.

INTERNAL AUDIT OPERATIONAL PLAN 2025/26 (3/7)

Area	SRR	Days	Timing	Description of the Review	Reason for Inclusion
Core Assurance					
Accounts Payable	14,4	20	Q3	Assess the arrangements to input, amend, record and report accounts payable data including whether the software/procurement methods in place is effective. We will also review a sample of purchases to ensure POs were approved, paid in a timely manner and whether opportunities for efficiencies have been identified.	This is a standard review we include in our annual plan to provide us with assurance required for support our annual opinion.
Building Control	3,5,8	15	Q2	To examine Council's participation and oversight of services delivered through the East Midland Building Consultancy (EMBC) partnership arrangement focusing on: • Partnership governance and performance monitoring • Financial arrangements including fee sharing and cost allocation • Oversight of service quality and customer satisfaction procedures.	Although the Service is delivered through a partnership, the Council retains statutory responsibilities for providing building control services. This review will assess the service delivery and quality, and that local building safety responsibilities are met through our sample testing. There is also growing competition from private approved inspectors which could affect the partnership's viability going forward.

INTERNAL AUDIT OPERATIONAL PLAN 2025/26 (4/7)

Area	SRR	Days	Timing	Description of the Review	Reason for Inclusion
Core Assurance					
Main Financial Systems	4	20	Q3	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: 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: • 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 2025/26 (4/7)

Area	SRR	Days	Timing	Description of the Review	Reason for Inclusion
Soft Controls					
Performance Management	13	20	Q2	Assess the development, agreement and review of Key Performance Indicators (KPIs) to determine alignment with the Councils strategic objectives Assess whether the KPIs are SMART, monitored and progress reported regularly through appropriate scrutiny committees, as well as how the performance information are used for decision-making.	Managing performance is a key part in delivering the ambitions and actions of the Council's Corporate Plan for 2024-27. The Council intends to support the plan through monitoring KPIs and strategic socio-economic indicators.

INTERNAL AUDIT OPERATIONAL PLAN 2025/26 (5/7)

Area	SRR	Days	Timing	Description of the Review	Reason for Inclusion
Future Focussed Assurance					
IT Strategy	1,7	15	Q4	Assess the implementation of the key principles of the Council's IT Strategy: • The ICT platform – this principle aims to ensure that end-to-end interactions are as simple and streamlined as possible as this will create an improved customer experience. • A digital workforce – this principle focuses on enabling our employees to have access to the right tools to do their job and be confident in maximising the use and benefits of technology in daily work.	Seeing the IT Strategy is fundamental to the Council's digital plan, its important to obtain assurance over its delivery, more so it is a core review we include in our annual plan to provide us with assurance required to support our annual opinion.

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INTERNAL AUDIT OPERATIONAL PLAN 2025/26 (6/7)

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	10	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 2025/26 (7/7)

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	155			
Soft controls	Various	20			
Future focused	Various	15			
Flexible resource		10			
Contract management		20			
Total days		**220**			

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.

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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 and Audit Committee

Wednesday, 22 January 2025

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

2025/26 Treasury Management Strategy Statement

Report Author

Paul Sutton, Assistant Director of Finance/Deputy Section 151 Officer

.paul.sutton@southkesteven.gov.uk

Purpose of Report

The Council is required by regulations issued under the Local Government Act 2003 to produce a Treasury Management Statement for each financial year. The draft Statement meets the requirements of the CIPFA Code of Practice on Treasury Management (the Code) and the Prudential Code.

Recommendations

That the Committee recommends to Council that the 2025/26 Treasury Management Strategy Statement be approved.

Decision Information

Does the report contain any exempt or confidential information not for publication?	No
What are the relevant corporate priorities?	Connecting communities Sustainable South Kesteven Enabling economic opportunities Housing 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 All financial implications are considered throughout the report and specifically the Treasury Management Strategy Statement.

Completed by: Richard Wyles, Deputy Chief Executive and s151 Officer

Legal and Governance

1.2 This report provides details of the Council's Treasury Management Strategy Statement which forms part of the Budget and Policy Framework. Members should scrutinise any elements which will assist the role of the Governance and Audit Committee in its review of the Treasury Management Strategy.

Completed by: Graham Watts, Assistant Director (Governance and Public Protection) and Monitoring Officer

Risk and Mitigation

1.3 Risk has been considered as part of this report and any specific high risks are included in the table below:

Category	Actions / Controls
Financial Risk	The treasury strategy has been compiled in conjunction with the Council's treasury advisors and will be monitored by the Committee on a quarterly basis.

Completed by: Tracey Elliott, Governance and Risk Officer

2. Background to the Report

2.1. The CIPFA Treasury Management Code defines treasury management activities 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”.

2.2. The CIPFA Code of Practice for Treasury Management in the Public Services (the “CIPFA Treasury Management Code”) and the CIPFA Prudential Code require local authorities to produce a Treasury Management Strategy Statement (TMSS) on an annual basis.

2.3. The TMSS details the investment and borrowing policies that the Council will follow during 2025/26. The CIPFA code and the Department for Levelling Up, Housing and Communities (DLUHC) statutory guidance also requires the Council to have a policy on non-treasury investments which is included in the Capital Strategy which will be approved by Council on 27 February 2025.

2.4. The TMSS sets out the counterparties that the Council will invest with and the limits that will be invested with each counterparty. These limits are detailed in Appendix 3 of Appendix A.

2.5. The 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.

2.6. Reporting to members is required to be undertaken quarterly. Governance and Audit Committee receive quarterly treasury management monitoring reports for review and approval. The Treasury Management Strategy Statement is presented to the Committee on an annual basis for review and a recommendation is made to Council for approval.

2.7. Appendix 3 of the Treasury Management Strategy Statement detail the Council’s Ethical Investment Statement which has been reviewed by Link Group to ensure that it meets the requirements of the Treasury Management Code and does not prevent the Council from adhering to the Treasury Management principles of Security, Liquidity and Yield.

3. Key Considerations

3.1. These are considered throughout the report and Appendix A.

4. Other Options Considered

4.1. There are no other options are available as the Council is required to produce a Treasury Management Strategy as part of the treasury management reporting requirements.

5. Reasons for the Recommendations

5.1. The Council is required to produce and approve a Treasury Management Strategy Statement as part of the treasury management reporting requirements.

6. Appendices

6.1. Appendix A – 2025/26 Treasury Management Strategy Statement

2025-26 Treasury Management Strategy Statement

1. Introduction

1.1 The key recommendations from the revised CIPFA Treasury Management Code of Practice and a revised Prudential Code have been adopted by the Council. This Council, therefore, maintains a Treasury Management Strategy Statement (TMSS) and Annual Investment Strategy (AIS) stating policies, objectives and approach to risk management in its treasury management activities and also related reports during the financial year which are approved by Full Council.

1.2 The revised Treasury Mangement Code requires all investments and investment income to be attributed to one fo 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 In accordance with the revised Treasury Management Code, the Council has implemented the following guidelines:

- **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, with material differences between the liability benchmark and actual loans to 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 fuction – to be proportionate to the size and complexity of the treasury management 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 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.

<u>Background</u>

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, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the 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 that 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 polices, 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 are required to be adequately scrutinised which is undertaken by the Governance and Audit Committee. This report is presented to Council for approval in March as part of the budget report.

1.17 In addition to the three reports detailed above, quarterly reporting is also required. These additional reports will be 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 requested by officers.

Treasury Management Strategy for 2025-26

1.19 The strategy for 2025-26 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, Ministry of Housing, Communities and Local Government (MHCLG) MRP Guidance, the CIPFA Treasury Management Code and MHCLG 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 responsibe 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.

<u>Treasury management consultants</u>

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 2025/26 to 2027/28

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	2023/24 Actual Outturn £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Non-HRA	4.833	16.437	3.039	2.856	2.661
HRA	14.816	23.718	21.091	18.178	17.140
Total	**19.649**	**40.155**	**24.130**	**21.034**	**19.801**

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	2023/24 Actual £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Capital receipts reserve	3.112	8.395	10.117	4.861	3.917
Grants and Contributions	4.818	13.801	0.975	2.975	2.975
Reserves	11.350	14.826	12.169	13.198	12.909
Net financing need for the year	0.369	3.133	0.869	0	0

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:

	2023/24 Actual £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Capital Financing Requirement					
Closing CFR – Non Housing	14.266	15.626	24.524	23.978	23.445
Closing CFR - Housing	86.738	83.516	80.294	77.072	73.850
Total CFR	**101.004**	**99.142**	**104.818**	**101.050**	**97.295**

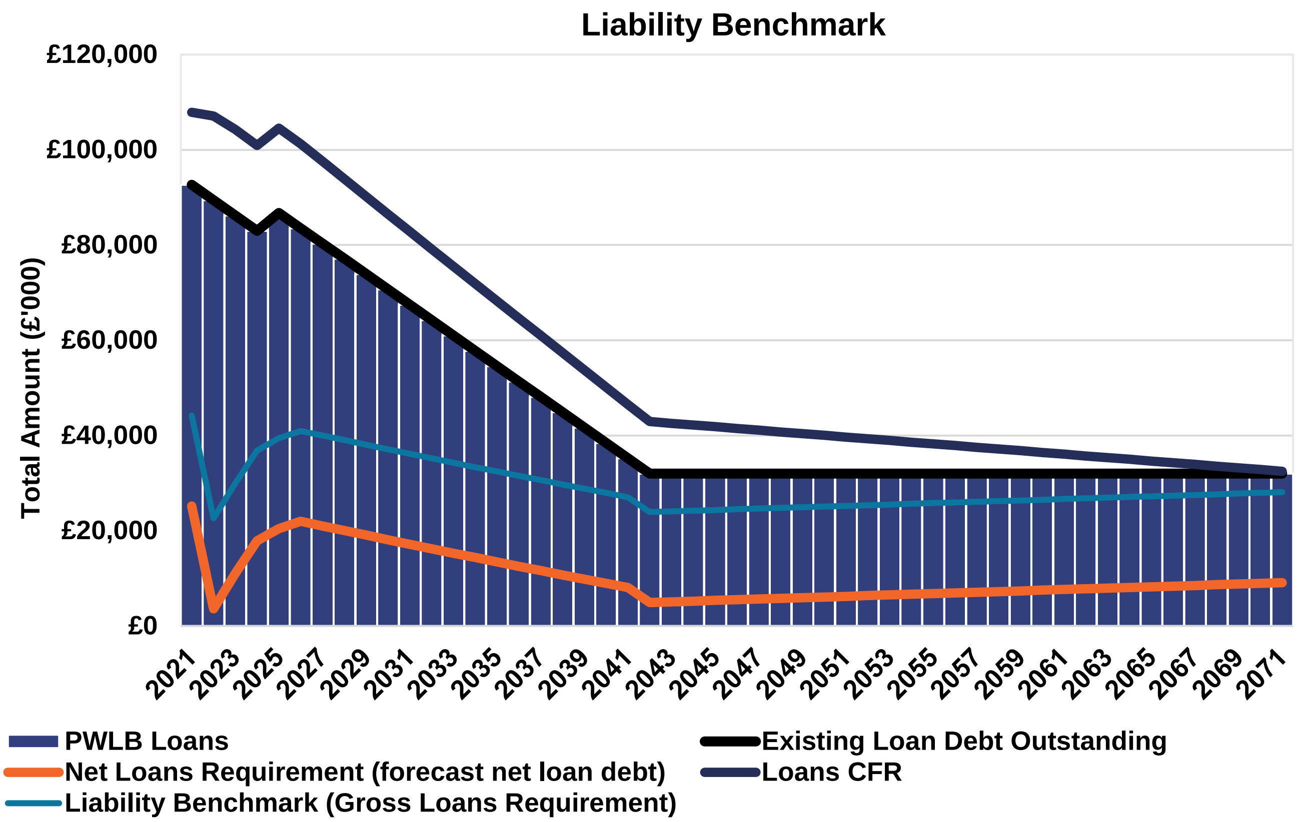
Opening CFR	104.145	101.004	99.142	104.818	101.050
Movement in CFR	(3.140)	(1.862)	5.676	(3.768)	(3.755)

	2023/24 Actual £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Movement in CFR represented by					
Net financing need for the year	0.369	1.639	9.169	0	0
Repayment of HRA Borrowing	(3.222)	(3.222)	(3.222)	(3.222)	(3.222)
Less MRP/VRP and other financing movements	(0.287)	(0.279)	(0.271)	(0.546)	(0.533)
Movement in CFR	(3.140)	(1.862)	5.676	(3.768)	(3.755)

Liability Benchmark

2.8 The Council is required to estimate and measure the LB for the forthcoming year and the following two years, as a minimum. There are for 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	2023/24 Actual £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
General Fund balances	18.571	16.294	15.730	13.927	12.625
Capital reserves – General Fund	3.855	3.066	2.505	1.645	0.728
Capital reserves – HRA	12.899	8.827	2.128	1.573	2.018
HRA reserve	12.884	10.298	10.198	10.098	9.998

Major Repairs Reserve	18.718	12.376	5.767	3.602	2.037
Total Core Funds	**66.927**	**50.861**	**36.328**	**30.845**	**27.406**
Working Capital - GF*	6.675	2.675	2.675	1.809	0.738
Working Capital - HRA*	2.296	1.607	2.834	3.165	3.565
Expected Investments	**73.420**	**55.083**	**44.942**	**40.567**	**31,709**

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 approporiate 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 2024 and the position as at 31 December 2024 are shown below for both borrowing and investments.

	Balance at 31 March 2024 £'000	Balance at 31 December 2024 £'000
Deposits with Banks and Financial Institutions		
Banks		
Close Brothers Ltd	10,000	0
Goldman Sachs International Bank	3,000	5,000
Landesbank Hessen-Thueringen Girozentrale (Helaba)	2,000	0
Lloyds Bank Plc	7,000	9,000
NatWest Markets Plc (NRFB)	5,000	0

Santander UK Plc	10,000	10,000
SMBC Bank International PLC	3,000	8,000
Standard Chartered Bank	9,000	9,000
Building Societies		
Newcastle BS	0	2,000
Principality BS	0	2,000
Local Authorities		
Highland Council	3,000	5,000
Reading Borough Council	0	3,000
Lancashire County Council	0	5,000
Money Market Funds		
Aberdeen Standard	3,420	5,000
LGIM	5,000	5,000
BNP Paribas	5,000	0
CCLA	0	0
Invesco	0	3,054
Deutsche Bank	0	0
Federated Investors (UK)	5,000	510
Property Funds		
CCLA Property Fund	3,000	3,000
Total Treasury Investments	**73,420**	**71,564**
External Borrowing		
PWLB	(83,013)	(81,380)
Total External Borrowing		
Net Treasury Investments/(Borrowing)	**(9,593)**	**(9,816)**

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.

	2023/24 Actual £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
External Debt					
Existing Debt at 1 April	86.236	83.014	79.792	76.570	73.348
Expected change in debt	0	0	0	0	0
HRA Settlement	(3.222)	(3.222)	(3.222)	(3.222)	(3.222)

Debt at 31 March	**83.014**	**79.792**	**76.570**	**73.348**	**70.126**
Closing CFR	**104.145**	**101.004**	**99.142**	**104.818**	**101.050**
Under / (over) borrowing	21.131	21.212	22.572	31.470	30.924

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 2025/26 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	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
General Fund	22.000	23.000	24.000	24.000
HRA	100.000	100.000	100.000	100.000
Other long-term liabilities	0.000	0.000	0.000	0.000
Total	**122.000**	**123.000**	**124.000**	**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	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
General Fund	40.000	41.000	42.000	42.000
HRA	115.000	115.000	115.000	115.000
Other long-term liabilities	0.000	0.000	0.000	0.000
Total	**155.000**	**156.000**	**157.000**	**157.000**

<u>Prospects for Interest Rates</u>

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**	**PWLB Borrowing Rates (including certainty rate adjustment)**		
		5 year	**25 year**	**50 year**
Dec 2024	4.75	5.00	5.60	5.40
Mar 2025	4.50	4.90	5.50	5.30
Jun 2025	4.25	5.00	5.40	5.20
Sep 2025	4.00	4.50	5.30	5.10
Dec 2025	4.00	4.50	5.10	5.00
Mar 2026	3.75	4.50	5.10	5.00
Jun 2026	3.75	4.40	5.00	4.80

Sep 2026	3.75	4.30	4.90	4.70
Dec 2026	3.50	4.20	4.80	4.60
Mar 2027	3.50	4.10	4.70	4.50
Jun 2027	3.50	4.00	4.60	4.40
Sep 2027	3.50	4.00	4.50	4.30
Dec 2027	3.50	3.90	4.50	4.30

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 monetary policy is sufficiently tight to allow the Monetary Policy Committee (MPC) to bring down rates from Q1 2025. Bank Rate is currently 4.75% and is expected to fall to 3.75% by March 2026.

Borrowing Strategy 2025/26 – 2027/28

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 Authority'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, albeit only once prevailing inflation concerns are addressed by restrictive near-term monetary policy. That is, Bank Rate remains relatively elevated in 2025 even if some rate cuts arise.

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 2025/26 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 that 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.

<u>Approved Sources of Long and Short term Borrowing</u>

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

<u>Investment Policy and Counterparty Selection Criteria</u>

4.1 The Ministry of Housing, Communities and Local Government (MHCLG) 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:

- MHCLG'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 MHCLG 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 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 concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31 March 2023. More recently, a further extension to the over-ride to 31 May 2025 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.

<u>Creditworthiness policy</u>

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 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
- Light pink 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 the risks are relatively balanced between Bank Rate staying higher for longer, if inflation picks up markedly through 2025 post the 30 October 2024 Budget, or it may be cut quicker than expected if the economy stagnates.

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 fall to a low of 3.5% in Q4 2026.

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*
2024/25	4.60%	5.00%
2025/26	4.10%	4.50%
2026/27	3.70%	3.00%
2027/28	3.50%	3.00%

2028/29	3.50%	
Year 6 onwards	3.50%	

*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			
	2025/26 £m	2026/27 £m	2027/28 £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 compounded SONIA rate
- Investments – External fund managers - returns 110% above 7-day compounded SONIA

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 2024/25 will not be subject to an MRP charge until 2025/26, 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 2025/26 – 2027/28

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	2023/24 Actual £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Corporate	1.200	1.847	1.031	0.975	0.975
Finance	2.746	7.439	8.406	1.781	1.686
Growth & Culture	0.515	6.583	0.100	0.100	0
Housing & Property	0.372	1.256	2.824	0	0
Non-HRA	**4.833**	**17.125**	**12.361**	**2.856**	**2.661**
HRA	14.816	24.350	30.703	18.178	17.140
Total	**19.649**	**41.475**	**43.064**	**21.034**	**19.801**

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.

%	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Non-HRA	(11.92)	(4.93)	(4.12)	(3.87)	(3.37)
HRA	(0.21)	6.45	1.07	1.41	1.71

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

HRA Ratios

	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
HRA debt £m	79.769	76.547	73.325	70.103	66.881
HRA Revenues £m	(28,172)	(30.010)	(31.111)	(32.397)	(33.497)
Ratio of debt to revenues	(2.83)	(2.55)	(2.36)	(2.16)	(2.00)

	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
HRA debt £m	79.769	76.547	73.325	70.103	66.881
Number of HRA dwellings	5,843	5843	5,863	5,883	5,893
Debt per dwelling £	13,652	13,100	12,506	11,916	11,349

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 2025/26		
	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 2025/26		
	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	**A body of high credit quality,** this category includes the following – □ Any bank or building society using Sector Creditworthiness service, following the suggested duration on the list up to a maximum of 365 days. □ Nationalised and Part nationalised banks can be included within specified investments as long as they remain part-nationalised	**£15m per institution** or a maximum of **30% of total investment** (whichever is the greatest), **£15m per corporate group**
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	**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. MHCLG 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	**£5m** per fund

	approve normally or invest directly. The counterparty risk is mitigated by that – • The Fund Managers diversify investment in a range of counterparties; • The Funds are instant access; • The Council only invests in funds rated AAA; • MHCLG 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.	**£3m** maximum of **3-year investment period** per institution. **£12m 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 our 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 SONIA, 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 SECTON 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

Wednesday, 22 January 2025

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

Proposed amendments to the Council's Constitution

Report Author

Graham Watts, Assistant Director (Governance and Public Protection) and Monitoring Officer

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Purpose of Report

To consider amendments to the Council's Constitution.

Recommendations

The Governance and Audit Committee recommends to Full Council:

1. **That the Overview and Scrutiny Procedure Rules at Part 4 (Rules of Procedure) of the Council's Constitution be amended, as set out in paragraph 3.6 of the report.**

2. **That the Council Procedure Rules at Part 4 (Rules of Procedure) of the Council's Constitution be amended, as set out in paragraph 3.7 of the report.**

3. **That Part 3(c) (Responsibility for Functions – Delegated Powers to Officers) of the Council's Constitution be amended under section 26 (Property, including land), as set out in paragraph 3.11 of the report.**

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 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 associated with this report.

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

Legal and Governance

1.2 There are no significant legal or governance implications arising from this report which are not already referenced in the body of the report.

Completed by: Graham Watts, Monitoring Officer

2. Background to the Report

Overview and Scrutiny Procedure Rules

2.1 The Overview and Scrutiny Procedure Rules at Part 4 of the Council's Constitution provide Members with the ability to request items for inclusion on agendas for meetings of Overview and Scrutiny Committees.

2.2 It is normal practice for items included on agendas for Overview and Scrutiny Committees to be supported by a formal report. This requires the allocation of officer resource, sometimes at short notice, to ensure the respective Committee has sufficient information at its meetings to enable informed consideration and debate of the agenda item.

2.3 Concerns have been expressed that additional requests for agenda items outside of scheduled meetings can, in some cases, divert the Council's resources away from those items agreed in advance as part of the respective Committee's work programme or delivery of Corporate Plan objectives.

Recorded vote for adoption of the Local Plan

2.4 Paragraph 15 of the Council Procedure Rules at Part 4 (Rules of Procedure) of the Council's Constitution sets out the rules in relation to voting at meetings of the Council.

2.5 This includes provision for the calling of a recorded vote, which is set out at paragraph 15.5 of the Council Procedure Rules.

2.6 A recorded vote is required to be taken in respect of any decision relating to the making of calculations in accordance with the Local Government Act 1992 at any budget decision meeting of the Council. This is reflected at paragraph 15.6 of the Council Procedure Rules.

2.7 It is proposed that an additional provision be added to the Council Procedure Rules, ensuring that a recorded vote is also held when the Council takes a decision to adopt the Local Plan.

Letting of land and property – delegated authority

2.8 The scheme of delegation included in Part 3(c) of the Council's Constitution provides delegated authority to officers relating to short term and long term lettings of land and property.

2.9 In relation long term lettings (in excess of seven years), the scheme of delegation includes a cap of £100,000 for the entirety of the lease. This means that any decision to grant a lease exceeding £100,000 would currently need to be made by Cabinet. A number of recent examples have highlighted that operationally it would be more expedient for a delegation over and above the £100,000 threshold.

3. Key Considerations

Overview and Scrutiny Procedure Rules

3.1 The Overview and Scrutiny Procedure Rules currently make the following provision in respect of requests for agenda items:

> *4.2 Any member of an Overview and Scrutiny Committee, or any five members of the Council, will be entitled to give notice to the Chief Executive that they wish an item relevant to the functions of that Overview and Scrutiny*

Committee to be included on the agenda for the next available meeting of the Overview and Scrutiny Committee.

4.3 Dependent upon the items already scheduled for inclusion on the agenda for the next meeting, as set out in the Committee's work programme, the Chairman of the relevant Overview and Scrutiny Committee may use their discretion to defer such a request to the subsequent meeting.

4.4 Between meetings, the work programme for the Overview and Scrutiny Committees will be determined by the Chairman of each Overview and Scrutiny Committee.

3.2 Whilst the Constitution does provide the Chairman of the Overview and Scrutiny Committee with some discretion regarding management of the work programme relating to their Committee, it does not allow any meaningful consideration of the request or how the proposed item may fit into the items already scheduled for the next or subsequent meetings of the Committee.

3.3 It is therefore proposed that the Committee should have the ability to consider any requests for additional agenda items as part of the effective management of its work programme.

3.4 To support the submission of a request, and the Committee's consideration as to whether an item should be included on the work programme for meetings of their Overview and Scrutiny Committee, it is proposed that the requester should provide sufficient background information along with their request.

3.5 An instance recently occurred whereby a Member having requested an item for inclusion on an agenda for a meeting of an Overview and Scrutiny Committee was unable to attend the meeting when the item was considered. A request has therefore been made to amend the Constitution, ensuring that in such circumstances the Member(s) requesting the item are present at the meeting and if they are unable to attend, the item be deferred to the next scheduled meeting of the respective Overview and Scrutiny Committee.

3.6 The Governance and Audit Committee is therefore invited to consider the following provision to replace paragraphs 4.2 to 4.4 in the Council's Overview and Scrutiny Procedure Rules:

4.2 Any Member of an Overview and Scrutiny Committee, or any five Members of the Council, will be entitled to give notice to the Chief Executive that they wish an item relevant to the functions of that Overview and Scrutiny Committee to be included on the Committee's work programme.

4.3 Before issuing notice to the Chief Executive in accordance with paragraph 4.2, Members should:

- ***research background information***
- ***consult relevant Officers***
- ***consult the relevant Cabinet Member(s)***
- ***consult the relevant Chairman of the Overview and Scrutiny Committee***
- ***produce a written report or note outlining the potential outcomes of the item and how it could contribute to the delivery of the Council's Corporate Plan***

4.4 Details of the request will be presented to the next scheduled meeting of the Overview and Scrutiny Committee under the work programme item to determine whether the item should be added to the work programme for consideration at a future meeting of the Committee.

4.5 Between meetings, the work programme for the Overview and Scrutiny Committees will be determined by the Chairman of each Overview and Scrutiny Committee.

4.6 Any item included on an agenda for a meeting of an Overview and Scrutiny which has followed the procedure outlined in paragraphs 4.2 and 4.3 above will require the attendance of the Member(s) who submitted the request. If they are unable to attend the meeting for any reason the item will be deferred to the next scheduled meeting of the Committee, unless they are content with the item being considered in their absence.

Record vote for the adoption of the Local Plan

3.7 It is proposed that the following new sub-paragraph be added to paragraph 15 of the Council Procedure Rules:

15.7 A recorded vote will be taken in respect of any decision to adopt the Local Plan.

Letting of land and property – delegated authority

3.8 The scheme of delegation at Part 3(c) (Responsibility for Functions – Delegated Powers to Officers) under paragraph 26 (Property, including land) currently provides the following delegated authority to the Chief Executive, Deputy Chief Executive, relevant Director and any other officers they authorise in writing as being appropriately qualified and trained:

f) *To arrange short term (up to seven years) lettings of land and property not immediately required for other purposes at rent/licenses fees fixed by the Section 151 Officer*

g) *To arrange lettings (in excess of seven years) of land and property not immediately required for other purposes at rent/license fees fixed by the Section 151 Officer, providing that the total cost of the lease in its entirety does not exceed £100,000*

3.9 To provide more operational flexibility and enable the Council to expediate commercial transactions when they arise it is proposed that the current delegated authority be extended beyond the £100,000 threshold. A commercial lease over a defined lease period is likely to exceed this financial threshold and progression of the lease negotiation is delayed whilst a decision is made. For example, the lease of a commercial unit at a rate of £5,500 per annum over a twenty-year period would currently require a decision by Cabinet. Such an operational decision with relatively low annual impact on the Council's income streams does not demonstrate the most effective use of Cabinet's time. Additionally, waiting for the next scheduled meeting of Cabinet to determine the award of a lease could impact the Council's ability to be proactive and act quickly, which the market often requires.

3.10 To provide reassurance to Cabinet, and the Council, it is proposed the delegation to the Council's Section 151 Officer be supported by an independent valuation and consultation with the Cabinet Member for Property for those leases where the total value over the period of the lease exceeds £100,000.

3.11 It is therefore proposed the following be added as a new sub-paragraph (h) under section paragraph 26 (Property, including land) of Part 3(c) of the Council's Constitution:

h) ***Any Lease, agreement or letting where the total value over the period exceeds £100,000 must be supported by an independent valuation and undertaken in consultation with the Cabinet Member for Property.***

4. Other Options Considered

4.1 To maintain the existing arrangements.

4.2 To recommend any alternative amendments to the Council's Constitution.

5. Reasons for the Recommendations

5.1. To support the effective management and operation of the Council's Overview and Scrutiny Committees.

5.2. To adhere to a request regarding the provision of recorded voting in respect of the adoption of the Local Plan.

5.3 To provide greater operational flexibility in the letting of the Council's land and property.

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SOUTH KESTEVEN DISTRICT COUNCIL

Governance and Audit Committee

Wednesday, 22 January 2025

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

Risk Management Annual Report 2023-24 including Risk Management Framework 2025-27

Report Author

Tracey Elliott, Governance and Risk Officer

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Purpose of Report

In accordance with the Governance and Audit Committee's terms of reference, one of the key areas for the Committee is to monitor and review the risk management arrangements in place including the annual report for risk management activity and the Risk Management Framework 2025-27.

Recommendations

The Committee is recommended to:

1. Approve the Risk Management Annual Report 2023-24
2. Approve the draft Risk Management Framework 2025-27 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 Wards

1. Implications

1.1 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

1.2 There are no financial implications rising directly from this report.

Completed by: Paul Sutton, Interim Head of Finance (Deputy s151)

Legal and Governance

1.3 Consideration of the Council's arrangements for risk management is a key component of the role of the Governance and Audit Committee and demonstrates effective governance.

Completed by: Graham Watts, Monitoring Officer

Risk and Mitigation

1.4 These are contained within the report.

Completed by: Tracey Elliott, Governance and Risk Officer

2. Background to the Report

2.1 One of the key terms of reference of the Committee is to monitor and review the risk management arrangements in place and the activities that are being undertaken to assess the effectiveness of those arrangements.

2.2 Effective risk management is critical to ensure an organisation maintains its services, progresses towards achieving its corporate objectives, and provides assurance it is operating on sound corporate governance principles.

2.3 The Risk Management Framework was last reviewed and approved in June 2021. To ensure it remains fit for purpose, and reflective of the current arrangements and operating environment of the Council, it is timely for the review to be undertaken.

2.4 The draft Framework and associated appendices have been updated following the review. The main areas included within the scope of the Risk Management Framework are:

- Risk Management Overview
- Risk Management Policy Statement
- Risk Management Strategy

- Risk Appetite Statement
- Risk Management Governance Framework
- Roles and Responsibilities
- Risk Management Process
- Strategic Risk Management Approach Key Components
- Council Risk Register Layout

3. Strategic Risk Register

3.1 The Strategic Risk Register is reviewed by Corporate Management Team and Governance and Audit Committee biannually.

3.2 The Strategic Risk Register underwent a thorough review in 2023/24. A workshop was held in July 2023 with Assistant Directors and Directors where a list of 35 local authority comparable risks where considered in order to ascertain whether they were a risk at the Council. Following this, a draft Strategic Risk Register of 17 strategic risks was developed. A follow-up workshop was held in September 2023, with the same participants, to collectively agree the scoring of the risks.

3.3 Governance and Audit Committee approved the Strategic Risk Register on 29 November 2023 and a further developed Register at their meeting on 13 March 2024. At the March meeting two of the 17 risks were identified as being complimentary, or repeated, and therefore had been removed.

3.4 Six risks had been re-assessed where there has been a requirement to raise the level of risk because either it was more likely, or the impact greater, than previously considered.

3.5 The Strategic Risk Register was also reviewed and approved on 24 September 2024 and is next due to be presented at the March 2025 Committee.

3.6 Strategic risk controls and actions are tracked and monitored using software 4risk™. This risk management software provides a complete picture of the risk, controls and assurance environment.

3.7 4risk enables and enhances the ability to monitor and measure overall exposure to risk and examine the effectiveness of the control environment through tailored reporting options. Progress of risk actions can be tracked through to implementation and outcome.

4. Risk Management Framework

4.1 In accordance with The Accounts and Audit (Amended) Regulations 2015, part of an internal control framework includes effective arrangements for the management of risk. A public service organisation must identify, analyse and prioritise risks, as well as manage and control risks in a cost-effective manner to maximise the quality and efficiency of its service provision and protect its reputation.

4.2 The aims of a risk management framework are to:

- Have a formalised, coordinated, and consistent approach to managing risks
- Inform policy, strategic planning, and operational decisions by identifying key risks and their likely impact
- Preserve and enhance the effectiveness of service delivery
- Minimise loss, disruption, damage, injury, and reduce the cost of risk, thereby maximising resources
- Explain how to identify, analyse, respond, record, monitor, and report risk
- Embed a risk management culture, reducing bureaucracy and improving efficiency and effectiveness

4.3 The current Risk Management Framework 2021-23 was revised and approved by Governance and Audit Committee in June 2021. The Framework provides details of the risk environment the Council operates within, and the controls and mechanisms that are in place, to ensure risk is sufficiently managed by officers and Members. Throughout the period of 2023/24, risk management activities were undertaken in accordance with the Framework. During the financial year the Framework has been responsive and adaptive to reflect the ever-changing operating framework.

4.4 Due to a fundamental review of the Strategic Risk Register during 2023/24, it was an opportune time to also review the risk scoring matrix. The proposed non-multiplier risk matrix would enable the Council to easily differentiate between risks with the same end score and would identify more easily the most important risks which was where the focus needed to be. The non-multiplier matrix, although still based on impact and likelihood, would avoid the duplicate scoring of risks with risks being reflected by relative importance. The new matrix was approved by Governance and Audit in November 2023.

4.5 The new Risk Management Framework was delayed so it aligned with the new Corporate Plan 2024-27 and to also move it away from the same timeline as the Counter Fraud Strategy 2024-26 as both documents are reviewed every two years.

Key changes to the Risk Management Framework

4.6 The Risk Management Framework has been reviewed and updated to ensure that it is user friendly and easy to read – it has been reduced to 13 pages, from 18 pages, and the new framework is reflective of the Council’s corporate style.

4.7 The Risk Management Framework includes the following changes:

- Risk Management Policy Statement has been separated into the component parts
- Risk Management Strategy now includes aims in addition to objectives

- Risk Management Governance Framework (Appendix B) and Roles and Responsibilities (Appendix C) have been updated to ensure they reflect the current structure of the Council
- Risk Management Process (Appendix D) has been consolidated and includes the new risk matrix as approved by Governance and Audit Committee in November 2023
- Strategic Risk Management Approach (Appendix E) is a new appendix specifically around the approach to strategic risk
- Council's Risk Register Layout (Appendix F) is a new appendix to ensure consistency in recording risks

5. Key Considerations

5.1 Governance and Audit Committee should monitor and review the risk management arrangements currently in place and the activities that are being undertaken to mitigate those risks.

6. Reasons for the Recommendations

6.1 Governance and Audit Committee, as part of its terms of reference, 9.1 (xii) approve the annual report on risk management activity and consider the effectiveness of the Council's overall arrangements for managing risk.

6.2 Governance and Audit Committee, as part of its terms of reference, 9.1 (x) approve the risk management strategy and framework.

7. Appendices

7.1 Appendix A – Risk Management Framework 2025-27

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Risk Management Framework

2025/27

SOUTH KESTEVEN DISTRICT COUNCIL

Contents

Risk Management Overview

Risk is the threat or uncertainty associated with an event or action that could adversely affect the Council's ability to successfully achieve its objectives. The uncertainty may lead directly or indirectly to damage or a loss, as well as lost opportunity.

Risk Management is defined as: *Coordinated activities to direct and control an organisation with regards to risk* (as defined within the ISO 31000:2018 Risk Management – Guidelines). This Risk Management Framework provides an outline of the Council's arrangements for risk management and seeks to clarify the various roles, responsibilities, and governance structures.

This framework is based on good enterprise risk management practices as defined in the ISO 31000:2018 Risk Management – Guidelines and the ALARM (Association of Local Authority Risk Managers) Risk Management Guide and Toolkit.

The Council acknowledges its statutory responsibility to manage risks and deliver cost effective and efficient services. The Council has a duty under the Local Government Act to make arrangements to secure continuous improvement in the way in which its functions are exercised. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective delivery of its functions, which include arrangements for the management of risk.

The management of risk is woven throughout the Council's key governance frameworks and there are specific requirements to adopt a formal approach to risk management in the following areas:

- Key decision-making reports
- Corporate, directorate and service area planning
- Programme and project management
- Procurement processes
- Partnership working arrangements
- Change management processes

Risk management is a crucial part of the overall arrangements for securing effective corporate governance. Risk management can make a difference, and enhance performance, by identifying and preventing the bad things from happening and ensuring all the good things the Council wants to do happen.

The effectiveness of the Council's risk management arrangements is assessed annually as part of the Annual Governance Statement (AGS), which includes the Annual Audit Opinion, and is signed off by the Chief Executive and the Leader of the Council. In compiling the AGS, assurances are obtained from a wide range of sources.

The following need to be considered:

What are we trying to achieve?
Objectives
What is the risk here?
Risk identification
How likely is the event to happen?
Risk evaluation – likelihood
What will happen to desired outcomes?
Risk evaluation – impact
Does the benefit outweigh the risk?
Risk versus benefit and reward analysis
Can we do anything to reduce the risk?
Risk reduction
Has anything happened that alters the risk?
Risk monitoring
What plans can we put in place in case the event should happen?
Contingency/service continuity planning
What can we do to contract out the risk?
Risk transfer
What provisions should we hold for residual risk?
Risk funding

To assist in the management of risk, the following have been identified which form the basis of the Risk Management Framework:

- Promote awareness of risk and embed the Council's approach to its management throughout the organisation
- Support the role and work of the Governance and Audit Committee
- Seek to identify, measure, control, and report on risk both corporately (and operationally) through appropriate assessment criteria
- Monitor and measure the overall performance of the Risk Management Framework and the way in which it contributes to the business activities of the Council

The Risk Management Policy Statement and the Risk Management Strategy identify how the above will be achieved.

Risk Management Policy Statement

South Kesteven District Council recognises risk management as a vital activity that underpins and forms part of its vision, values, and strategic objectives, including those of operating effectively and efficiently, as well as providing confidence to our community.

The Risk Management Policy Statement underpins the objectives of the Council in connection with the management of risk through the following values which determine how we behave, and deliver services to residents and businesses, and how we interact with each other:

- Trust
- Empowerment
- Accountability
- Making a difference
- Supportive to all
- Kindness

Vision
The Council will seek to identify and measure the risks it faces. Wherever practicable, and in the context of the Council risk appetite, it will seek to manage risks to maximise the quality of service provision and maintain reputation.

Culture
The Council recognises the value of adopting a risk management culture and will:

- Identify a Cabinet Member to champion risk management activity
- Implement and monitor risk management arrangements across the organisation at corporate and operational level
- Use key risk information to inform the Annual Governance Statement and the internal audit plan
- Encourage officers, Members, partners, suppliers, and other stakeholders to develop and maintain a risk management ethic and to report concerns accordingly

Responsibility
All officers and Members have a responsibility to ensure that risk management is effective across the whole of the Council's operations. Specific roles and responsibilities are set out in Appendix C.

Best Practice
The following eight steps of risk management will be followed in the production of the assessment of risk at either corporate and/or operational level:

- identifying the risks which might impact on Council objectives
- identifying and assessing existing controls which contribute to managing the risk
- analysing and ranking the risk in terms of likelihood and impact using a consistent methodology set out in Appendix D
- prioritising the risk
- determining the action required based on the Council's risk appetite, set out in Appendix A, with a view to eliminating the risk (termination), reducing the risk (tackle), accepting the risk (tolerate) or pass on the risk eg insurance or indemnities (transfer)
- identifying risk owners for monitoring and reporting on risks identified ie changes in the nature of the risk, level of exposure, and the ongoing effectiveness of internal controls in place for managing or mitigating the risk
- identifying action owners responsible for acting in connection with the risk identified and the date by which action is required
- monitoring and reporting on progress in connection with action

Process
In managing risk management, processes, records, and procedures should be properly maintained, decisions recorded, and there should be clear audit trails to demonstrate due diligence, openness and accountability. The Council will establish a standard approach to the way in which risk will be assessed and recorded, as set out in Appendix D. This approach will be kept under review to ensure its continued effectiveness and efficiency. The approach, and key components, to strategic risk management is set out in Appendix E.

Training
The Council recognises that the success or otherwise of its Policy Statement will be influenced by the positive responsiveness of those individuals responsible for its implementation on a day-to-day basis. Accordingly, training needs will be identified and provided.

Project Risk
It is recommended practice for a project risk register to be maintained for each significant project undertaken by the Council. This will be consistent with the process adopted by the Council organisation wide. The register will record risks that have been identified as having a realistic possibility of materialising in connection with each project.

Assurance
Assurance is a level of confidence provided, or obtained, that a given outcome will be achieved as expected. Assurance that the risk management processes are working effectively is obtained by following the Risk Management Governance Framework set out in Appendix B.

The Council has various assurance routines including completion of the management Annual Assurance Statements, the cyclical assurance provided over key controls in the Strategic Risk Register and the work of internal audit and other independent reviews. All outcomes of assurance work will be captured, reported, and reviewed via the Corporate Management Team and presented for consideration to the Governance and Audit Committee as appropriate.

Risk Management Strategy

Purpose

The purpose of the Risk Management Strategy is to set out how the Council will manage risk, and to ensure that risks are identified at the right time, to facilitate effective decision making. It will ensure that principles and values are upheld, responsibilities are fulfilled, and risk management best practise is applied.

Aims

The aims of the Risk Management Strategy are to:

- Integrate risk management into the Council's culture
- Ensure Governance and Audit Committee agree a programme of work and reporting arrangements to monitor the effectiveness of risk management
- Raise awareness of the need for risk management by all those involved in service delivery
- Ensure Members, Corporate Management Team, external regulators, and the public can obtain necessary assurance that the Council is managing its risks
- Anticipate and respond to changing social, environmental, and legislative changes
- Minimise the impact and/or likelihood of risks occurring
- Ensure a robust framework is in place to identify, assess, and manage the risks
- Minimise the total cost of risk
- Produce, agree, and approve the Annual Governance Statement regarding the effectiveness of risk management at the Council

Objectives

The objectives of the Risk Management Strategy are to:

- Ensure risk management is part of strategic and operational management decision making, planning, and implementation
- Manage risks in accordance with the Council's Risk Management Framework, recognised best practice, and to enable good governance
- Respond to risk in a balanced way, mindful of the Council's risk appetite (Appendix A), considering risk level, risk reduction potential, cost/benefit, and relationship to resource constraints
- Ensure strategic, service, and project risks are discussed on a regular basis
- Ensure that all risks within projects are fully identified, assessed, and managed in accordance with Council methodologies
- Review and report on the application of the risk assessment process (Appendix D) and compile a register of risks including risks identified at a corporate, operational, and project level. Risk register layout is set out in Appendix F
- Assess the adequacy of action taken to mitigate risks and the effectiveness of existing controls in the management of risk

Appendix A – Risk Appetite Statement

Risk appetite overview

Risk is the exposure to something happening, often negative but sometimes positive, associated with the achievement of objectives. Only in extreme circumstances is the risk unforeseen. Therefore, with information available, analysis and understanding of the circumstances, then the Council can determine when it can take more risk and when it should not. Risk appetite is defined as the level of risk an organisation is prepared to accept or take in the pursuit of its objectives. There is no one size fits all, neither is risk appetite easy to define. The Council's appetite for risk can vary dependent on the nature of the risk and the prevailing operating conditions or circumstances.

The Council has developed a risk appetite. The risk appetite is not absolutely prescriptive but instead provides a number of underlying component parts that encourages structured thinking. The aim of the risk appetite being to allow the Council to reach an informed conclusion as to whether the risk can be accepted, and to what extent, to achieve the desired outcomes.

Risk appetite monitoring and reporting

The Council will continue to keep under review its risk appetite, fully recognising that this may be susceptible to change due to various factors, both internal and external, that could shape the nature and extent the Council is prepared to take risks.

Risk appetite themes

All risks should be considered in the context of the Council's risk appetite. To assist this further the Council has identified a number of risk appetite themes, driven by the Council's strategic objectives, against which they have assigned a risk appetite. Therefore, in the instances where risks are associated with the theme and dependent on the risk score assigned, the Council will be more easily able to determine how they respond and so make best use of mitigation resources.

Risk appetite levels description

Averse	**Avoidance of any risk exposure**
Minimal	**Ultra-safe leading to only minimum risk exposure**
Cautious	**Preference for safe though accept there will be some risk exposure**
Open	**Willing to consider all potential options recognising that there will be risk exposure**
Hungry	**Eager to be innovative and take risks**

Appendix B – Risk Management Governance Framework

Stage	Strategic	Service	Project	Health & Safety	Business Continuity
Identify	Biannual review Corporate Management Team Governance & Risk Officer	Annual review Heads of Service Governance & Risk Officer	Established as part of the Project Initiation Document	Heads of Service IOSH Managing Safely trained officers	Continuous review Heads of Service
Evaluate	Biannual review Corporate Management Team	Annual review Heads of Service	Project Manager Senior Responsible Officer	Heads of Service IOSH Managing Safely trained officers	Heads of Service Emergency Planning Officer
Report	Biannually Governance and Audit Committee	Service Plans Risk Management Group	Project Team and Boards Corporate Management Team Performance Review	H&S Group Annual Report to Governance and Audit Committee	Risk Management Group Annual Report to Governance and Audit Committee
Assurance	Review by internal and external audit Annual Governance Statement	Annual Assurance Statement Internal audit review	Corporate Management Team Performance Review	External reviews	Desk top exercises to determine robustness External reviews

Appendix C – Roles and Responsibilities

All Officers and Members have a responsibility to ensure that risk management is effective across the whole of the Council's operations. Specific roles and responsibilities are set out below:

The Council

- Overall responsibility for risk management
- Provide a corporate perspective on the risk appetite of the Council
- Ensure risk management is embedded into all processes and activities
- Consider risk management implications when making decisions

Cabinet Member for Corporate Governance and Licensing

- Strategic endorsement of the overall approach and attitude to risk management
- Champion risk management
- Consider risk management implications when making decisions

Governance and Audit Committee

- Approve and monitor the implementation of the Risk Management Framework
- Review and approve Annual Governance Statement including effectiveness of risk management
- Oversee the work of Internal Audit. Planning for audits will be a risk-based approach and the programme will include a rolling review of risk management framework (such as the adequacy of the control framework and Health and Safety)
- Provide assurance to members that risks are being identified and managed, which includes oversight of the Strategic Risk Register, and scrutinise the system of internal control

Chief Executive

- Strategic leadership that endorses the implementation of the Risk Management Framework across the Council

Chief Finance Officer

- Overall responsibility for maintenance and delivery of risk management across the Council
- Disseminate and promote the framework
- Champion risk management

Corporate Management Team

- Take ownership of the identified strategic risks, consider their importance against strategic objectives and action further controls as required
- Monitor the Strategic Risk Register
- Create an environment and culture where risk management is promoted, facilitated and appropriately undertaken
- Raise awareness of risk with Members and officers as appropriate
- Monitor project risk registers

Directors
Assistant Directors
Heads of Service

- Understand the Risk Management Framework and their accountabilities
- Communicate risk management approach and framework throughout the Council
- Identify, assess and communicate risks within their area of responsibility
- Provide support/assistance to employees in fulfilling their risk management duties
- Undertake assessment of risk for their service in relation to service planning and budget setting process
- Identify partnership and contractual arrangements where there are shared risks, ensuring these are recorded and properly managed
- Review risk on a regular basis and discuss the management of risk with relevant team members

Risk Management Group

- Provide a forum for the discussion of risk management issues
- Review and monitor the Service Risk Register
- Promote and embed risk management throughout service areas
- Help ensure commitment of key stakeholders is obtained
- Share best practice across the risk champion network

Chief Finance Officer
Governance & Risk Officer

- Operational responsibility for supporting and guiding risk management across the Council
- Facilitate discussion of risk at local and corporate level, including risk identification and practical techniques for identifying, assessing and mitigating risks
- Provide the link between risk management and the other related disciplines eg insurance, business continuity, emergency planning and health and safety
- Ensure appropriate staff and Members are adequately trained in the management of risk

Risk Owner

- Ensure the integrity of information recorded on the risk register
- Oversee control measures and reviews proposed mitigating actions
- Ensure effective action is taken to manage risk

All staff

- Understand, accept and implement risk management processes
- Report inefficient, unnecessary or unworkable controls
- Report loss events, near miss incidents and co-operate with management on investigations
- Manage risk effectively in their job and report opportunities and risks to their service managers
- Attend training and development sessions as appropriate

Internal Audit

- Act in accordance with the Accounts & Audit (England) Regulations 2015 and Public Sector Internal Audit Standards
- Compile the internal audit annual plan to meet the Council's overall strategic direction and provide assurance on risk management, governance and internal control arrangements
- Take a risk-based approach to audit planning and consider the content of the risk registers when preparing the annual audit plan
- Undertake annual programme of audits, to test and validate existing controls, and presents progress reports against the plan
- Review the progress of planned actions
- Provide an informed opinion on the effectiveness of the risk management framework

Appendix D – Risk Management Process

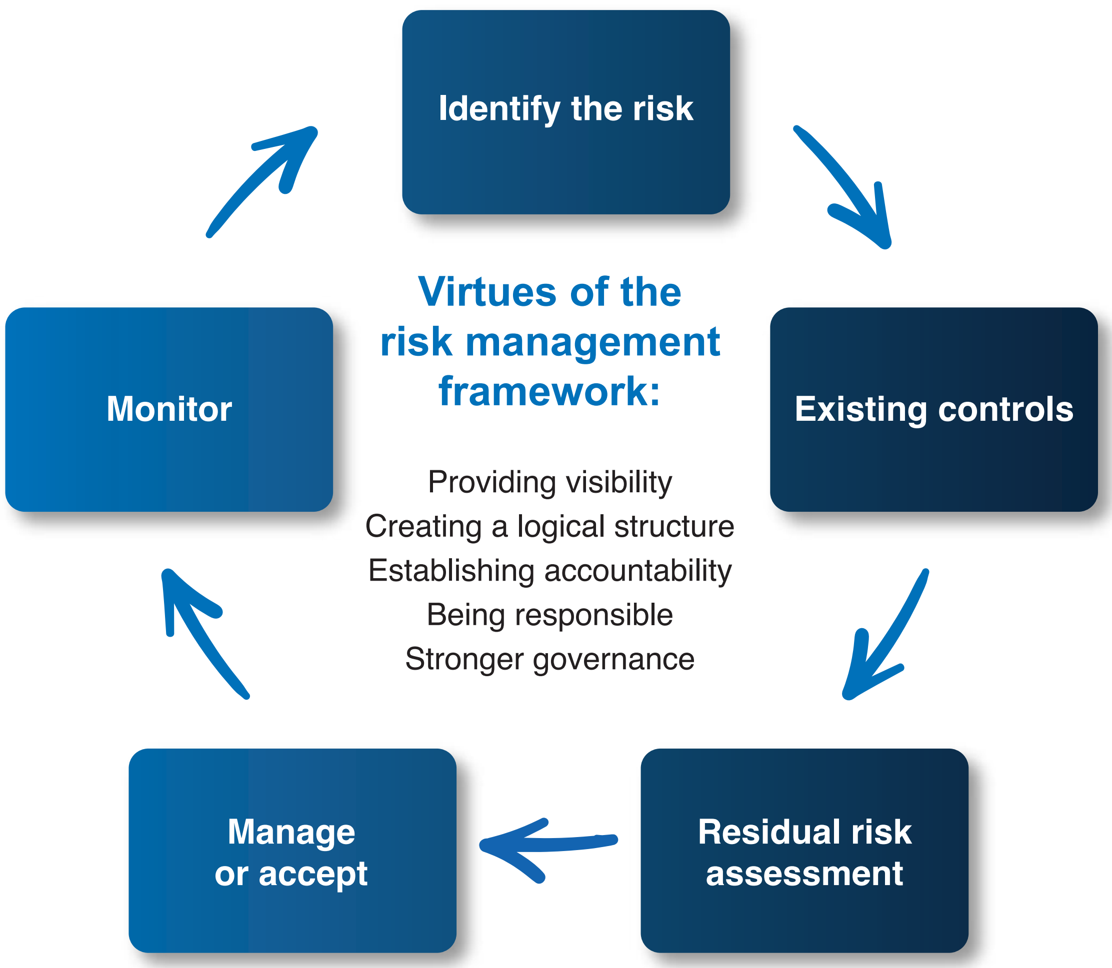
Risk management is an important element of the system of internal control and is based on a process designed to identify, and prioritise, the risks to the Council achieving its objectives. A risk is an uncertainty that could have adverse or beneficial effects on the achievements of objectives.

Step 1 – Risk identification

The initial stage of risk management sets out to identify the exposure to uncertainties.   The starting point should be the corporate vision as detailed in the Corporate Plan 2024-2027 and the supporting priorities.   The delivery of the priority actions is then supported by priority plans, and the application of risk management, to ensure actions can be delivered to ensure delivery of the corporate vision.   There will also be some cross cutting corporate objectives that impact on the service areas, as well as objectives that the service has for key projects. Key project risks are captured within project risk registers.

Risk identification can occur in several different ways:

- Risk register refresh (cyclical)
- Service planning (annual)
- Risk assessment process (ad hoc)



Step 2 – Risk analysis

Once the risk has been identified and defined, the details need to be entered onto the appropriate risk register - see Appendix F for risk register layout.

Risk is assessed by the combination of two factors – the likelihood of something happening and the impact if it does happen. This is represented on a 4x4 risk matrix:

Impact					
Critical None or very low tolerance to the risk	4	10 Medium	13 High	15 Very High	16 Very High
Major Some tolerance to the risk	3	6 Medium	9 High	12 High	14 Very High
Moderate Risk can be tolerated in most cases	2	3 Low	5 Medium	8 High	11 High
Minor Risk can be tolerated	1	1 Low	2 Low	4 Medium	7 Medium
		1	2	3	4
		Unlikely Low but not impossible <20%	**Possible** Fairly likely to occur 21-50%	**Likely** More likely to occur than not 52-80%	**Certain** Expected to occur >81%
					Likelihood

Priority	Suggested Management
Very High	Risk requires immediate attention. It should be regularly monitored for change and that actions will achieve the desired outcome and they are being suitably completed.
High	Risk should be regularly reviewed to ensure it is not changing and evolving. Assurance should be sought over effectiveness of existing controls and that actions are being suitably progressed.
Medium	Risk controls and actions to be regularly reviewed to ensure they are appropriate and effective.
Low	Risk controls to be reviewed to ensure they are still appropriate.

Step 3 – Risk response

Consider the controls in place to mitigate or reduce the risk and assess what further controls are required and record as actions until complete. When actions have been identified to further mitigate a risk, they are recorded on the risk register and assigned an action owner and implementation date to ensure monitoring and review is effective.

Risk management response to the risk:

Treat – implement risk control measures to reduce the likelihood and/or impact of the risk to acceptable levels

Tolerate – accept the risk as it is while continuing to monitor and review

Transfer – transfer the risk to a third party eg insurance, contract, outsourcing

Terminate – remove the uncertainty by making it impossible for the risk to occur or implement a different approach to remove or stop the risk

Step 4 – Record, monitor and report

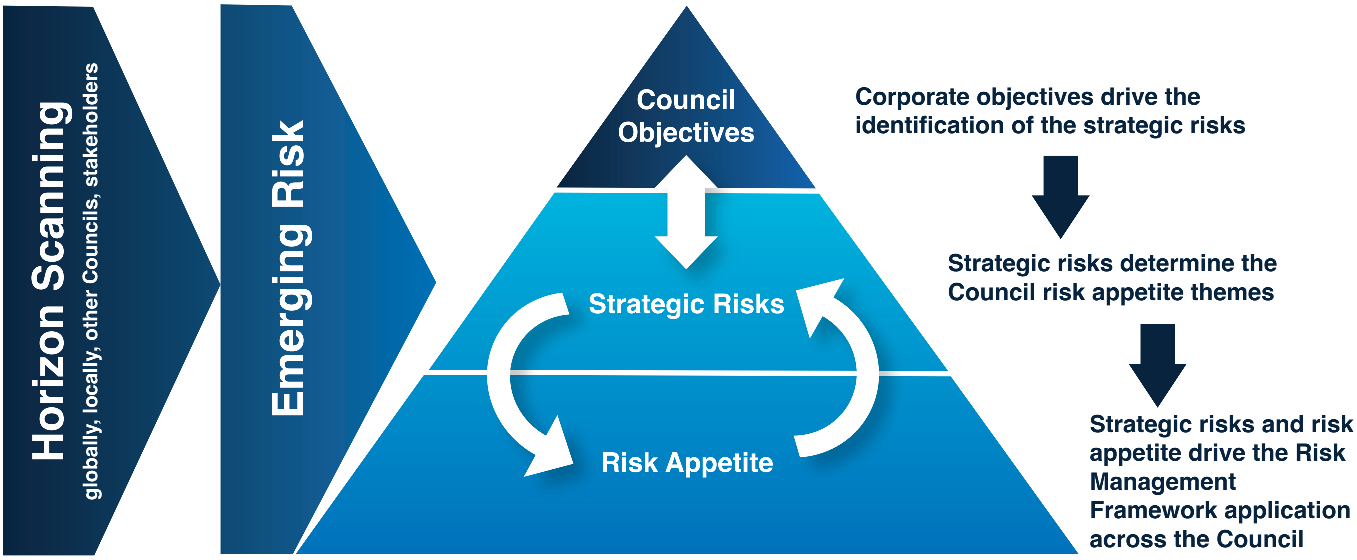
Risk management is a dynamic process, and risk registers must be kept up to date. New risks will be identified, and some will be managed and removed.

Risks need to be reviewed and reported upon to identify if risks are changing, and their impact on the Council's objectives, and to gain assurance that risk management is effective. The assessment of likelihood and impact levels for existing risks will need to be updated to consider the actions undertaken.

Regular review of risk registers to be undertaken to consider if the:

- current risk score reflects the risk's likelihood and impact at this point in time
- control environment is still sufficient
- identified controls are effective
- assurance validates the controls effectiveness levels
- actions are amended and refined in light of any changes

Appendix E - Strategic Risk Management Approach Key Components



Appendix F - Council Risk Register Layout

Risk Description & Corporate Priority	Cause and Effects	Existing Key Controls & Enablers	Effectiveness of Key Controls & Enablers	Residual Risk Score	Actions
Risk Headline Brief description **Corporate Priority** Select from list below: 1 Connecting Communities 2 Sustainable South Kesteven 3 Enabling Economic Opportunity 4 Housing 5 Effective Council	How the risk could occur (Cause) and what the consequences (Effects) could be if the risk materialised **Cause:** 1) XX 2) XX **Effect:** a) XX b) XX	What the key controls/enablers are that manage the risk **Control 1** **Control 2** **Control 3**	Choose effectiveness from list below: Fully Partially Not Don't know	Current ie after application of controls **Likelihood** **x** **Impact** **=** **Risk Score**	Further action needed to better manage risk to an acceptable level **Action 1** – what, who and when **Action 2** – what, who and when

Contact Details

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

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SOUTH KESTEVEN DISTRICT COUNCIL

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
	13 February 2025	
ISA 260 Report	Report by the Council's External Auditors outlining the key findings arising from the statutory audit of South Kesteven District Council.	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.
External Audit Finding 23/24		
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.

Item	Current Issues/Status	Outcome Sought
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		
Risk Management Framework		
Committee Members Meeting with Auditors		
Counter Fraud Framework		
Review of Subject Access Requests		