Public Document Pack

AUDIT COMMITTEE

Date: Tuesday, 7 February 2023
Time: 6.00pm
Location: Council Chamber, Daneshill House, Danestrete, Stevenage
Contact: Ian Gourlay (01438) 242703
committees@stevenage.gov.uk

Members: Councillors: T Callaghan (Chair), J Gardner (Vice-Chair), M Arceno, S Booth, A Farquharson, J Hollywell, G Lawrence CC, M McKay, L Rossati and T Wren.
Mr G Gibbs (Independent Co-opted Non-voting Member).

AGENDA

PART I

1. APOLOGIES FOR ABSENCE AND DECLARATIONS OF INTEREST

2. MINUTES - 9 NOVEMBER 2022

To approve as a correct record the Minutes of the meeting of the Audit Committee held on 9 November 2022.
Pages 3 – 8

3. 2019/20 EXTERNAL AUDIT UPDATE

To consider a verbal update from Ernst & Young on the 2019/20 External audit.

4. 2020/21 EXTERNAL AUDIT PLAN

To consider Ernst & Young's proposed External Audit Plan for the 2020/21 SBC Accounts.
Pages 9 – 64

5. INTERNAL AUDIT PLAN 2022/23 - PROGRESS REPORT

To consider progress in respect of the Shared Internal Audit Service (SIAS) Internal Audit Plan 2022/23.
Pages 65 – 76

6. ANNUAL TREASURY MANAGEMENT STRATEGY INCLUDING PRUDENTIAL CODE INDICATORS 2023/24

To consider the Annual Treasury Management Strategy including Prudential Code Indicators 2023/24.
Pages 77 – 114

7. URGENT PART I BUSINESS

To consider any Part I business accepted by the Chair as urgent.

8. EXCLUSION OF PUBLIC AND PRESS

To consider the following motions –

1. That under Section 100A of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as described in Paragraphs 1 – 7 of Part 1 of Schedule 12A of the Act as amended by Local Government (Access to Information) (Variation) Order 2006.

2. That Members consider the reasons for the following reports being in Part II and determine whether or not maintaining the exemption from disclosure of the information contained therein outweighs the public interest in disclosure.

9. PART II MINUTES - AUDIT COMMITTEE - 9 NOVEMBER 2022

To approve as a correct record the Part II Minutes of the meeting of the Audit Committee held on 9 November 2022.
Pages 115 - 116

10. URGENT PART II BUSINESS

To consider any Part II business accepted by the Chair as urgent.

Agenda Published 30 January 2023

STEVENAGE BOROUGH COUNCIL

AUDIT COMMITTEE
MINUTES

Date: Wednesday, 9 November 2022
Time: 6.00pm
Place: Council Chamber, Daneshill House, Danestrete, Stevenage

Present:	Councillors: Teresa Callaghan (Chair), Myla Arceno, Stephen Booth, Alex Farquharson, Jackie Hollywell, Graham Lawrence CC, Maureen McKay, Anne Wells (substitute) and Tom Wren. Mr Geoff Gibbs (Independent Co-opted Non-voting Member).
Start / End Time:	Start Time: 6.00pm End Time: 6.40pm

1 APOLOGIES FOR ABSENCE AND DECLARATIONS OF INTEREST

Apologies for absence were submitted on behalf of Councillors John Gardner (Vice-Chair) and Loraine Rossati. Councillor Anne Wells was substituting for Councillor Rossati.

There were no declarations of interest.

2 MINUTES - 7 SEPTEMBER 2022

It was **RESOLVED** that the Minutes of the meeting of the Audit Committee held on 7 September 2022 be approved as a correct record and signed by the Chair.

In respect of Minute 4 – 2019/20 External Audit Update, the Strategic Director (CF) advised that the Ernst & Young Audit Lead had been on long term sick leave. He had recently returned to work on a phased basis and his priority was to complete work on the 2019/20 SBC accounts. As a consequence, Ernst & Young had confirmed that no work would be progressed on the 2020/21 accounts audit until 2019/20 work was completed.

In reply to Members' questions, the Strategic Director (CF) stated that it was unlikely that the position would change with regard to the level of audit fees charged by Ernst & Young. A number of other local authorities were in a similar position to SBC, in that they had three years' unaudited accounts open (including Watford Borough Council and Three Rivers District Council).

3 SHARED ANTI-FRAUD SERVICE (SAFS) - PROGRESS WITH DELIVERY OF THE 2022/23 ANTI-FRAUD PLAN

The Shared Anti-Fraud Service (SAFS) Manager presented a report in respect of progress with delivery of the 2022/23 Anti-Fraud Plan.

The SAFS Manager advised that the Council would be taking part in the International Fraud Awareness Week in November 2022 with planned activity utilising social media and national/international resources. Campaigns such as this encouraged residents to report fraud and provide assurance that the Council takes fraud seriously and acts on those reports.

The SAFS Manager stated that between April and September 2022, SAFS received 55 allegations of fraud affecting Council services. Allegations of fraud had reduced slightly compared to the same period in 2021/22. To the end of September 2022, 11 investigations had been closed, with fraud identified/prevented on 9 occasions. Fraud losses of just over £133,000 had been reported and £160,000 of savings identified through prevention activity.

The SAFS Manager reported that so far this year more than 47 Right to Buy (RTB) applications had been reviewed, with one application stopped due to suspicious activity. Six Council properties that were being sub-let or misused by the tenant had also been recovered and, in more serious cases where fraud was apparent, these had been reported to Legal Services to commence prosecution proceedings.

The SAFS Manager explained that SAFS worked closely with the Council's parking enforcement team dealing with the misuse of disabled person 'Blue Badges' in the Council's pay and display car parks across the Borough, as well as fraudulent applications for badges and the theft of badges from vehicles and subsequent misuse across the UK. In September 2022, following local intelligence, a joint campaign to identify people misusing Blue Badges in the area of the Lister Hospital was undertaken. This had resulted in a number of inspections and badge seizures with at least one case being referred to Legal Services to consider criminal proceedings

The SAFS Manager concluded by referring to the fact that SAFS was helping to ensure the Council's compliance with the National Fraud Initiative (NFI) by providing training and a user guide for staff involved in the upload of data that would take place in October 2022. The output from that exercise would be received by the Council by February and March 2023.

In response to a number of Members' questions, the SAFS Manager advised:

- he expected an increase in fraud reporting/cases due to the cost of living crisis. An internal communications campaign would be carried out to heighten staff awareness to the potential for increased fraud, and public awareness would be heightened as part of the work on National Fraud Awareness week;
- SAFS was one of the supported organisations on the National Fraud Initiative (NFI), although there was a limited amount that would be gained for SAFS from the NFI Fraud Awareness week;
- the national estimate that the cost to local government for each social housing property that was being sub-let of at least £42,000 per property included the costs of fraud investigation; bringing the unit back into lettable condition; and the income loss incurred whilst the property was empty;
- SAFS staff were employed by Hertfordshire County Council. Rigorous employment checks (including DBS) were carried out on new SAFS staff. The DBS checks for all SAFS staff were reviewed on an annual basis;
- the reporting of fraud came from a variety of sources, primarily either from staff

or members of the public;

- in relation to 6 Council properties that had been sub-let or misused by the tenant and had been recovered, there was a strong likelihood that there were more such cases. It was pointed out that it was often difficult to detect/investigate them or obtain clarity on the level of fraud alleged. SBC had funded a post through the HRA to assist SAFS in the tackling of tenancy fraud; and
- he agreed that it was important that National Fraud Awareness week should be advertised in public places for the benefit of those with limited or no access to IT/social media.

It was **RESOLVED** that the work of the Council and the Shared Anti-Fraud Service in delivering the 2022/23 Anti-Fraud Plan be noted.

4 REVISED WHISTLEBLOWING POLICY 2022

The Shared Anti-Fraud Service (SAFS) Manager presented a report seeking the adoption of a proposed new Whistleblowing Policy for implementation across the Council.

The SAFS Manager advised that the Policy had not been reviewed for some time and the revised document aimed to create the assurance required to protect those who wished to raise genuine concerns at work. It was recommended that a whistleblowing group be established to review and assess all concerns raised to provide more transparency and consistency in the process.

The SAFS Manager commented that it was expected that the Policy would be "owned" by the Council's Head of Human Resources, who would bring an annual report to the Committee on all disclosures made under the Policy.

In reply to a Member's question, the SAFS Manager commented that the revisions to the policy were relatively minor and had been agreed by the SBC Human Resources Team. In view of the minor nature of the revisions, the Trade Unions had not been consulted on the changes.

In response to a number of issues raised by a Member regarding the content of the policy, the Strategic Director (CF) explained that the wording in the document was designed to encourage staff to use the process even if they were perhaps uncomfortable in so doing, as all reported cases would be taken seriously and investigated in a confidential manner. The reason that examples of whistleblowing were not included in the policy was to encourage as wide a breadth of reporting as possible. These points would need to be articulated in the communications to staff regarding the policy.

The Strategic Director (CF) agreed to circulate to Members of the Committee the number of SBC whistleblowing cases that had been investigated over the past 3 years.

It was **RESOLVED**:

1. That the new Whistleblowing Policy, as attached at Appendix A to the report,

be adopted, and a communication plan launched to provide assurance to staff who wish to raise genuine concerns at work.

2. That, due to changes in the senior management at the Council, a Whistleblowing Group be created to review and assess all concerns raised to provide more transparency and consistency in the process.

3. That the Council's Head of Human Resources owns the Policy and brings an annual report to the Committee on all disclosures made to the Council under the Policy.

5 PROGRESS OF CORPORATE GOVERNANCE ACTIONS

The Corporate Performance and Improvement Officer presented a report informing Members of progress with regard to the actions to strengthen the Council's corporate governance arrangements, as identified in the Council's 2021/22 Annual Governance Statement reported to the Committee on 7 June 2022.

The Corporate Performance and Improvement Officer advised that progress on the 11 high level actions, including mitigation measures, was set out in Appendix A to the report. The full year status report on those actions would be reported to the Committee in June 2023.

It was **RESOLVED** that the progress to date of actions to strengthen the Council's corporate governance arrangements, as identified in the Council's 2021/22 Annual Governance Statement reported to the Committee on 7 June 2022, be noted.

6 MID YEAR REVIEW OF TREASURY MANAGEMENT STRATEGY 2022/23

The Assistant Director (Finance) presented a report in respect of the 2022/23 Mid Year Treasury Management review, including the 2022/23 prudential and treasury indicators.

The Assistant Director (Finance) advised that there had been no breaches of operational limits in the first six months of 2022/23, and that officers had operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management practices.

The Assistant Director (Finance) reported that no new external borrowing had been taken to date during 2022/23. This was being closely monitored and if the conditions become suitable, then the Council would consider some external borrowing to reduce its internal borrowing position.

In respect of interest earned on investments, the Committee noted that, up to 30 September 2022, this was £384,000. Projected investment balances at 31 March 2023 were currently £63Million, and forecast interest receivable from investments was £935,000, against an original budget of £330,000.

It was **RESOLVED** that the 2022/23 Mid Year Treasury Management Review and Prudential Indicators report be recommended to Council for approval.

7 URGENT PART I BUSINESS

None.

8 EXCLUSION OF PUBLIC AND PRESS

It was **RESOLVED** that:

1. Under Section 100A of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as described in Paragraphs 1 - 7 of Part 1 of Schedule 12A of the Act as amended by Local Government (Access to information) (Variation) Order 2006.

2. Members considered the reasons for the following reports being in Part II and determined that the exemption from disclosure of the information contained therein outweighed the public interest in disclosure.

9 PART II MINUTES - AUDIT COMMITTEE - 7 SEPTEMBER 2022

It was **RESOLVED** that the Part II Minutes of the meeting of the Audit Committee held on 7 September 2022 be approved as a correct record and signed by the Chair.

10 STRATEGIC RISK REGISTER

The Corporate Performance and Improvement Officer presented a report providing the Quarter 2 2022/23 (July to September 2022) update in respect of the Strategic Risk Register.

The Corporate Performance and Improvement Officer, assisted by the Strategic Director (CF), responded to some questions raised by Members on the report.

It was **RESOLVED** that the latest Strategic Risk Register, as set out at Appendix A1 to the report, be noted.

11 URGENT PART II BUSINESS

None.

CHAIR

This page is intentionally left blank

Stevenage Borough Council
Audit Planning Report

Year ended 31 March 2021

February 2022

EY

Building a better working world

Agenda Item 4

Stevenage Borough Council
Daneshill House
Danestrete
Stevenage
SG1 1HN

26 January 2023

Dear Members of the Audit Committee,

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as your auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2020/21 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This Plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks. Our planning procedures are still on-going and we will inform the Audit Committee and management if there are any significant changes or revisions once we have completed these procedures.

This report is intended solely for the information and use of the Audit Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you at the 7 February 2023 Audit Committee meeting as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Debbie Hanson

For and on behalf of Ernst & Young LLP

Contents

Page 11

Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/).The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated July 2021)" issued by the PSAA (https://www.psaa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/) sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of the Stevenage Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee and management of Stevenage Borough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Stevenage Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Overview of our 2020/21 audit strategy

Overview of our 2020/21 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error (Risk of management override)	Fraud Risk	**No change** in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively. In addition to our overall response, we consider where these risks may manifest themselves and identify separate fraud risks as necessary below.
Inappropriate classification of revenue spend as capital	Fraud Risk	**No change** in risk or focus	As noted above, we have considered the main areas where management may have the incentive and opportunity to do override controls. We have identified the inappropriate capitalisation of revenue expenditure on property, plant and equipment as an area of risk, given the extent of the Council's capital programme and regeneration schemes.
Incorrect accounting for financing of capital regeneration schemes	Significant Risk	**New risk**	The Council has a number of highly material capital schemes aimed at the regeneration and revitalisation of Stevenage town centre. In particular for 2020/21 the Council received £9.6m of LEP funding in relation to the new bus interchange in Stevenage town centre. Given the material misstatement identified and subsequently corrected during the 2019/20 audit in relation to LEP financing of capital schemes, there is a risk that the accounting of the funding of the capital regeneration projects is incorrect within the 2020/21 financial statements.
Valuation of market based property assets (including property, plant and equipment, Council dwellings and investment properties)	Significant Risk	**No change** in risk or focus	The Council has highly material property assets that are valued on a market basis (including property, plant and equipment, Council dwellings and investment properties). The valuation of such assets is a significant accounting estimate that, in the context of an uncertain economic environment as a result of Covid, has a material impact on the financial statements. The Council engages property valuation specialists to determine asset valuations. Small changes in assumptions when valuing these assets can have a material impact on the financial statements. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.

Overview of our 2020/21 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Risk / area of focus	Risk identified	Change from PY	Details
Valuation of property, plant and equipment assets under depreciated replacement cost (DRC) model	Inherent Risk	**No change** in risk or focus	Property, plant and equipment (PPE) represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end PPE balances held in the balance sheet. For assets valued using depreciated replacement cost (DRC) this risk is heightened due to the specialised nature of the assets and the risk of insufficient availability of market-based evidence to assist the valuation. As the Council's DRC asset base is significant, and the outputs from the valuer are subject to estimation, there is an inherent risk that PPE may be under/overstated.
Queensway lease accounting treatment	Inherent Risk	**No change** in risk or focus	In preparing Queensway LLP financial statements significant judgements are taken in relation to the lease accounting treatment. In our 2019/20 audit, a number of amendments were made to the group financial statements due to the incorrect split of lease repayment amounts between principal and interest in the model used.
Preparation of group accounts	No Risk	**Removal of the risk for 2020/21**	The financial statement of Queensway LLP have been consolidated since 2018/19. During our audit we have not noted significant issue arsing from the Council's group accounts consolidation procedures and process. Thus, we have removed the inherent risk attached in the preparation of group accounts.

Page 14

Overview of our 2020/21 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Risk / area of focus	Risk identified	Change from PY	Details
Pension liability valuation	Inherent Risk	**No change** in risk or focus	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body. The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the Actuary. Accounting for this scheme involves significant estimation and judgement and due to the nature, volume and size of the transactions, in the current uncertain economic environment, we consider this to be a higher inherent risk. In addition, every three years, a formal valuation of the whole fund in carried out in accordance with the LGPS Regulations 2013 to assess and examine the ongoing financial position of the fund.
Recognition of grant income associated with Covid-19	Inherent Risk	**No change** in risk or focus	The Council has received additional funding in the form of grants as a result of Covid-19 amounting to £22.4 million (of which (£17.5 million was paid to business and residents and £4.9 million was covid funding). Whilst there is no change in the CIPFA Code or accounting standard (IFRS 15) in respect of accounting for grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment in the 2020/21 statements, and therefore a risk of error. We will consider the elements of grant income and their susceptibility to error as part of our audit and ensure the Council has correctly assessed whether it is acting as principal or agent and whether any conditions attached have also been appropriately considered.
Going concern disclosures	Inherent Risk	**No change** in risk or focus	This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after. The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which for Stevenage Borough Council is the audit of the 2020/21 financial statements. The revised standard increases the work we are required to perform when assessing whether the Council is a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards; and we have therefore judged it appropriate to bring this to the attention of the Audit Committee.

Overview of our 2020/21 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Risk / area of focus	Risk identified	Change from PY	Details
Infrastructure asset accounting	Inherent Risk	New risk	In March 2022, an issue was raised with the National Audit Office's Local Government technical network in relation to the accounting for infrastructure assets which are held at depreciated historic cost. Following more detailed consideration, it has been identified that although local authorities add expenditure incurred on replacing or enhancing such assets, most do not appear to be considering the Cipfa Code requirement to establish whether this spend is a replacement of an asset, or a recognised component, and therefore are not derecognising the old asset or component. As a consequence, the gross cost and gross accumulated depreciation are continually increasing and the notes to the financial statements may be misstated where the expenditure is a replacement for an asset/component that is not fully depreciated. Cipfa established a task and finish group to address this issue. The Department to Levelling Up, Housing and Communities (DLUHC) and Cipfa have worked on a sector wide approach to resolution of the reporting of infrastructure assets. Following consultations with FRAB, local councils, ICAEW and external audit firms, a resolution has been agreed which has two elements: 1) Cipfa have issued an adaptation to the Code of Practice on Local Authority Accounting. 2) DLUHC have issued a Statutory Instrument (The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022). The Code allows for infrastructure assets to be reported in the notes to the accounts on a net basis. The SI allows for the infrastructure assets opening balance to be brought forward without amendment and determines the carrying amount to be derecognised in respect of replaced components to be nil. The Council plans to apply both the Code update and the SI to the 2020/21 financial statements. As at 31 March 2021, infrastructure assets were reported with a gross cost of £8.31 million and accumulated depreciation and impairment of £5.34 million.

Overview of our 2020/21 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Risk / area of focus	Risk identified	Change from PY	Details
Impact of non-compliance with the minimum decent home standards	Inherent Risk	New risk	In 2022, the Council was subject to a referral to the Housing Regulator in relation to non-compliance with the minimum decent home standards in a number of areas. The Council has been working with the regulator since the referral was made and has received a response to the action plan they have put in place to address the areas of non-compliance identified. Depending on the time at which the Council's housing stock fell below these minimum standards and the nature of the non-compliance, this may have an impact on valuation of the Council's dwellings. In addition, a consideration regarding whether a provision should be recorded in the accounts to reflect the works required to comply with the standard. Management will therefore need to undertake an assessment of compliance during 2020/21 (as well as 2019/20) to clearly establish the fact pattern and consider the potential impact on these two areas in the financial statements.

Overview of our 2020/21 audit strategy

Materiality

Planning materiality

£2.04m

Materiality for the Council's financial statements has been set at £2.04 million, which represents 2.0% of the 2020/21 gross expenditure of the Council. The use of 2% of gross expenditure has increased from the level we used in the prior year which was set at 1%. This reflects the reduction in our assessment of the risk profile of the Council and its business. Our assessment of risk was increased in the prior year, and materiality reduced accordingly, as a result of the financial pressures being faced by the Council at the time as a result of the impact of Covid on their income streams.

Performance materiality

£1.02m

Performance materiality has been set at £1.02 million (2019/20: £833,000), which represent 50% of materiality. This is a reduction from the prior year when we used 75% of materiality and reflects our assessment of an increased risk of errors in the 2020/21 financial statements.

Audit differences

£102k

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, and collection fund) greater than £102,000 (2019/20: £55,500). Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

Overview of our 2020/21 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Stevenage Borough Council give a true and fair view of the financial position as at 31 March 2021 and of the income and expenditure for the year then ended; and

- Our commentary on your arrangements to secure value for money in your use of resources for the relevant period. We include further details on VFM in Section 03.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years as well as the expansion of factors impacting the ISA 540 (revised) and the value for money conclusion. Therefore to the extent any of these or any other risks are relevant in the context of Stevenage Borough Council's audit, we will discuss these with management as to the impact on the scale fee.

Effects of climate-related matters on financial statements and Value for Money arrangements
Public interest in climate change is increasing. We are mindful that climate-related risks may have a long timeframe and therefore while risks exist, the impact on the current period financial statements may not be immediately material to an entity. It is nevertheless important to understand the relevant risks to make this evaluation. In addition, understanding climate-related risks may be relevant in the context of qualitative disclosures in the notes to the financial statements and value for money arrangements.

We make inquiries regarding climate-related risks on every audit as part of understanding the entity and its environment. As we re-evaluate our risk assessments throughout the audit, we continually consider the information that we have obtained to help us assess the level of inherent risk.

Overview of our 2020/21 audit strategy

Value for money

We include details in Section 03 but in summary:

- We are required to consider whether the Council has made 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

- Planning on value for money and the associated risk assessment is focused on gathering sufficient evidence to enable us to document our evaluation of the Council's arrangements, to enable us to draft a commentary under three reporting criteria (see below). This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

- We will provide a commentary on the Council's arrangements against three reporting criteria:
  - Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services;
  - Governance - How the Council ensures that it makes informed decisions and properly manages its risks; and
  - Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

- The commentary on VFM arrangements will be included in the Auditor's Annual Report.

- Our VFM risk assessment in the prior year identified a risk of significant weakness in relation to the Council's secure economy, efficiency and effectiveness in your use of resources.

Timeline

We are currently working with the Council to agree appropriate timelines for the delivery of the 2020/21 audit which will be the most efficient and effective for both the finance team and EY, taking into account other deadlines and in particular the 2022/23 financial closedown processes.

Audit team changes

Debbie Hanson will be the Engagement Partner and Karen Cunanan will be the Senior Manager of the engagement for 2020/21

02 Audit risks

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Misstatements due to fraud or error*

(Management override)

What is the risk?	What will we do?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.
 	
As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.
	We will:
	▸ Identify fraud risks during the planning stages.
	▸ Inquire of management about risks of fraud and the controls put in place to address those risks
	▸ Understand the oversight given by those charged with governance of management's processes over fraud
	▸ Consider of the effectiveness of management's controls designed to address the risk of fraud
	▸ Determine an appropriate strategy to address those identified risks of fraud
	▸ Perform mandatory procedures regardless of specifically identified fraud risks, including:
	    ▸ Testing of journal entries and other adjustments in the preparation of the financial statements;
	    ▸ reviewing accounting estimates for evidence of management bias; and
	    ▸ evaluating the business rationale for significant unusual transactions;

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Inappropriate classification of revenue spend as capital*

What is the risk?

In considering how the risk of management override may present itself, we conclude that this is primarily through management taking action to override controls and manipulate in year financial transactions that impact the medium to longer term financial position. A key way of improving the revenue position is through the inappropriate capitalisation of revenue expenditure.

Stevenage Borough Council has a significant fixed asset base and as a result has a significant capital programme of £70.81 million for 2020/21. Therefore, we have concluded there is a potential risk that revenue expenditure could be incorrectly classified as capital. Refcus (revenue expenditure financed from capital under statute) is reported as 1.275 million in the draft accounts and therefore there is also a risk that this could be overstated.

What will we do?

We will:

- Obtain a general ledger (GL) breakdown of capital additions in the year, reconcile to the Fixed Assets Register (FAR), and review the GL descriptions to identify whether there are any potential transactional items that could be revenue in nature;
- Sample test additions to property, plant and equipment at a lower testing threshold to ensure they have been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised;
- Sample test Refcus expenditure at a lower testing threshold to ensure items are meet the definition of Refcus and have not been inappropriately classified within the financial statements;
- We will extend our testing of items capitalised in the year by lowering our testing threshold. We will also review a random sample of capital additions below our testing threshold;
- As part of our journal testing strategy, we will review unusual journals related to capital expenditure posted around the year-end; for example where the debit is to capital expenditure and the credit to income and expenditure.

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Incorrect accounting for financing of capital regeneration schemes	What is the risk?	What will we do?
	The Council has a number of highly material capital schemes aimed at the regeneration and revitalisation of Stevenage town centre. In particular for 2020/21 the Council received £9.6m of LEP funding in relation to the new bus interchange in Stevenage town centre. Given the material misstatement identified and subsequently corrected during the 2019/20 audit in relation to LEP financing of capital schemes, there is a risk that the accounting of the funding of the capital regeneration projects is incorrect within the 2020/21 financial statements.	We will: ▸ Review the financial statements for how the financing of capital regeneration schemes have been accounted for. ▸ Confirm that the accounting treatment adopted is supported by the nature of the underlying funding agreements, e.g. with the Hertfordshire LEP, including if there are any conditions or repayment terms included into the agreement. ▸ Test receipt of capital funding to supporting bank statement evidences to verify that the financing of capital schemes has been accounted for in the correct financial period and any balances at the end of the financial year are appropriately reflected on the balance sheet.

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Valuation of market based property assets (including property, plant and equipment, Council dwellings and investment properties)	What is the risk?	What will we do?
	The Council has highly material property assets valued on a market basis (including property, plant and equipment, Council dwellings and investment properties). The valuation of such assets is a significant accounting estimate that, in the context of an uncertain economic environment as a result of Covid, has a material impact on the financial statements. The Council engages property valuation specialists to determine asset valuations and small changes in assumptions when valuing these assets can have a material impact on the financial statements. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.	We will: ▸ Test that assets have been classified and valued on an appropriate basis. ▸ Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; ▸ Sample test and challenge the key asset information and assumptions used by the valuers in performing their valuation; for example floor plans, price per square metre, yields, etc. ▸ Consider the annual cycle of valuations to ensure that assets have been valued within an appropriate timescale. ▸ Consider any specific changes to assets that have occurred and that these have been communicated to the valuer; ▸ Review assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated; ▸ Consider changes to useful economic lives as a result of the most recent valuation; and ▸ Test accounting entries have been correctly processed in the financial statements. We will also engage EY valuation specialists to assist the audit team on a sample of assets, based on our assessment of the asset valuations subject to a higher degree of risk for their valuations as at 31 March 2021. We will also consider how the Council's valuer has addressed the impact of Covid-19 in the year-end valuation of assets and assessment of impairments.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
<u>Valuation of property, plant and equipment assets under depreciated replacement cost (DRC) model</u> Property, plant and equipment (PPE) represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end PPE balances held in the balance sheet. For assets valued using depreciated replacement cost (DRC) this risk is heightened due to the specialised nature of the assets and insufficient availability of market-based evidence to assist the valuation. As the Council's DRC asset base is significant, and the outputs from the valuer are subject to estimation, there is a significant risk PPE may be under/overstated or the associated accounting entries incorrectly posted.	We will: ▸ Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; ▸ Sample testing key asset information and assumptions used by the valuers in performing their valuation (e.g. gross internal area, build cost, depreciation adjustments, external works, professional fees and land values); ▸ Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code. ▸ Consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer; ▸ Review assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated; ▸ Consider changes to useful economic lives as a result of the most recent valuation; and ▸ Test accounting entries have been correctly processed in the financial statements. Involved EY Valuation specialists to review sample of DRC asset valuations.
<u>Queensway Lease Accounting Treatment</u> In preparing Queensway LLP financial statements significant judgements are taken in relation to the lease accounting treatment. In our 2019/20 audit, a number of amendments were made to the group financial statements due to the incorrect split of lease repayment amounts between principal and interest in the model used.	We will: ▸ Review the lease accounting treatment adopted including follow up on points identified during the 2019/20. In particular the interest rates applied to the leasing and borrowing elements of the lease agreement and the split of repayment of principal and interest. ▸ Consider whether the appropriate accounting journal entries are consistent with the prevailing accounting standard IAS 17 Leases. ▸ Review the relevant lease disclosures in the Council's financial statements.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
<u>Pension liability valuation</u> The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme (LGPS) in which it is an admitted body. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2021, this totalled £61.58 million. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the administering body. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	We will: ▸ Liaise with the auditors of Hertfordshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Stevenage Borough Council; ▸ Assess the work of the Pension Fund actuary (Hymans Robertson LLP) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering reviews by the EY actuarial team; ▸ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19; ▸ Consider the nature and value of level 3 investments held by Hertfordshire Pension Fund and the proportion of the overall Fund relating to Stevenage Borough Council in order to identify any additional procedures required to support the estimates of the valuation of these asset as at 31 March 2021; and ▸ In response to the revised requirements of ISA540, the auditing standard on accounting estimates, we will engage an EY Pensions specialist to review the Council's IAS19 reports and run a parallel actuarial model which we will compare to that produced by the Council's actuary.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
<u>Recognition of Grant Income associated with Covid-19</u> The Council has received additional funding in the form of grants as a result of the Covid-19 amounting to £22.40 million (of which £17.5 million was paid to business and residents and £4.9 million was covid funding). Whilst there is no change in the CIPFA Code or accounting standard (IFRS 15) in respect of accounting for grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment in the 2020/21 statements, and therefore a risk of error. We will consider the elements of grant income and their susceptibility to error as part of our audit and ensure the Council has correctly assessed whether it is acting as principal or agent and whether any conditions attached have also been appropriately considered.	We will: ▸ Consider the revenue and capital grants received by the Council; ▸ Review the Council's judgement on material grants received in relation to whether it is acting as principal or agent, and assess the appropriateness of this judgement; ▸ Undertake substantive procedures to ensure that grants have been claimed and recognised in accordance with scheme rules and conditions; and ▸ Responsive to the risk, carry out testing to ensure the accounting treatment and recognition applied to grant income is appropriate.
<u>Going concern disclosures</u> There is a presumption that the Council will continue as a going concern for the foreseeable future. However, the Council is required to carry our a going concern assessment that is proportionate to the risks it faces. In light of the continued impact of Covid-19 on the Council's day to day finances, its annual budget, its cashflow and its medium term financial strategy, there is a need for the Council to ensure it's going concern assessment is thorough and appropriately comprehensive. The Council is then required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified.	We will meet the requirements of auditing standard on going concern (ISA 570) and consider the adequacy of the Council's going concern assessment and its disclosure in the accounts by: ▸ Challenging management's identification of events or conditions impacting going concern; ▸ Testing management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias); ▸ Reviewing the Council's cashflow forecast covering at least 1 months from the expected date of our audit report, to ensure that it has sufficient liquidity to continue to operate as a going concern; ▸ Undertaking a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern; ▸ Challenging the disclosure made in the accounts in respect of going concern and any material uncertainties.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
<u>Infrastructure asset accounting</u> In March 2022, an issue was raised with the National Audit Office's Local Government technical network in relation to the accounting for infrastructure assets which are held at depreciated historic cost. Following more detailed consideration, it has been identified that although local authorities add expenditure incurred on replacing or enhancing such assets, most do not appear to be considering the Cipfa Code requirement to establish whether this spend is a replacement of an asset, or a recognised component, and therefore are not derecognising the old asset or component. As a consequence, the gross cost and gross accumulated depreciation are continually increasing and the notes to the financial statements may be misstated where the expenditure is a replacement for an asset/component that is not fully depreciated. Cipfa established a task and finish group to address this issue. The Department to Levelling Up, Housing and Communities (DLUHC) and Cipfa have worked on a sector wide approach to resolution of the reporting of infrastructure assets. Following consultations with FRAB, local councils, ICAEW and external audit firms, a resolution has been agreed which has two elements: 1) Cipfa have issued an adaptation to the Code of Practice on Local Authority Accounting. 2) DLUHC have issued a Statutory Instrument (The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022). The Code allows for infrastructure assets to be reported in the notes to the accounts on a net basis. The SI allows for the infrastructure assets opening balance to be brought forward without amendment and determines the carrying amount to be derecognised in respect of replaced components to be nil. The Council plans to apply both the Code update and the SI to the 2020/21 financial statements. As at 31 March 2021, infrastructure assets were reported with a gross cost of £8.31 million and accumulated depreciation and impairment of £5.34 million.	Following the guidance from Cipfa we will: ▸ Confirm with the Council the first financial year they are applying the statutory instrument. This should be a financial year beginning on or before 1st April 2024; and in respect of which a certificate has not been entered under section 20(2)(a) of that Act; ▸ Check the disclosure of infrastructure assets is in accordance with the Cipfa Code adaptation; ▸ Agree the opening balance for infrastructure assets to the closing balance on the prior year audited financial statements; ▸ Ensure the financial statements include a disclosure note setting out the application of the Code adaptation and SI; ▸ Ensure the accounting policies disclosed are consistent with this determination. As part of this we will ensure that that Council's accounting policies clearly set out how the Council is accounting for infrastructure assets. Accounting policies should include commentary on statutory prescriptions (if applied) and depreciation. Annex A of the Cipfa Bulletin on Infrastructure Assets (Jan 2023) provides an example accounting policy; ▸ Document how the SI provides assurance over all assertions for the opening balance as the Council is not required to make any prior period adjustment to the balances in the statement of accounts in respect of infrastructure assets, when preparing a statement of accounts to which the regulation applies; ▸ Test in year movements (additions, derecognition and depreciation) of infrastructure assets; and ▸ Consider management's assessment of whether the depreciation policy applied to derive the net book values is supportable and correctly applied. A key element of this will be the determination and application of the useful economic life (UE). The Cipfa Bulletin on Infrastructure Assets (issued in January 2023) provides further guidance to local authorities, including expert views on UEL ranges for different asset groups and illustrative examples for estimating depreciation.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
<u>Impact on non-compliance with the minimum decent home standards</u> In 2022, the Council was subject to a referral to the Housing Regulator in relation to non-compliance with the minimum decent home standards in a number of areas. The Council has been working with the regulator since the referral was made and has received a response to the action plan they have put in place to address the areas of non-compliance identified. Depending on the time at which the Council's housing stock fell below these minimum standards and the nature of the non-compliance, this may have an impact on valuation of the Council's dwellings. In addition, a consideration regarding whether a provision should be recorded in the accounts to reflect the works required to comply with the standard. Management will therefore need to undertake an assessment of compliance during 2020/21 (as well as 2019/20) to clearly establish the fact pattern and consider the potential impact on these two areas in the financial statements.	We will: ▸ Obtain monitoring reports from management regarding the number of housing dwellings that are not meeting the Home Standard as at 31 March 2021; ▸ Obtain from management details of expenditure required to bring the dwellings back to the required standards and review and assess the reasonableness of the break down between capital and revenue expenditure; ▸ Obtain and review the assessment from management as to whether provision for required revenue works should be recorded as at 31 March 2021; and ▸ Obtain and review the assessment from management and the Council's valuers regarding how the non-compliance has been considered in the valuation of the council dwellings.

03 Value for Money Risks

Value for Money

The Council's responsibilities for value for money

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

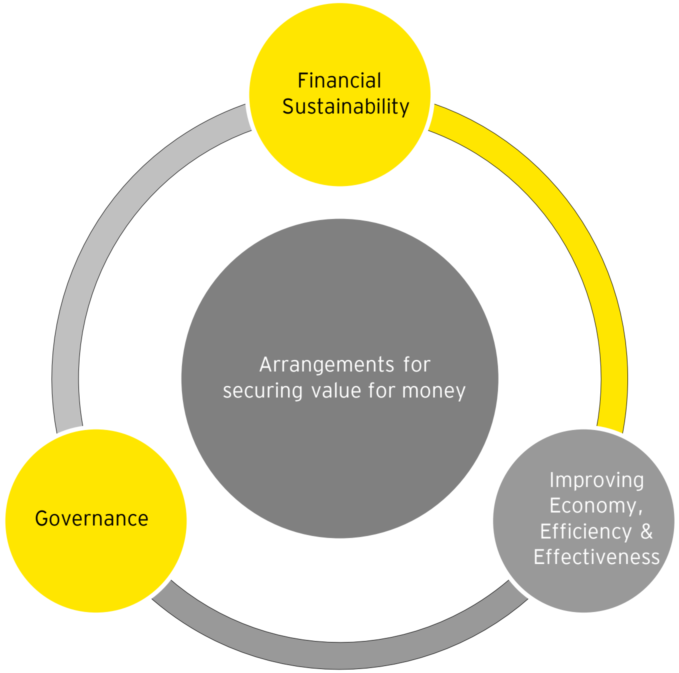
As part of the material published with the financial statements, the Council is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on arrangements for securing value for money from the use of resources.

Auditor responsibilities

Under the NAO Code of Audit Practice we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

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



Value for Money

Planning and identifying risks of significant weakness in VFM arrangements

The NAO's guidance notes requires us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Council's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

In considering the Council's arrangements, we are required to consider:

- The Council's governance statement;
- Evidence that the Council's arrangements were in place during the reporting period;
- Evidence obtained from our work on the accounts;
- The work of inspectorates and other bodies; and
- Any other evidence source that we regards as necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

- Exposes – or could reasonably be expected to expose – the Council to significant financial loss or risk;
- Leads to – or could reasonably be expected to lead to – significant impact on the quality or effectiveness of service or on the Council's reputation;
- Leads to – or could reasonably be expected to lead to – unlawful actions; or
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also be informed by a consideration of:

- The magnitude of the issue in relation to the size of the Council;
- Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves (where applicable), or impact on budgets or cashflow forecasts;
- The impact of the weakness on the Council's reported performance;
- Whether the issue has been identified by the Council's own internal arrangements and what corrective action has been taken or planned;
- Whether any legal judgements have been made including judicial review;
- Whether there has been any intervention by a regulator or Secretary of State;
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- The impact on delivery of services to local taxpayers; and
- The length of time the Council has had to respond to the issue.

Value for Money

Responding to identified risks of significant weakness

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the Audit Committee.

Reporting on VFM

Where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the Code requires that we should refer to this by exception in the audit report on the financial statements.

In addition, the Code requires us to include the commentary on arrangements in the Auditor's Annual Report. The Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Council's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

Status of our 2020/21 VFM planning

We have yet to complete our detailed VFM planning. However, based on the planning we have undertaken to date we expect that one area of focus will be on the arrangements that the Council has in place in relation to financial sustainability.

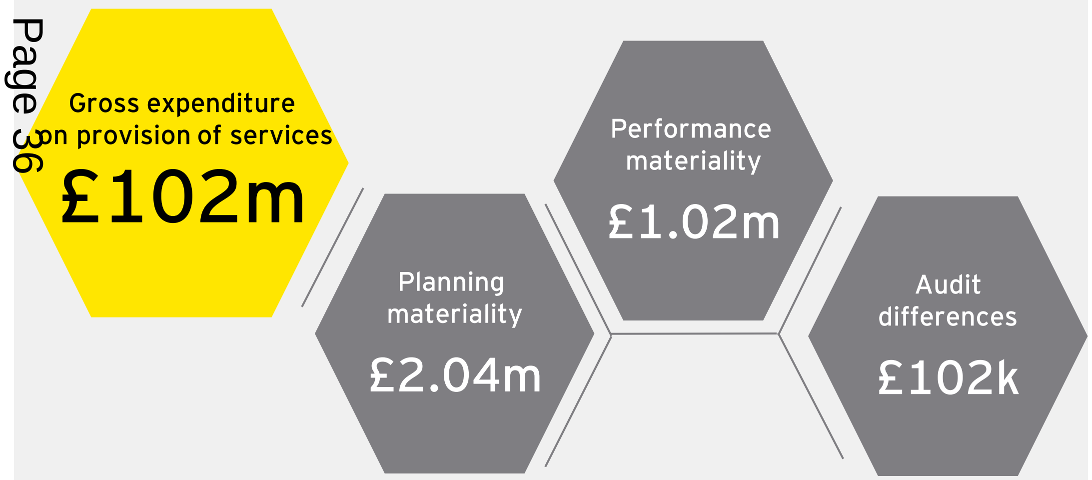
We will update the Audit Committee on the outcome of our VFM planning and our planned response to any identified risks of significant weaknesses in arrangements at a future meeting.

04 Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2020/21 has been set at £2.04 million (2019/20: £1.11 million). This represents 2.0% of the Council's 2020/21 gross expenditure on provision of services. It will be reassessed throughout the audit process. We consider that the focus from interested parties will be on how income is spent and therefore our judgement is that Gross Expenditure is considered to be the most appropriate measurement basis for materiality. We have provided supplemental information about audit materiality in Appendix C.



We request that the Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £1.02 million (2019/20: £833,000) which represents 50% of planning materiality due to the level of audit adjustments identified in the prior year, and our assessed risk of the likelihood of errors in the current year financial statements.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. The same threshold for misstatements is used for component reporting. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet and collection fund that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the audit committee, or are important from a qualitative perspective.

Group materiality – This considers the balances of Queensway LLP. Group materiality follows:

Planning materiality - £2.10 million
Performance materiality – £1.05 million
Audit differences – £105k

Materiality

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all the circumstances that might ultimately influence our judgement. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

Specific materiality

We also identify areas where misstatement at a lower level than our overall materiality level might influence the reader and develop an audit strategy specific to these areas, including:

- Remuneration disclosures including severance payments, exit packages and termination benefits: we will agree all disclosures back to source data, and councillor allowances to the agreed and approved amounts. We will treat any differences over £5k or which result in changes in bandings as material.
- Member allowances: we will agree all disclosures back to source data and agreed and approved amounts. We will treat any differences over £5k as material.
- Related party transactions we will test the completeness of related party disclosures and the accuracy of all disclosures by checking back to supporting evidence. We will treat any differences over £5k or which result in changes in bandings as material.
- Audit Fees: we will agree all disclosures back to source data and agreed amounts. We will treat any differences over £5k as material.

05 Scope of our audit

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice, our principal objectives are to undertake work to support the provision of our audit report to the audited body and to satisfy ourselves that the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. **Financial statement audit**

Our opinion on the financial statements:

- whether the financial statements give a true and fair view of the financial position of the audited body and its expenditure and income for the period in question; and
- whether the financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.

Our opinion on other matters:

- whether other information published together with the audited financial statements is consistent with the financial statements; and
- where required, whether the part of the remuneration report to be audited has been properly prepared in accordance with the relevant accounting and reporting framework.

Other procedures required by the Code:

- Examine and report on the consistency of the Whole of Government Accounts schedules or returns with the body's audited financial statements for the relevant reporting period in line with the instructions issued by the NAO.

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

As outlined in Section 03, we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources and report a commentary on those arrangements.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2020/21, we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:
We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

Internal audit:
We will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

Scoping the group audit

Group scoping

Our audit strategy for performing an audit of an entity with multiple locations is risk based. We identify components as:

1. **Significant components:** A component is significant when it is likely to include risks of material misstatement of the group financial statements, either because of its relative financial size to the group (quantitative criteria), or because of its specific nature or circumstances (qualitative criteria). We generally assign significant components a full or specific scope given their importance to the financial statements.
2. **Not significant components:** The number of additional components and extent of procedures performed depended primarily on: evidence from significant components, the effectiveness of group wide controls and the results of analytical procedures.

Stevenage Borough Council has control of Queensway LLP through a partnership with Marshgate Ltd (a subsidiary holding company that the Council owns). Marshgate Ltd is not consolidated into the Council's group financial statements on the grounds of materiality. Queensway LLP is consolidated into the Council's group financial statements. For the purpose of the group audit we have consider Queensway LLP to be a significant component and have designated it a 'specific' scope. This is approach is consistent with that adopted in the prior year.

Scope definitions

Full scope: locations where a full audit is performed to the materiality levels assigned by the Group audit team for purposes of the consolidated audit. Procedures performed at full scope locations support an interoffice conclusion on the reporting package. These may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements because of the materiality used and any additional procedures required to comply with local laws and regulations.

Specific scope: locations where the audit is limited to specific accounts or disclosures identified by the Group audit team based on the size and/or risk profile of those accounts.

Review scope: locations where procedures primarily consist of analytical procedures and inquiries of management. On-site or desk top reviews may be performed, according to our assessment of risk and the availability of information centrally.

Specified Procedures: locations where the component team performs procedures specified by the Group audit team in order to respond to a risk identified.

Other procedures: For those locations that we do not consider material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those locations. Individually, these components do not exceed more than 1% of the Group's profit before tax.

Scope definitions

Based on a review of Queensway LLP's financial data at the planning stage of the audit, we consider the following areas to for this component to be included within the specific scope of the group audit:

- Property – Land & buildings
- Cash and cash equivalents
- Finance lease liability
- Long term borrowing
- Financing costs
- Turnover

The scope of the Queensway LLP component may change based on the result of our audit procedures. If we identify any changes in scope of the group audit we will communicate these at the next Audit Committee.

Scoping the group audit

Group audit team involvement in component audits

Queensway LLP does not have external auditor since it qualifies for an audit exemption. Planned group audit procedures to be performed by the audit team (EY) include:

- Performing substantive procedures for the specific accounts identified to be in scope.
- Analytical review of actual performance compared to budget, the prior year and KPIs.
- Review of group wide entity level controls over the component, including the level of CEO, CFO and other group management oversight.
- Testing of consolidation journals, intercompany eliminations and foreign currency translation recalculations.
- Enquiry of management about unusual transactions in the component.

06 Audit team

Audit team

Audit team structure:

Debbie Hanson
Lead Audit Partner

Karen Joan Cunanan
Senior Manager

Nicholas Hoar
Senior

EY Pensions

Pensions Specialist

EY Real Estate

Valuations Specialist

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	EY Real Estate Management Specialist – Savills PLC
Pensions disclosure	EY Pensions Specialist PWC as consulting actuary engaged by the NAO Management Specialist – Hymans Robertson LLP - LGPS

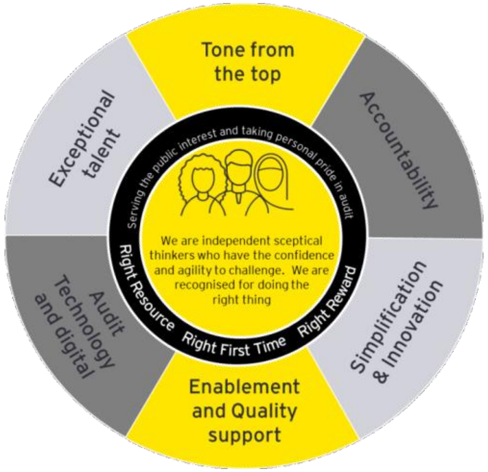
In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

Developing the right Audit Culture

In July 2021, EY established a UK Audit Board (UKAB) with a majority of independent Audit Non-Executives (ANEs). The UKAB will support our focus on delivering high-quality audits by strengthening governance and oversight over the culture of the audit business. This focus is critical given that audit quality starts with having the right culture embedded in the business.



Page 46

Our audit culture is the cement that binds together the building blocks and foundation of our audit strategy. We have been thoughtful in articulating a culture that is right for us: one that recognises we are part of a wider, global firm and is clear about whose interests our audits serve.

There are three elements underpinning our culture:

1. Our people are focused on a **common purpose**. It is vital we foster and nurture the values, attitudes and behaviours that lead our people to do the right thing.
2. The essential attributes of our audit business are:
   - **Right resources** – We team with competent people, investing in audit technology, methodology and support
   - **Right first time** – Our teams execute and review their work, consulting where required to meet the required standard
   - **Right reward** – We align our reward and recognition to reinforce the right behaviours
3. The six pillars of **Sustainable Audit Quality** are implemented.

01 **Tone at the top**

The internal and external messages sent by EY leadership, including audit partners, set a clear tone at the top - they establish and encourage a commitment to audit quality

02 **Exceptional talent**

Specific initiatives support EY auditors in devoting time to perform quality work, including recruitment, retention, development and workload management

03 **Accountability**

The systems and processes in place help EY people take responsibility for carrying out high-quality work at all times, including their reward and recognition

04 **Audit technology and digital**

The EY Digital Audit is evolving to set the standard for the digital-first way of approaching audit, combining leading-edge digital tools, stakeholder focus and a commitment to quality

05 **Simplification and innovation**

We are simplifying and standardising the approach used by EY auditors and embracing emerging technologies to improve the quality, consistency and efficiency of the audit

06 **Enablement and quality support**

How EY teams are internally supported to manage their responsibility to provide high audit quality

A critical part of this culture is that our people are **encouraged and empowered to challenge and exercise professional scepticism** across all our audits. However, we recognise that creating a culture requires more than just words from leaders. It has to be reflected in the lived experience of all our people each and every day enabling them to challenge themselves and the companies we audit.

Each year we complete an audit quality culture assessment to obtain feedback from our people on the values and behaviours they experience, and those they consider to be fundamental to our audit quality culture of the future. We action points that arise to ensure our culture continues to evolve appropriately.

2021 Audit Culture Survey result
A cultural health score of 78% (73%) was achieved for our UK Audit Business

We bring our culture alive by investing in three priority workstreams:
- Audit Culture with a focus on professional scepticism
- Adopting the digital audit
- Standardisation

This investment has led to a number of successful outputs covering training, tools, techniques and additional sources. Specific highlights include:
- Audit Purpose Barometer
- Active Scepticism Framework
- Increased access to external sector forecasts
- Forensic risk assessment pilots
- Refreshed PLOT training and support materials, including embedding in new hire and trainee courses
- Digital audit training for all ranks
- Increased hot file reviews and improved escalation processes
- New work programmes issued on auditing going concern, climate, impairment, expected credit losses, cashflow statements and conducting effective group oversight
- Development of bite size, available on demand, task specific tutorial videos

"A series of company collapses linked to unhealthy cultures…..have demonstrated why cultivating a healthy culture, underpinned by the right tone from the top, is fundamental to business success."

Sir John Thompson
Chief Executive of the FRC

07 Audit timeline

Audit timeline

Timetable of communication and deliverables

Timeline

We are currently working with the Council to agree appropriate timelines for the delivery of the 2020/21 audit which will be the most efficient and effective for both the finance team and EY, taking into account other deadlines and in particular the 2022/23 financial closedown processes.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

08 Independence

Introduction

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	**Final stage**
► The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us; ► The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ► The overall assessment of threats and safeguards; ► Information about the general policies and process within EY to maintain objectivity and independence.	► In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ► Details of non-audit/additional services provided and the fees charged in relation thereto; ► Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ► Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner ► Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ► Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and ► An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non –audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Debbie Hanson, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we have an investment in the Council; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and where we do so, we will comply with the policies that you have approved, and the Financial Reporting Council's Ethical Standards, and the National Audit Office's Auditor Guidance Note 01. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, our non-audit work on behalf of the Council is within this ratio. No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Other communications

EY Transparency Report 2021

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law.

The most recent version of this Report is for the year end 30 June 2022: EY UK 2022 Transparency Report | EY UK

09 Appendices

Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Planned fee 2020/21	Scale Fee 2019/20
	£	£
Total Scale Fee – Code work	49,283	49,283
Changes in work required to address professional and regulatory requirements and scope associated with risk (**Note 1**)	TBC	TBC
Other Fee variations:		
Additional work required related to revised ISA 540, pension and PPE valuation, lease agreements, group audit work, increase in FRC challenge, VFM commentary quality and preparation issues and procedures related to going concern **(Note 2)**	TBC	TBC
VFM additional risk **(Note 3)**	TBC	TBC
Total audit fee	£	£
Non-audit fees – certification work (Housing Benefits)	TBC	TBC
Total fees	£	£

Note 1:

The scale fee for both 2019/20 and 2020/21 has been re-assessed to take into account a number of risk factors which includes procedures performed to address the risk profile of Stevenage Borough Council and additional work to address increase in Regulatory standards. The additional fee is still in discussion with management and will be subject for approval of PSAA.

Note 2:

The additional fee to address specific risks will be calculated and then determined by PSAA Ltd once the 2019/20 and 202/21 audits are complete.

Note 3:

This relates to work performed to address the additional vfm risk. The amount will be submitted with PSAA Ltd once the audit is complete for final determination.

All fees exclude VAT

Appendix B

Required communications with the Audit Committee

We have detailed the communications that we must provide to the Audit Committee**.**

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit Planning Report - February 2023
Significant findings from the audit	▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▸ Significant difficulties, if any, encountered during the audit ▸ Significant matters, if any, arising from the audit that were discussed with management ▸ Written representations that we are seeking ▸ Expected modifications to the audit report ▸ Other matters if any, significant to the oversight of the financial reporting process	Audit results report - *Upon completion of the audit* Auditor's Annual Report - *Upon completion of the audit*

Page 55

Appendix B

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Public Interest Entities	For the audits of financial statements of public interest entities our written communications to the Audit Committee include: ▶ A declaration of independence ▶ The identity of each key audit partner ▶ The use of non-member firms or external specialists and confirmation of their independence ▶ The nature and frequency of communications ▶ A description of the scope and timing of the audit ▶ Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits ▶ Materiality ▶ Any going concern issues identified ▶ Any significant deficiencies in internal control identified and whether they have been resolved by management ▶ Actual or suspected non-compliance with laws and regulations identified relevant to the Audit Committee ▶ The valuation methods used and any changes to these including first year audits ▶ The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework ▶ The identification of any non-EY component teams used in the group audit ▶ The completeness of documentation and explanations received ▶ Any significant difficulties encountered in the course of the audit ▶ Any significant matters discussed with management ▶ Any other matters considered significant	Audit results report – *Upon completion of the audit* Auditor's Annual Report – *Upon completion of the audit*

Page 56

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The adequacy of related disclosures in the financial statements	Audit results report – *Upon completion of the audit*
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Material misstatements corrected by management	Audit results report – *Upon completion of the audit*
Subsequent events	▸ Enquiries of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements	Audit results report – *Upon completion of the audit*
Fraud	▸ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▸ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements ▸ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▸ Any other matters related to fraud, relevant to Audit Committee responsibility	Audit results report – *Upon completion of the audit*

Page 57

Required communications with the Audit Committee (continued)

Required communications	What is reported?	Our Reporting to you When and where
Related parties	▸ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▸ Non-disclosure by management ▸ Inappropriate authorisation and approval of transactions ▸ Disagreement over disclosures ▸ Non-compliance with laws and regulations ▸ Difficulty in identifying the party that ultimately controls the entity	Audit results report – *Upon completion of the audit*
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ The principal threats ▸ Safeguards adopted and their effectiveness ▸ An overall assessment of threats and safeguards ▸ Information about the general policies and process within the firm to maintain objectivity and independence Communication whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place. For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019: ▸ Relationships between EY, the Council and senior management, its affiliates and its connected parties ▸ Services provided by EY that may reasonably bear on the auditors' objectivity and independence ▸ Related safeguards ▸ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees	Audit Planning Report – February 2023 Audit results report – *Upon completion of the audit*

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
	▸ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit ▸ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy ▸ Details of any contingent fee arrangements for non-audit services ▸ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard ▸ The Audit Committee should also be provided an opportunity to discuss matters affecting auditor independence	
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report – *Upon completion of the audit*
Consideration of laws and regulations	▸ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▸ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of	Audit results report – *Upon completion of the audit*
Internal controls	▸ Significant deficiencies in internal controls identified during the audit	Audit results report – *Upon completion of the audit*

Appendix B

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Group audits	▸ An overview of the type of work to be performed on the financial information of the components ▸ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▸ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▸ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▸ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements	Audit planning report – February 2023 Audit results report – *Upon completion of the audit*
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report – *Upon completion of the audit*
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report – *Upon completion of the audit*
Auditors report	▸ Any circumstances identified that affect the form and content of our auditor's report	Audit results report – *Upon completion of the audit* Auditor's Annual Report – *Upon completion of the audit*
Fee Reporting	▸ Breakdown of fee information when the audit plan is agreed ▸ Breakdown of fee information at the completion of the audit ▸ Any non-audit work	Audit planning report – February 2023 Audit results report – *Upon completion of the audit*
Value for Money	▸ Risks of significant weakness identified in planning work ▸ Commentary against specified reporting criteria on the VFM arrangements, including any exception report on significant weaknesses.	Audit planning report – February 2023 Audit results report – *Upon completion of the audit* Auditor's Annual Report – *Upon completion of the audit*

Appendix C

Additional audit information

Objective of our audit

Our objective is to form an opinion on the Council's and Group's consolidated financial statements under International Standards on Auditing (UK) as prepared by you in accordance with with International Financial Reporting Standards as adopted by the EU, and as interpreted and adapted by the Code of Practice on Local Authority Accounting.

Our responsibilities in relation to the financial statement audit are set out in the formal terms of engagement between the PSAA's appointed auditors and audited bodies. We are responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of the Audit Committee. The audit does not relieve management or the Audit Committee of their responsibilities.

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 02, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- Maintaining auditor independence.

Additional audit information (continued)

Other required procedures during the course of the audit (continued)	
Procedures required by the Audit Code	▸ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement. ▸ Examining and reporting on the consistency of consolidation schedules or returns with the Council's audited financial statements for the relevant reporting period
Other procedures	▸ We are required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice
We have included in Appendix B a list of matters that we are required to communicate to you under professional standards.	

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines the level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

EY | Assurance | Tax | Transactions | Advisory

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.
EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

ED None

ey.com

This page is intentionally left blank

Stevenage Borough Council
Audit Committee

7 February 2023
Shared Internal Audit Service –
Progress Report

Recommendations

Members are recommended to:

a) Note the Internal Audit Progress Report
b) Approve the Internal Audit Plan Changes
c) Note the Status of Critical and High Priority Recommendations

Contents

1 Introduction and Background

Purpose of Report

1.1 To provide Members with:

a) The progress made by the Shared Internal Audit Service (SIAS) in delivering the Council's 2022/23 Internal Audit Plan to 20 January 2023.
b) The findings for the period 20 August 2022 to 20 January 2023.
c) Details of any changes required to the approved Internal Audit Plan.
d) The implementation status of previously agreed audit recommendations.
e) An update on performance management information to 20 January 2023.

Background

1.2 Internal Audit's Annual Plan for 2022/23 was approved by the Audit Committee at its meeting on 28 March 2022. The Audit Committee receive periodic updates against the Internal Audit Plan. This is the second update report for 2022/23.

1.3 The work of Internal Audit is required to be reported to a Member Body so that the Council has an opportunity to review and monitor an essential component of corporate governance and gain assurance that its internal audit function is fulfilling its statutory obligations. It is considered good practice that progress reports also include details of changes to the agreed Annual Internal Audit Plan.

2 Audit Plan Update

Delivery of Internal Audit Plan and Key Audit Findings

2.1 As of 20 January 2023, 57% of the 2022/23 Internal Audit Plan days have been delivered (the calculation excludes contingency days that have not yet been allocated).

2.2 The following final reports have been issued since the last Progress Report to the Audit Committee:

Audit Title	Date of Issue	Assurance Level	Number of Recommendations
Homelessness & Housing Advice 2021/22	Sep 2022	Reasonable	One Medium and Two Low Priority
Off Street Parking 2022/23	Sep 2022	Substantial	None
Cemeteries 2022/23	Sep 2022	Reasonable	Two Low Priority
Refuse 2022/23	Sep 2022	Substantial	One Low Priority
Community Safety (SADA) 2021/22	Oct 2022	Reasonable	Three Medium and One Low Priority
Supply Chain Interruption 2022/23	Nov 2022	Reasonable	Four Medium Priority

Asset Management 2022/23	Dec 2022	Substantial	None
Environmental Maintenance 2022/23	Jan 2023	Limited	One High, Three Medium and Two Low Priority

See definitions for the above assurance levels and recommendation priorities at Appendix D.

2.3 The table below summarises the position regarding delivery of the 2022/23 approved projects to 20 January 2023. Appendix A provides a status update on each individual project within the 2022/23 Internal Audit Plan.

Status	No. of Audits at this Stage	% of Total Audits
Final Report Issued	8	25%
Draft Report Issued	6	19%
In Fieldwork/Quality Review	5	16%
In Planning/Terms of Reference Issued	1	3%
Allocated	11	34%
Not Yet Allocated	0	0%
Cancelled/Deferred	1	3%
Total	**32**	**100%**

Internal Audit Plan Changes

2.4 Members should note at Appendix C that four audits have been moved to quarter 4 from dates earlier in 2022/23. This is due to a combination of management requests and work reallocation by SIAS.

2.5 The following Audit Plan change was agreed with the audit sponsor. The Committee is asked to approve this change:

a) Planned and Response Maintenance to the Council's Estate – an audit intended for quarter 3 has been cancelled. After discussions with the Assistant Director – Stevenage Direct Services, SIAS were advised that the audit was not required due to an internal service review at the present time. The days not used on this audit have been returned to the contingency balance, which has consequently increased to 8.5 days.

Critical and High Priority Recommendations

2.6 Members will be aware that a Final Audit Report is issued when it has been agreed ("signed off") by management; this includes an agreement to implement the recommendations that have been made.

2.7 The schedule attached at Appendix B details any outstanding Critical and High priority audit recommendations. One new High Priority recommendation has been added to the schedule. This recommendation relates to there being no Environmental Maintenance Strategy, and the Environmental Maintenance Policy being out of date. Within their response to the audit report, management have agreed to create a strategy and update the policy by the 30 June 2023.

Performance Management

2.8 The 2022/23 annual performance indicators were approved at the SIAS Board meeting in March 2022.

2.9 The actual performance for Stevenage Borough Council against the targets that can be monitored in year is set out in the table below:

Performance Indicator	Annual Target	Profiled Target	Actual to 20 Jan 2023
1. Internal Audit Annual Plan Report – approved by the March Audit Committee or the first meeting of the financial year should a March committee not meet	Yes	N/A	Yes
2. Annual Internal Audit Plan Delivery – the percentage of the Annual Internal Audit Plan delivered (excludes contingency)	95%	60% (183.5/306.5)	57% (175.5/306.5)
3. Project Delivery – the number of projects delivered to draft report stage against projects in the approved Annual Internal Audit Plan	95%	52% (16/31)	45% (14/31)
4. Client Satisfaction – percentage of client satisfaction questionnaires returned at 'satisfactory' level	100%	100%	100% (4 received) Note (1)
5. Chief Audit Executive's Annual Assurance Opinion and Report – presented at the first Audit Committee meeting of the financial year	Yes	N/A	Yes

Note (1) – 1 received in 2022/23 relates to a 2021/22 audit.

Update on Current Plan Delivery Position

2.10 SIAS still has a relatively large number of audits to deliver in the remainder of 2022/23. It has been a significantly challenging year for SIAS in relation to recruitment and retention, with as many as 6 FTE vacancies (36% of the establishment) during earlier periods of the financial year. Whilst this has now reduced to 4.5 FTE (25% of the establishment), the specialist nature of Internal Audit means that SIAS are competing with the private sector to recruit to our higher level roles, and this has proved challenging given the pay constraints Local Authorities operate under. In respect of the remaining vacancies, a recruitment campaign is currently in progress.

2.11 As Committee Members will be aware, SIAS operates as a partnership. The current resource gap within the partnership is 200 working days. Whilst this would normally be allocated to SIAS's external partner, they have now reached their delivery and resourcing capacity for the financial year. SIAS have therefore recently completed a procurement process to commission two additional external partners for quarter 4 to complete the remaining audits, with both new external partners now in place and taking forward their allocated work.

2.12 Based on current resource availability (including our external partners), we are able to provide assurance to the Committee that all audits within 2022/23 have been allocated for completion. However, should additional vacancies occur, SIAS experiences significant staff sickness, or there are client engagement issues in relation to the timing (or supporting the delivery) of audits, there would be a risk to the overall delivery of the 2022/23 interna laudit plan.

2.13 The above position is subject to continual monitoring, and SIAS is currently satisfied that all available mitigating actions have been taken forward to manage the above risks, and that any uncompleted audits could be concluded during April and May 2023 to support the Annual Assurance Opinion if required. However, regular updates will be provided to both the SIAS Board and the Council's Section 151 Officer as the remainder of the financial year progresses.

2022/23 Internal Audit Plan

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		C	H	M	LA				
Key Financial Systems – 70 days Provision for full or targeted audits of some key financial systems. Mapping other key financial systems to confirm appropriate lines of assurance and to inform the annual assurance opinion									
Business Rates (shared with EHC)						70	Yes	30	Draft Report Issued
Council Tax (shared with EHC)							Yes		Draft Report Issued
Housing Benefits (shared with EHC)							Yes		In Fieldwork
Treasury Management (assurance mapping refresh)							Yes		Allocated
Debtors							Yes		Allocated
Creditors (assurance mapping)							Yes		In Fieldwork
Payroll (assurance mapping refresh)							Yes		Allocated
Asset Management (assurance mapping)	Substantial	0	0	0	0		Yes		Final Report Issued
Housing Rents							Yes		Allocated
Cash & Banking (assurance mapping refresh)							Yes		Allocated
Operational Audits – 91.5 days									
Planned and Response Maintenance to the Council's Estate						1.5	Yes	1.5	Cancelled
Leisure Services						10	Yes	1	In Planning
Community Safety (CCTV operations)						10	Yes	9.5	Draft Report Issued
Cemeteries	Reasonable	0	0	0	2	10	Yes	10	Final Report Issued
Open Spaces						10	Yes	9.5	Draft Report Issued
Commercial Property						10	Yes	0	Allocated
Environmental Maintenance	Limited	0	1	3	2	10	Yes	10	Final Report Issued
Landlord Health & Safety Property Compliance						10	Yes	0	Allocated

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		C	H	M	LA				
Refuse Services	Substantial	0	0	0	1	10	Yes	10	Final Report Issued
Off Street Parking	Substantial	0	0	0	0	10	Yes	10	Final Report Issued
Grant Audits – 6 days									
Contain Outbreak Management Fund	Unqualified	0	0	0	0	3	Yes	3	Final Report Issued
Homes England	Unqualified	0	0	0	0	3	Yes	3	Final Report Issued
Corporate Services/Themes – 70 days									
Ways of Working						10	Yes	0	Allocated
Supply Chain Interruption	Reasonable	0	0	4	0	10	Yes	10	Final Report Issued
Energy & Utility Payments						10	Yes	9.5	Draft Report Issued
Customer Services						10	Yes	3	In Fieldwork
Housebuilding & Acquisitions						10	Yes	0	Allocated
Towns Fund						10	Yes	0	Allocated
Digital Exclusion						10	Yes	7	In Fieldwork
IT Audits – 10 days									
Malicious Software (shared with EHC)						7	Yes	6	Quality Review
Cyber Security (assurance mapping refresh only, shared with EHC)						3	Yes	0	Allocated
Shared Learning and Joint Reviews – 5 days									
Joint Review(s) – Hertfordshire Building Control						5	Yes	4.5	Draft Report Issued
Completion of 2021/22 Projects – 7 days									
Various						7	Yes	7	Complete
Contingency – 8.5 day									
Contingency						8.5	N/A	0	Through Year
Strategic Support – 47 days									
Head of Internal Audit Assurance Opinion						3	Yes	3	Complete

APPENDIX A - PROGRESS AGAINST THE 2022/23 INTERNAL AUDIT PLAN

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		C	H	M	LA				
2021/22									
Audit Committee & Recommendations Follow Up						10	Yes	5.5	Through Year
Client Meetings & Ad hoc Advice						10	Yes	6	Through Year
Plan Monitoring, Work Allocation and Scheduling						12	Yes	8	Through Year
SIAS Development						5	Yes	5	Through Year
Matters Arising: Shared Anti-Fraud Service						2	Yes	1	Through Year
Audit Planning 2023/24						5	Yes	2.5	Through Year
SBC TOTAL		**0**	**1**	**7**	**5**	**315**		**175.5**	

APPENDIX B – IMPLEMENTATION STATUS OF CRITICAL AND HIGH PRIORITY RECOMMENDATIONS

The following appendix provides Audit Committee Members with a summary of the most recent update provided by management in respect of outstanding high priority recommendations.

No.	Report Title	Recommendation / Original Management Response	Responsible Officer / Original Due Date	Latest management update (or previous commentary where appropriate)	Status of Progress (Jan 2023)
1.	**Cyber Security (assurance mapping) 2022/23**	**Recommendation:** Cyber Security Accreditation. We recommend that the Council review its cyber security functions in order to meet an adequate level of security to protect itself from any cyber security threats. Thereafter, the Council should seek appropriate accreditation to provide assurance for their cyber security. When the Council has completed its rollout of Windows 10, it should renew its PSN certification. **Agreed Management Action(s):** Rollout of the M365 and Windows 10 is currently underway.	**Responsible Officer:** Strategic ICT Partnership Manager. **Due Date:** 31 December 2022.	January 2023. The Council continues to work with the National Cyber Security Centre to meet an adequate level of security.	Partially implemented.
2.	**Environmental Maintenance 2022/23**	**Recommendation:** Strategy and Policy. Ensure the Council has an up-to-date Environmental Maintenance strategy in place to ensure best practice, and a statutory compliance governance framework aiming to: • Ensure environmental maintenance works, street cleansing, fly tipping and graffiti removal, are performed in accordance with all legislative requirements. • Clearly defined roles and responsibilities are coordinated effectively for each activity. • Service standards are outlined. • Industry best practice is promoted. • There is a clear and robust process for full accountability that links to wider plans and strategies. **Agreed Management Action(s):** All agreed as above.	**Responsible Officer:** Operations Manager **Due Date:** 30 June 2023.	January 2023. New recommendation. The management response opposite is the latest comment.	Not yet implemented.

STEVENAGE					
Apr	**May**	**Jun**	**July**	**Aug**	**Sept**
Refuse **- Final Report Issued**	**Energy & Utility Payments** **- Draft Report Issued**	**Cemeteries** **- Final Report Issued**	**Asset Management Assurance Mapping** **- Final Report Issued**	**Homes England Grant Audit** **- Final Report Issued**	**Community Safety (CCTV Operations)** **- Draft Report Issued**
		Environmental Maintenance **- Final Report Issued**	**Off Street Parking** **- Final Report Issued**		**Open Spaces** **- Draft report Issued**
		COMF Grant **- Final Report Issued**	**Supply Chain Interruption (c/f from May)** **- Final Report Issued**		**Malicious Software** **- Quality Review**
Oct	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**
Planned and Response Maintenance to the Council's Estate **- Cancelled**	**Council Tax** **- Draft Report Issued**	**Creditors Assurance Mapping** **- In Fieldwork**	**Housing Rents Assurance Mapping** **- Allocated**	**Treasury Management Assurance Mapping Refresh - Allocated**	**Commercial Property (c/f from Oct) - Allocated**
	Business Rates **- Draft Report Issued**	**Customer Services (c/f from Aug)** **- In Fieldwork**	**Cash & Banking Assurance Mapping** **- Allocated**	**Payroll Assurance Mapping Refresh** **- Allocated**	**Ways of Working (c/f from Apr)** **- Allocated**
	Housing Benefits **- In Fieldwork**	**Towns Fund** **- Allocated**	**House Building & Acquisitions** **- Allocated**	**Cyber Security Framework Assurance Mapping Refresh - Allocated**	**Debtors** **- Allocated**
	Digital Exclusion (c/f from July) **- In Fieldwork**		**Leisure (c/f from Sept)** **- In Planning**	**Landlord Health & Safety Property Compliance (c/f from Oct) - Allocated**	

APPENDIX D – ASSURANCE / RECOMMENDATION PRIORITY LEVELS

Audit Opinions	
Assurance Level	**Definition**
Assurance Reviews	
Substantial	A sound system of governance, risk management and control exist, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.
Not Assessed	This opinion is used in relation to consultancy or embedded assurance activities, where the nature of the work is to provide support and advice to management and is not of a sufficient depth to provide an opinion on the adequacy of governance or internal control arrangements. Recommendations will however be made where required to support system or process improvements.
Grant / Funding Certification Reviews	
Unqualified	No material matters have been identified in relation the eligibility, accounting and expenditure associated with the funding received that would cause SIAS to believe that the related funding conditions have not been met.
Qualified	Except for the matters identified within the audit report, the eligibility, accounting and expenditure associated with the funding received meets the requirements of the funding conditions.
Disclaimer Opinion	Based on the limitations indicated within the report, SIAS are unable to provide an opinion in relation to the Council's compliance with the eligibility, accounting and expenditure requirements contained within the funding conditions.
Adverse Opinion	Based on the significance of the matters included within the report, the Council have not complied with the funding conditions associated with the funding received.

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

Part I
Release to Press

AUDIT COMMITTEE/ EXECUTIVE / COUNCIL

Portfolio Area: Resources

Date: **7 February 2023 / 8 February 2023 / 23 February 2023**

ANNUAL TREASURY MANAGEMENT STRATEGY INCLUDING PRUDENTIAL INDICATORS 2023/24

NON-KEY DECISION

Author – Rhona Bellis
Contributor – Kaha Olad/Lee Busby
Lead Officer – Brian Moldon
Contact Officer – Brian Moldon

1 PURPOSE

1.1 To recommend to Council the approval of the Treasury Management Strategy 2023/24, including its Annual Investment Strategy, Prudential Indicators and Minimum Revenue Provision (MRP) policy following considerations from Audit and Executive committees.

2 RECOMMENDATIONS

2.1 Audit Committee

That subject to any comments by the Audit Committee to the Executive, the 2023/24 Treasury Management Strategy is recommended to Council for approval.

2.2 Executive

That subject to any comments made by the Executive, in addition to those made by the Audit Committee, the 2023/24 Treasury Management Strategy is recommended to Council for approval.

2.3 Council

That subject to any comments from the Audit Committee and the Executive, the 2023/24 Treasury Management Strategy be approved by Council.

3 BACKGROUND

3.1.1 CIPFA published the updated Treasury Management and Prudential Codes on 20 December 2021 for implementation from 2023/24. The implications were detailed, in the Treasury Management Strategy 2022/23 approved by full council in February 2022. The changes have now been implemented in this report and are identified by reference to the "New code".

3.1.2 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.

3.1.3 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, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

3.1.4 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.

3.1.5 CIPFA defines treasury management as:

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

3.1.6 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.

3.2 Reporting requirements

3.2.1 **Capital Strategy**

The Capital Strategy will be brought before members as a separate report. The aim of that strategy is to ensure that all Members of the Council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

3.2.2 **Treasury Management reporting**

The Council is required to receive and approve (as a minimum) three main treasury reports each year. The annual treasury management strategy including the Prudential Indicators (this report) is forward looking, it is the first and most important of the three and includes:

a. **Prudential and treasury indicators and treasury strategy** (this report) -
   - 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 Annual Investment Strategy, (the parameters on how investments are to be managed).

b. **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

c. **An annual treasury report** – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

d. The new code requires - **Quarterly reports** in addition to the three major reports detailed above from 2023/24 (end of June/end of December). However, these additional reports do not have to be reported to Council and should comprise updated Treasury / Prudential Indicators only.

3.2.3 These reports are required to be adequately scrutinised, and this is undertaken by the Audit Committee and Executive.

4 REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 Performance of Current Treasury Strategy

4.1.1 For the financial year to 31 December 2022 returns on investments have averaged 1.57% and total interest earned was £830,746 contributing to General Fund and Housing Revenue Account income.

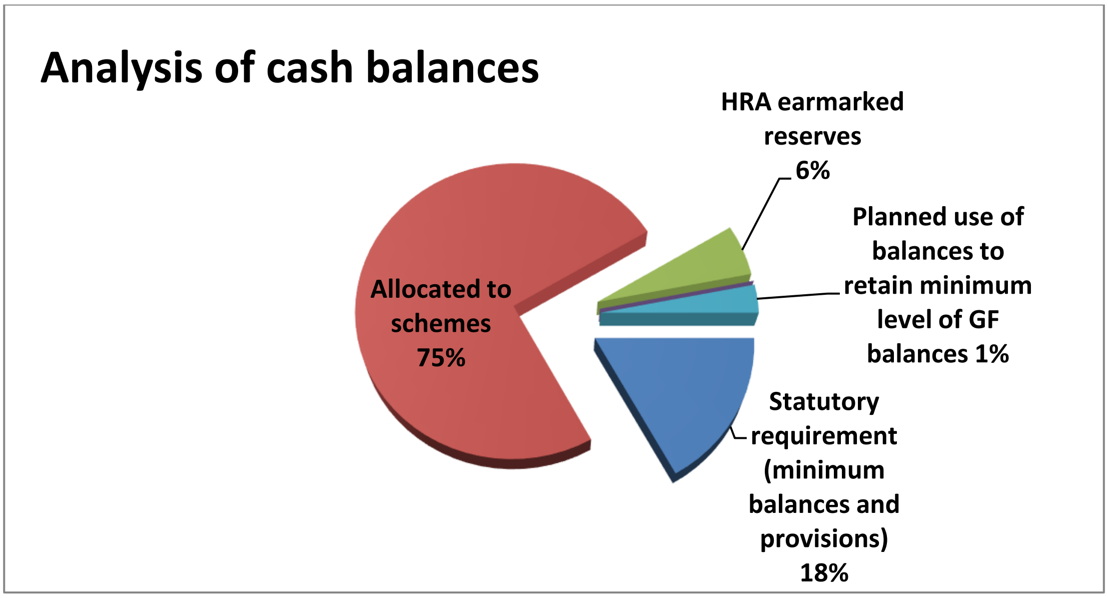
4.1.2 Cash balances as of 31 December 2022 were £58Million and are forecast to be £48Million as of 31 March 2023. The Council's balances are made up of cash reserves e.g., HRA and General Fund balances, restricted use receipts such as right to buy one for one receipts and balances held for provisions such as business rate appeals, reduced by internal borrowing.

4.1.3 In considering the Council's level of cash balances, Members should note that the General Fund MTFS and Capital Strategy have a planned use of resources over a minimum of five years and the HRA Business Plan (HRA BP) a planned use of resources over a 30-year period, which means, while not committed in the current year; they are required in future years.

4.1.4 The Council's current investment portfolio is held for Treasury management purposes only and consists of "conventional" cash investments: deposits with banks and building societies, Money Market Funds and loans to other Local Authorities. Currently no investments have been made with any of the other approved instruments within the Specified and Non-specified Investment Criteria (see Appendix D).

4.1.5 There have been **no breaches** of treasury **counter party limits,** with the investment activity during the year conforming to the approved strategy. Any breach would be notified to the Chief Finance Officer. The Council has had no liquidity difficulties and no funds have been placed with the Debt Management Office (DMO) during 2022/23 to date, demonstrating that counterparty limits and availability for placing funds approved in the TM Strategy were working effectively. It is possible that surplus funds borrowed during the year may be placed in the DMO temporarily if cash balances, due to the timing of taking out new loans would breach other counterparty limits.

4.1.6 The following chart shows the planned use of cash balances at 31 December 2022.



4.1.7 The restrictive use of a proportion of the cash balances set out above, plus the planned use of resources in line with the Council's capital and revenue strategies mean that the investment balance of £58Million as of 31 December 2022 is not available to fund new expenditure.

4.2 Treasury Management Strategy for 2023/24

4.2.1 The strategy for 2023/24 covers two main areas:

Capital issues

- the capital expenditure plans and the associated 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
- the policy on use of external service providers.

4.2.2 These elements cover the requirements of the Local Government Act 2003, DLUHC Investment Guidance, DLUHC MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

4.2.3 The Council's Treasury Management Policy Statement can be found at **Appendix A.**

4.2.4 The Council's Capital Strategy is reported separately from the Treasury Management Strategy. Non-treasury investments are reported through the former, ensuring the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset.

4.2.5 The revised Treasury Management Code requires all investments and investment income to be attributed to one of the following three purposes: -

- **Treasury management**
  Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

- **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 in question 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 an authority's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

4.2.6 The Council's current investment portfolio is held for Treasury management purposes only.

4.2.7 The new code requires the council's credit and counterparty policies should set out its policy and practices relating to **environmental, social and governance (ESG)** investment considerations. Investment considerations here means understanding the ESG "risks" that the council is exposed to and evaluating how well it manages these risks. It is NOT the same as Socially Responsible Investing.

4.2.8 Managing the ESG risk is already part of the current Treasury Investment Strategy, as the council uses mainstream rating agencies to assess counterparty creditworthiness – they now incorporate ESG risks alongside more traditional financial risk metrics when assessing counterparty ratings.

4.3 Training

4.3.1 The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

4.3.2 The last training arranged for members took place in October 2021 and further training will be arranged as required.

4.3.3 The training needs of treasury management officers are periodically reviewed.

4.3.4 A formal record of the training received by officers central to the Treasury function will be maintained by the Head of Technical Accounting. Similarly, a formal record of the treasury management training received by members will also be maintained by the Head of Technical Accounting.

4.4 Treasury Management Consultants

4.4.1 The Authority uses Link Group, Link Treasury Services Limited as its external treasury management advisors.

4.4.2 The Authority recognises that responsibility for treasury management decisions always remains with the organisation and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisors.

4.4.3 It also recognises that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. The Authority 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.

4.5 THE CAPITAL PRUDENTIAL INDICATORS 2023/24-2025-26

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.

4.6 Capital Expenditure and Financing – this prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of the Capital Strategy 2023/24. Members are asked to approve the capital expenditure forecasts: -

Capital expenditure £000	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Non-HRA	24,121	26,185	34,017	18,357	7,681
HRA	37,221	49,086	62,420	33,806	34,912
Total	**61,342**	**75,271**	**96,437**	**52,163**	**42,593**

4.6.1 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 £000	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Capital receipts	9,493	18,614	21,115	7,048	6,784
Capital grants and contributions	8,308	20,817	22,546	12,634	8,502
Capital reserves	0	848	375	379	0
Revenue	1,862	2,449	591	6,725	9,437
Major Repairs Reserve	3,828	17,983	20,755	19,705	17,870
Net financing need for the year	**23,491**	**60,711**	**65,382**	**46,491**	**42,593**
Capital Expenditure requiring borrowing	**37,851**	**14,560**	**31,055**	**5,672**	**0**

4.7 The Council's Borrowing Need (the Capital Financing Requirement) - 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 the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

4.7.1 The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

4.7.2 The CFR includes any other long-term liabilities (e.g., finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility by the lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has £20Million of such schemes within the CFR.

4.7.3 The Council is asked to approve the CFR projections below:

£000	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Capital Financing Requirement					
General Fund excluding Finance Lease	35,182	39,319	43,536	46,006	41,422
Finance Lease	11,669	11,592	11,499	11,397	11,285
Total General Fund	46,851	50,911	55,035	57,403	52,707
Housing	258,581	267,877	292,842	293,016	292,516
Total CFR	**305,432**	**318,788**	**347,877**	**350,419**	**345,223**
Movement in CFR		**13,356**	**29,089**	**2,542**	**(5,196)**

Movement in CFR represented by				
Net financing need for the year (above)	14,560	31,055	5,671	(500)
Less MRP/VRP and other financing movements	(1,204)	(1,966)	(3,129)	(4,696)
Movement in CFR	**13,356**	**29,089**	**2,542**	**(5,196)**

4.8 Liability Benchmark (New Code)

4.8.1 A third and new prudential indicator for 2023/24 is the Liability Benchmark (LB). The Council is required to estimate and measure the LB for the forthcoming financial year and the following two financial years.

Financial Year End	2023 £'000	2024 £'000	2025 £'000
(Over)/Under Liability Benchmark	(21,388)	(1,846)	29,020

4.8.2 This benchmark compares actual loan debt outstanding and the liability benchmark (net loans requirement plus a liquidity buffer). Years where actual loans are less than the benchmark indicate a future borrowing requirement; any years where actual loans outstanding exceed the benchmark represent a technically overborrowed position.

4.8.3 The table above shows a trend from a forecast overborrowed position, moving towards an under borrowed position. Showing that in 2023, there are theoretical investment balances that if unallocated, could be used to pay off debt. Investment balances held by the council are already allocated and are not available for repayment of debt or additional capital expenditure. As a result, the Council will need to externally borrow to replace internal borrowing in the medium term.

4.8.4 Cashflow is monitored on an ongoing basis to ensure that the timing of external borrowing to support the Capital Strategy and Treasury function is undertaken in a timely and prudent manner.

4.9 Core Funds and Expected Investment Balances

4.9.1 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 £000	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Fund balances / reserves	80,887	61,665	51,827	49,725
Capital receipts	17,329	3,266	10,603	5,854
Provisions	3,022	2,290	2,290	2,290
Total core funds	**101,238**	**67,221**	**64,720**	**57,869**
Working capital*	3,237	(9,393)	(21,131)	(15,323)
Under/over borrowing**	(56,476)	(42,737)	(30,792)	(21,182)
Expected investments	**47,999**	**15,091**	**12,767**	**21,364**

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

4.10 Minimum Revenue Provision (MRP) Policy Statement

4.10.1 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).

4.10.2 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 reasonably commensurate with that over which the capital expenditure provides benefits.

4.10.3 The MRP policy statement requires full council approval in advance of each financial year. The Council is recommended to approve the MRP Statement at **Appendix B** to this report.

4.11 Borrowing

4.12 The capital expenditure plans set out in paragraph 4.6 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 and the Council's Capital Strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions, and the Annual Investment Strategy.

4.12.1 **Current Portfolio Position**

The overall treasury management portfolio as at 31 March 2022 and as at 31 December 2022 are shown below for both borrowing and investments.

TREASURY PORTFOLIO		
£000	actual **31.3.22**	current **31.12.22**
Total treasury investments	68,750	57,800
Treasury external borrowing:		
PWLB	227,750	227,619
Finance Leases and other external borrowing	19,230	20,580
Total external borrowing	**(246,980)**	**(248,199)**
Net treasury investments / (borrowing)	**(178,230)**	**(190,399)**

4.12.2 Details of Investments and PWLB borrowing can be found at **Appendix G.**

4.12.3 The Council's forward projections for borrowing are summarised 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.

£000	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**
External Debt				
Debt at 1 April	246,980	262,313	292,120	296,680
Expected change in Debt	14,559	31,055	5,671	0
Other long-term liabilities (OLTL)	1,350	0	0	0
Expected change in OLTL	(577)	(1,247)	(1,112)	(2,996)
Actual gross debt at 31 March	**262,312**	**292,121**	**296,679**	**293,684**
The Capital Financing Requirement	**318,788**	**347,877**	**350,419**	**345,223**
Under / (over) borrowing	**(56,476)**	**(55,756)**	**(53,740)**	**(51,539)**

4.12.4 Within the range of prudential indicators there are several 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 the CFR in the preceding year plus the estimates of any additional CFR for 2023/24 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 or speculative purposes.

4.12.5 Based on the capital programme 2023/24 (February 2023 Update) resourcing projections, the Council has the following borrowing requirements in 2023/24:

- General Fund £6,090,720 (£1,890,720 in relation to the 10-year plan for the garages estates approved by Council on 20 July 2016, £3Million in relation to the wholly owned housing development company and £1.2Million supporting the new Leisure contract with income generating investment).

- HRA £24,964,256 (£24,692,891 on housing development).

4.12.6 The s151 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 account of current commitments, existing plans and the proposals in this budget report.

4.13 Treasury Indicators: Limits to Borrowing Activity

4.13.1 **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 £000	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
General Fund	51,537	55,035	58,603	55,107
General Fund additional borrowing facility available to the Housing WOC Wholly Owned Company	15,000	15,000	15,000	15,000
Total - General Fund	**66,537**	**70,035**	**73,603**	**70,107**
HRA	267,877	292,841	293,016	292,516
Total	**334,414**	**362,876**	**366,619**	**362,623**
Previous Operational Boundary	354,821	366,117	365,322	364,518

4.13.2 **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 legal 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.

- 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 local authority plans, or those of a specific authority, although this power has not yet been exercised.

- The Council is asked to approve the following Authorised Limit:

Authorised Limit £000	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
General Fund Finance lease	15,000	15,000	15,000	15,000
General Fund Borrowing for capital expenditure including WOC	66,911	71,035	73,403	68,707

Authorised Limit £000	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Total Borrowing - General Fund	81,911	86,035	88,403	83,707
Borrowing - HRA	279,877	304,841	305,016	304,516
Total	361,788	390,876	393,419	388,223
Previous Authorised Limit	360,821	374,117	373,322	372,518

4.14 Prospects for Interest Rates

4.14.1 The Council retains Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 19 December 2022. These are forecasts for certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View	19.12.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB	4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

4.14.2 The **Bank of England base rate** stands at 3.5% currently and is expected to reach a peak of 4.5% in June 2023, before gradually reducing over the next 24 months.

4.14.3 The CPI measure of inflation (a key bank of England KPI driving decisions on interest rates) looks to have peaked at 11.1% at the end of 2022 (currently 10.7%). Despite the cost-of-living squeeze, the Bank will want to see evidence that wages are not spiralling upwards in what is still a very tight labour market, before making any decisions to stop increasing rates I the short term.

4.14.4 The markets will already have built in the effects on gilt yields because of interest rate forecasts and the elevated inflation outlook, resulting in less volatile **PWLB** 5 to 50 years Certainty rates – these are generally, in the range of 4.10% to 4.80%

4.14.5 More detailed analysis of the prospect for interest rates can be found at **Appendix F**

4.15 Current Borrowing Position

4.15.1 The estimated Council's capital financing requirement (CFR) for 2022/23 is £319Million. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing), or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. The Council had £248Million in external debt at 31 December 2022, of which PWLB debt and its purpose is detailed in the table below.

Purpose of Loan	PWLB Loan £'000
General Fund Regeneration Assets	**1,888**
HRA	
Decent Homes	30,820
Self-Financing	194,911
Total HRA Loans	**225,731**
Total PWLB Debt at 31st December 2022	**227,619**

4.15.2 The Council is forecast to utilise (short term) £71Million of cash flow funds in lieu of borrowing. This is a prudent and cost-effective approach in the current economic climate but will require ongoing monitoring if any upside risk to gilt yields prevails.

4.15.3 No new external borrowing has been taken to date during 2022/23 The capital programme is being kept under regular review because of inflationary pressures, shortages of materials and labour. Our borrowing strategy will, therefore, also be regularly reviewed and then revised, if necessary, to achieve optimum value and risk exposure in the long-term.

4.15.4 PWLB maturity certainty rates (gilts plus 80bps) have continued to rise, reverting to the gradual increases seem before the mini budget in the Autumn. The 50-year PWLB 5 to 50 years Certainty rates are, generally, in the range of 4.10% to 4.8%.

4.15.5 The General Fund has PWLB external borrowing of £1.9Million and other external borrowing of £7.5Milion (Local Enterprise Partnership - LEP) and a finance lease of £12Million (Aviva). Discussions took place with the LEP regarding making these re-investible loans for further regeneration of the town, rather than needing to be repaid on the dates originally agreed. As indicated in the table, the current position is that only £209K of the £7.779Million received to date has been repaid. The remaining balance is repayable - £6.57Million in 2030 and £1Million in 2025. The loans are at zero interest.

Table 5: LEP Loans					
Loan Received	**Site Assembly**	**Land Assembly**	**SG1**	**Repaid**	**Total**
2015/16	762,488			(208,795)	553,693
2018/19	416,306				416,306
2019/20		4,108,709			4,108,709
2020/21		1,491,291	500,000		1,991,291
2022/23			500,000		500,000
Total	**1,178,794**	**5,600,000**	**1,000,000**	**(208,795)**	**7,569,999**

4.15.6 The Aviva finance lease entered in 2018/19 for 37 years was immediately sublet to Queensway Properties (Stevenage) LLP for 37 years.

4.15.7 The HRA has external borrowing from PWLB of £225.731Million

- £7.763Million from pre-2012,
- £4.010Million taken out in 2019/20,
- £10.0 Million taken out in 2020/21 and
- £9.047Million taken out in 2021/22.

The remainder of £194.911 Million relates to HRA self-financing payment made to central government in 2012.

4.15.8 The target average borrowing rate in the latest HRA Business Plan last updated 2019 (HRA BP) was 1.6% for 2020, rising to 1.72% in 2021 and 1.74% in 2022. Recent interest rate rises have led to current forecast rates exceeding the original BP forecasts.

4.15.9 The table 6 below shows current PWLB borrowing rates compared to rates secured for the HRA borrowing in prior years.

Rates[1]* as at:	Mar-21	Feb-22	17 Jan 23
Years	Actual Rate %	Actual Rate %	PWLB Rate %
5			4.18
10			4.32
15			4.55
20	2.06		4.64
21		2.24	4.64
25.5		2.22	4.62

4.15.10 Finance leases entered between the HRA and Marshgate Ltd, the Council's wholly Owned Housing Company relating to 10 residential dwellings, leased for 25 years amounted to £1.3Million.

4.16 Borrowing Strategy

4.16.1 The Council is currently maintaining a non-fully funded position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall

[1] Rates include a 0.2% Certainty Rate reduction

from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. That is, Bank Rate increases over the remainder of 2022 and the first half of 2023.

4.16.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The Assistant Director of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

4.16.3 Borrowing may be taken to facilitate investment in regeneration and/or economic improvements for the town. This may include investment in special purpose vehicles owned by the Council to facilitate regeneration aspirations. Any such investments will be presented to Members.

4.17 Policy on Borrowing in advance of Need

4.17.1 It is the Council's intention not to borrow more than or in advance of its needs purely 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.

4.17.2 In determining whether borrowing will be undertaken in advance of need the Council will.

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need
- ensure the ongoing revenue liabilities created, and the implications for the future and budgets have been considered
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
- consider the merits and demerits of alternative forms of funding
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

4.18 Rescheduling

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

4.19 ANNUAL INVESTMENT STRATEGY

4.20 The Department of Levelling Up, Housing and Communities (DLUHC - this was formerly 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, (a separate report).

4.20.1 In managing the TM function other areas kept under review include:

- Training opportunities available to Members and officers (the most recent training for Members took place on 14 October 2021)
- That those charged with governance are also personally responsible for ensuring they have the necessary skills and training
- A full mid-year review of the TMS will be reported in 2023/24

4.20.2 The 2023/24 Strategy uses the credit worthiness service provided by Link Asset Services (formerly known as Capita Treasury Solutions) the Council's treasury advisors. This service uses a sophisticated modelling approach which utilises credit ratings from the three main credit rating agencies and is compliant with CIPFA code of practice.

4.20.3 While Link Asset Services may advise the Council, the responsibility for treasury management decisions always remains with the Council and officers do not place undue reliance on the external service advice.

4.20.4 The TM limits for 2023/24 (Appendix D) have been reviewed. No changes are considered necessary since that agreed as part of the Mid-Year Review of 2022/23.

4.20.5 The latest list of "Approved Countries for Investment" is detailed in Appendix E. This lists the countries that the Council may invest with providing they meet the minimum credit rating of AA- . The Council retains the discretion not to invest in countries that meet the minimum rating but where there are concerns over human rights issues.

4.21 Non-Treasury Investments

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

- Treasury management investments, which are taken to manage cashflows and as part of the Council's debt and financing activity
- Commercial investments (including investment properties), which are taken mainly to earn a positive net financial return (previously purchased commercial investments only as Council's are no longer permitted to access PWLB rates if they invest in commercial investments primarily for gain.
- Service investments, which are taken mainly to support service outcomes

4.21.2 Details of the Annual Investment Strategy can be found in Appendix A.

4.22 Investment returns expectations

4.22.1 The current forecast shown in paragraph 4.14.2, includes a forecast for Bank Rate to reach 4.5% in Q2 2023. 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: -

Average earnings in each year	
2022/23 (remainder)	4.00%
2023/24	4.40%
2024/25	3.30%
2025/26	2.60%
2026/27	2.50%
Years 6 to 10	2.80%
Years 10+	2.80%

4.22.2 As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

4.22.3 Against this view the forecast of interest earned on Treasury investments in 2023/24 is £1.8Million, based on 4% interest earned on average balances of £45million.

4.22.4 For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, Money Market Funds and short-dated deposits, to benefit from the compounding of interest.

4.23 Changes of investment strategy

4.23.1 There are no proposed changes to the Strategy for 2023/24.

4.24 OTHER ISSUES

4.25 UK Sovereign rating and investment criteria: The UK sovereign rating is currently on the lowest acceptable level suggested for approved countries as set out in Appendix E. In October 2020, Moody's downgraded the rating to Aa3 (AA- equivalent), the same as Fitch, while Standard & Poor's has it rated at AA. The UK sovereign rating could come under pressure from the impact of COVID and / or following the UK's exit from the EU. The Council's investment criteria only use countries with a rating of AA- or above. The UK rating will be exempt from the sovereign rating investment criteria so in this event if it were to result in the UK being downgraded below AA- it would not impact on the Council's ability to invest with UK institutions. Other investment criteria will be considered in this event to ensure security of funds for the Council.

4.26 Queensway Properties (Stevenage) LLP: In December 2018 the Council entered into a 37-year agreement with Aviva to facilitate the regeneration of Queensway in the town centre. A separate legal entity, Queensway Properties (Stevenage) LLP, was incorporated to manage the rental streams and costs associated with the scheme. The Council's treasury management team offered its services to the LLP, to manage and invest its surplus cash flows through a service level agreement. To date no investment activities have been undertaken on their behalf.

4.27 **Queensway Properties (Stevenage) LLP 2nd phase:** the first phase of the head lease was recognised on the Council's balance sheet and the operational borrowing limit was increased to reflect the valuation. When the second phase of residential properties becomes available to let the Council's lease payments will increase to reflect this. As such the balance sheet valuation of the finance lease will increase and the operational and authorised borrowing limits for the General Fund have been increased accordingly. This has been reflected in the TM indicators.

4.28 **IFRS16 – Leasing:** As reported previously, some currently off-balance sheet leased assets may need to be brought onto the balance sheet under IFRS 16, however CIPFA LASAAC Local Authority Accounting Code Board announced the deferral of the implementation of IFRS 16 Leases in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) until the 2023/24 financial year. It is unlikely that this change will have a significant impact for Stevenage.

5 IMPLICATIONS

5.1 Financial Implications

5.1.1 This report is of a financial nature and reviews the treasury management function for 2022/23 to date. Any consequential financial impacts identified in the Capital strategy and Revenue budget monitoring reports have been incorporated into this report.

5.1.2 During the financial year Officers operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury management practices.

5.2 Legal Implications

5.2.1 Approval of the Prudential Code Indicators and the Treasury Management Strategy are intended to ensure that the Council complies with relevant legislation and best practice.

5.2.2 There have been no changes to PWLB borrowing arrangements since the last Treasury report, however there are changes to the Prudential and Treasury Management codes from 2023/24. Officers will ensure that any changes are reflected in treasury operations and reporting requirements**.**

5.3 Risk Implications

5.3.1 The current policy of minimising external borrowing only remains financially viable while cash balances are high and the differentials between investment income and borrowing rates remain. As these conditions change the Council may need to take borrowing at higher rates which would increase revenue costs.

5.3.2 There remains uncertainty on the long-term implications of exiting the EU on the UK economy and borrowing rates. Officers monitor interest rate forecasts to inform the timing of borrowing decisions.

5.3.3 The Council's Treasury Management Strategy is based on limits for counterparties to reduce risk of investing with only a small number of institutions.

5.3.4 The thresholds and time limits set for investments in the Strategy are based on the relative ratings of investment vehicles and counter parties. These are designed to consider the relative risk of investments and to preclude certain grades of investments and counterparties to prevent loss of income to the Council.

5.3.5 There is a risk to the HRA BP's ability to fund the approved 30-year spending plans if interest rates continue to rise, this will be included in the revision to the BP later in the year.

5.4 Equalities and Diversity Implications

5.4.1 This report is technical in nature and there are no implications associated with equalities and diversity within this report. In addition to remaining within agreed counterparty rules, the council retains the discretion not to invest in countries that meet the minimum rating but where there are concerns over human rights issues. Counterparty rules will also be overlaid by any other ethical considerations from time to time as appropriate.

5.4.2 The Treasury Management Policy does not have the potential to discriminate against people on grounds of age; disability; gender; ethnicity; sexual orientation; religion/belief; or by way of financial exclusion. As such a detailed Equality Impact Assessment has not been undertaken.

5.5 Climate Change Implications

5.5.1 The Council's investment portfolio is invested in sterling investments and not directly in companies. However, the TM team continue to review the use of Money Market funds to ensure, where possible, money market funds that invest in environmentally sustainable companies are used. In this way the TM team aligns with the Council's ambition to attempt to be carbon neutral by 2030.

BACKGROUND PAPERS

- BD1 Treasury Management Strategy including Prudential Code Indicators 2022/23 (Council 24 February 2022).

APPENDICES

- Appendix A - Treasury Management Strategy
- Appendix B - Minimum Revenue Provision Policy
- Appendix C - Prudential Indicators
- Appendix D - Specified and Non-Specified Investment Criteria

Part I
Release to Press

- Appendix E - Approved Countries for investment
- Appendix F - Link Interest Rates forecasts

Appendix A Treasury Management Strategy 2023/24

1. Treasury Management Policy Statement

1.1. The Council defines its treasury management activities as: "*The management of the 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*".

1.2. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

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

1.4. As set out in the Treasury Management Strategy 2022/23, this Strategy has been prepared in accordance with the CIPFA Treasury Management Code 2021. The Code requires the Council to approve the Treasury Management Strategy annually and to produce a mid-year and annual report. In addition, Members in both Executive and Scrutiny functions receive monitoring reports and regular reviews. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities regarding delegation and reporting.

1.5. The Act requires the Council to set out its Treasury Management Strategy for borrowing and to prepare an Annual Investment Strategy to set out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

2. Annual Investment Strategy

2.1. Investment Policy – Management of Risk

2.1.1. The Department of Levelling Up, Housing and Communities (DLUHC - this was formerly 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, (a separate report).

The Council's investment policy has regard to the following:

- DLUHC's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
- CIPFA Treasury Management Guidance Notes 2021

The Council's investment priorities will be security first, portfolio liquidity second and 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 regarding the Council's risk appetite.

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.

2.1.2. The guidance from the DLUHC and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

a. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

b. **Other information:** 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 achieve this consideration 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.

c. **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.

d. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in Appendix D under the categories of 'specified' and 'non-specified' investments.

- **Specified investments** are those with a high level of credit quality and subject to a maturity limit of 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 before being authorised for use.

The Council has determined that it will limit the maximum total exposure to non-specified investments as detailed in Appendix D.

e. **Lending limits and Transaction Limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in Appendix D and will consider investments longer than 365 days

f. This authority has engaged **external consultants**, Link Asset Services, to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

g. All investments will be denominated in **sterling**.

h. The Council only invests in counterparties with a high credit quality in the UK or other countries meeting minimum AA- sovereign rating. The Council understands that changes have taken place to the ratings agencies and that their new methodologies mean that sovereign ratings are now of lesser importance in the assessment process. However, the Council continues to specify a minimum sovereign rating as the underlying domestic and where appropriate, international, economic and wider political and social background will still have an influence on the ratings of a financial institution (see Appendix E).

i. As a result of the change in accounting standards for 2022/23 under IFRS 9, this authority considered 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. No changes were deemed to be required to the use of existing approved investment instruments. (The DLUHC) enacted a statutory over-ride from 1.4.18 for a five-year period until 31.3.23 following the introduction of IFRS 9 over the requirement for any unrealised capital gains or losses on marketable pooled funds to be chargeable in year. This has the effect of allowing any unrealised capital gains or losses arising from qualifying investments to be held on the balance sheet until 31.3.23: this was intended to allow councils to initiate an orderly withdrawal of funds if required.). At the current juncture it has not been determined whether a further extension to the over-ride will be agreed by Government.

2.2. Creditworthiness policy

2.2.1. The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. Based on this this main principle, the Council will ensure that:

- It maintains a policy covering the categories of financial instruments it will invest in, maximum investment duration, criteria for choosing counterparties with adequate security, and monitoring their security.

- It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's Prudential indicators of the maximum principal sums invested more than 364 days.

2.2.2. The Assistant Director (Finance and Estates) will maintain a counterparty list in compliance with the criteria in the Strategy for Specified and Non-Specified Investment and will revise the criteria and submit them to Council for approval as necessary.

2.2.3. In determining the credit quality, the Council uses the Fitch credit ratings, together with Moody and Standard & Poor's equivalent where rated. Not all counterparties are rated by all three agencies and the Council will use available ratings.

2.2.4. The Council also applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- Credit watches and credit outlooks from credit rating agencies.

- Credit Default Swap (CDS) spreads. A CDS is a contract used to insure the holder of a bond against default by the issuer. A CDS can act as an indicator of default risk and provide an early warning of likely changes in credit ratings.

- Sovereign ratings to select counterparties from only the most creditworthy countries.

Link Asset Services 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 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.

2.2.5. Credit ratings will be monitored whenever an investment is to be made, using the most recent information. 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 benchmark and other market data daily via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

2.2.6. Sole reliance will not be placed on the use of this external service. In addition, the Council will also use market data including information on government support for banks and the credit ratings of that government support.

2.2.7. The Council receives updates from Link on future changes to Money Market Funds (MMF) that might affect the liquidity or risk of the fund. The Council is likely to change its approach to the use of MMF should liquidity or risk be adversely affected.

2.2.8. There are alternatives to the PWLB for borrowing, for both the General Fund and the HRA, including the UK Municipal Bonds Agency. The UKMBA provides funding through three lending programmes. Current UKMBA trading levels in the market, inclusive of all fees, are lower than the PWLB Certainty rate at like maturities.

- Proportionally guaranteed, pooled loans of £1 million or more for maturities greater than one year.
- Standalone loans to a single local authority for £250 million or more for maturities greater than one year. These loans are outside of the proportional guarantee and are guaranteed solely by the borrower, who must obtain an external credit rating from one or more of the major credit rating agencies.
- Short term, pooled loans, outside of the proportional guarantee for maturities of less than one year.

To date the borrowing rates available were lower than those offered for comparable loans available from the Public Works Loans Board (PWLB) at the time of issuance. The Council may make use of this alternative source of borrowing as and when appropriate.

2.3. **Investment Strategy**

2.3.1. **In-house funds.** Investments will be made with reference to the core balance and cash flow requirements, anticipated capital financing 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. While most cash balances are required to manage the ups and downs of cash flow, 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 of England base rate (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.

3. Country limits

3.1. The Council has determined that it will only use approved counterparties from UK or selected countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). This is part of the criteria used to produce the Council's Counterparty List.

4. Borrowing Strategy and Policy on Borrowing in Advance of Need

4.1. The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. That is, Bank Rate increases over the remainder of 2022 and the first half of 2023.

4.2. Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The Assistant Director of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

4.3. Borrowing may be taken to facilitate investment in regeneration and/or economic improvements for the town. This may include investment in special purpose vehicles owned by the Council to facilitate regeneration aspirations. Any such investments will be presented to Members.

4.4. The Council will not borrow more than or in advance of its needs purely to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

4.5. In determining whether borrowing will be undertaken in advance of need the Council will:

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
- consider the merits and demerits of alternative forms of funding
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

4.6. Borrowing may be taken to facilitate investment in regeneration and/or economic improvements for the town. This may include investment in special purpose vehicles owned by the Council to facilitate regeneration aspirations. Any such investments will be presented to Members.

5. End of year investment report

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

6. Policy on the use of external service providers

6.1. In October 2021, the Council reappointed Link Asset Services as its treasury management advisors on a three-year contract. The new contract commenced on 26 October 2021.

6.2. The Council recognises that responsibility for treasury management decisions always remains with the organisation and will ensure that undue reliance is not placed upon our external service providers.

6.3. It also recognises that there is value in employing external providers of treasury management services 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.

7. Scheme of Delegation and Role of Section 151 officer

7.1. **The Council has the role of:**

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual strategy.
- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- budget consideration and approval
- approval of the division of responsibilities
- receiving and reviewing regular monitoring reports and acting on recommendations
- approving the selection of external service providers and agreeing terms of appointment

7.2. **The Audit Committee** has the role of reviewing the policy and procedures and making recommendations to Council.

7.3. **The Section 151 Officer** has the role of:

- 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.
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities
- provision to Members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following (covered in Annual Capital Strategy Report).

In addition, high value and/or urgent payments can be made by CHAPS by the Treasury Team, however as these can have a material impact on cash flows on the day, authorisation for this type of payment must be obtained from the S151 or deputy S151 Officer.

7.4. Reporting arrangement to the Council and the Audit Committee is as below:

Area of Responsibility	Council Committee	Frequency
Treasury Management Policy Statement (revised)	Council	Initial adoption in 2010
Treasury Management Strategy / Annual Investment Strategy / Prudential Indicators and Minimum Revenue Provision (MRP) policy	Council	Annually before the start of the year
Treasury Management Strategy / Annual Investment Strategy / Prudential Indicators and MRP policy – mid-year report	Council	Annually before the end of the year
Treasury Management Strategy / Annual Investment Strategy / Prudential Indicators and MRP policy – updates or revisions at other times	Council	As required.
Annual Treasury Outturn Report	Council	Annually by 30th November
Scrutiny of Treasury Management Strategy	Audit Committee	Annually before the start of the year
Scrutiny of Treasury Management performance	Audit Committee	Quarterly (General Fund updates)

Appendix B (February 2023 Update)

Minimum Revenue Provision Policy

Minimum Revenue Provision Policy Statement 2023/24

From 2013/14, the council has not had a fully funded capital programme, and although there has not been a need to borrow in full externally, due to the use of investment balances, it is necessary to make adequate provision for the repayment of debt in the form of Minimum Revenue Provision.

The **preferred method for existing underlying borrowing is Option 3 – the Asset Life Method** (out of 4 allowable options), whereby the MRP will be spread over the useful life of the asset which range. Useful life is dependent on the type of asset and was reviewed in 2019/20. Following that review asset lives now ranges from 7 years (ICT equipment) to 50 years (Investment properties, regeneration sites and carparks for example).

In applying the new asset lives historic MRP had been overpaid and in accordance with current MHCLG MRP Guidance can be reclaimed in future years. The council has a policy to ring fence costs and income associated with regeneration assets and as such has shown these MRP changes separately, see table below. The overpayment of £1,057,660.39 results in no MRP needing to be charged to the accounts for the regeneration assets until 2025/26, when a partial charge will be required, utilising the remainder of the overpayment balance.

voluntary MRP made	
	Regeneration
2012/13	£46,929.65
2013/14	£140,788.95
2014/15	£163,165.30
2015/16	£141,355.30
2016/17	£141,355.30
2017/18	£141,355.30
2018/19	£141,355.30
2019/20	£141,355.30
cumulative total	**£1,057,660.39**

Use of overpayment	
	Regeneration
2020/21	£193,703.12
2021/22	£193,703.12
2022/23	£193,703.12
2023/24	£193,703.12
2024/25	£193,703.12
2025/26	£89,144.79
cumulative total	**£1,057,660.39**

Capital expenditure incurred during 2022/23 will not be subject to an MRP charge until 2023/24, or in the year after the asset becomes operational.

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.

There is no requirement to make to make a minimum revenue provision for GF capital expenditure relating to Housing development.

This page is intentionally left blank

THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2023/24 – 2025/26

The Authority'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.

(a) Capital Expenditure

Capital expenditure is where the Council spends money on assets, such as property or vehicles that will be used for more than one year. This includes spending on assets owned by other bodies, loans and grants to other bodies enabling them to buy assets.

Capital Expenditure	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
General Fund	24,121	26,185	34,017	18,357	7,681
HRA	37,221	49,086	62,420	33,806	34,912
Total Capital Expenditure	**61,342**	**75,271**	**96,437**	**52,163**	**42,593**

(b) Affordability Prudential Indicator

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 Authority's overall finances. The Authority is asked to approve the following indicators: -

Ratio of financing costs to net revenue stream

Ratio of financing costs to net revenue stream %	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
General Fund	5%	6%	6%	7%	6%
HRA	16%	17%	17%	16%	15%

General Fund: Net revenue stream is the RSG, NNDR grant and Council Tax raised for the year.

HRA: The net revenue stream is the total HRA income shown in the Council's accounts from received rents, service charges and other incomes. The ratio of financing costs to net revenue stream reflects the high level of debt as a result of self financing.

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

This page is intentionally left blank

Appendix D **2023/24 Treasury Management Strategy**

Specified and Non-specified Investment Criteria
(including Treasury Limits and Procedures)

Table 1

Specified Investments are sterling denominated with maturities up to maximum of one year and must meet the following minimum high credit quality criteria:

Investment Counterparty	Investment Instrument	Minimum High Credit Quality Criteria	Investment Duration
Banks or Building Societies	Overnight Deposit	Fitch: Short Term F1 and Long Term A and Moody, Standard & Poor, equivalent where rated, the lowest rating used where different OR Part-nationalised or Nationalised UK banking institutions (subject to regular reviews of government share percentage).	Maximum duration as per Treasury Advisor's (Capita's) colour coded Credit List, and less than one year
	Notice Account		
	Short Term Deposit		
Debt Management Office or UK Local Authority	Any deposit	No limit.	
Money Market Funds	Instant Access or with Notice	AAA rated	Instant Access or notice period up to one year

Table 2

Non-Specified Investment are sterling denominated with a maturity longer than one year but no longer than five years, and must meet the following criteria:

Investment Counterparty	Investment Instrument	Minimum High Credit Quality Criteria	Investment Duration
Banks or Building Societies	Any deposits with maturity up to a maximum of five years	Fitch: Short Term F1+ and Long Term AA- and Moody, Standard & Poor, equivalent where rated, the lowest rating used where different	Maximum duration suggested by Treasury Advisor's (Capita's) colour coded Credit List, and not in excess of five years
Debt Management Office or UK Local Authority		No Limit.	

Table 3

Treasury Limits

Investment Instrument	Cash balances less than £30Million Limits	Cash balances higher that £30Million Limits
Variable Rate Investments (Excluding Enhanced Cash Funds)	Maximum holding £30M	Maximum holding 100%
Counterparty limits (to encompass all forms of investment)	Maximum £5M	Maximum £10M
Instant Access Or Overnight Deposit	Maximum holding 100%	
Fixed Rate less than 12 month maturity	Maximum holding 100%	
Fixed Rate more than 12 months to maturity (includes all types of Fixed Rate Investments i.e. Certificates of Deposits)	Maximum £5M	Maximum £10M
Money Market Funds - Traditional Instant Assess (Counterparty Limit per Fund)	Maximum £5M per MMF	Maximum £10M per MMF
	No limit on total cash held	
Enhanced Cash Funds	Maximum £3M	
Certifcates of Deposits	Maximum £5M	
Property Funds	Maximum of £3M - No durational limit. Use would be subject to consultation and approval	

Procedures of Applying the Criteria and Limits
Before the Treasury Team makes an investment, the Team will follow the follow procedure to ensure full compliance with the Specified and Non-Specified Criteria and Treasury Limits:
1 Check that the Counterparty is on the Counterparty List (also known as Current Counterparty Report for Stevenage) produced by Link Asset Services (LAS), specifically meeting the Council's Specified and Non-specified Minimum High Credit Quality Criteria in the above Table 1 & 2. If it is not on the list, the Treasury Team will not invest with them.
2 If the Counterparty is on the list, then the Treasury Team refers to the Credit List produced by LAS in colour coding, to determine the maximum investment duration suggested for the deposit, as per the column of Suggested Duration (CDS Adjusted with manual override).
3 Refer to the Treasury Limits in the above Table 3 to ensure the amount invested complies with the Treasury Limits.

APPENDIX E: Approved Countries (with Approved counterparties) for Investments (January 2023)

Based on lowest available rating

AAA

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland
- U.S.A.

AA+

- Canada
- Finland

AA

- United Arab Emirates
- France

AA-

- Belgium
- Qatar

The UK is exempt from the sovereign rating criteria as recommended by Link Asset Services. The UK sovereign rating is currently AA-.

The above list includes the possible countries the Council may invest with. Not all of these countries are used or will be used in treasury management investments

This page is intentionally left blank

Prospects for Interest Rates

The Authority has appointed Link Group as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. Link provided the following forecasts on 19.12.22. These are forecasts for certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View	19.12.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB	4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

Additional notes by Link on this forecast table: -

Our central forecast for interest rates was updated on 19 December and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. Bank Rate stands at 3.5% currently but is expected to reach a peak of 4.5% in H1 2023.

Further down the road, we anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures are behind us – but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

The CPI measure of inflation looks to have peaked at 11.1% in Q4 2022 (currently 10.7%). Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market.

Regarding the plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening), this has started and will focus on the short, medium and longer end of the curve in equal measure, now that the short-lived effects of the Truss/Kwarteng unfunded dash for growth policy are firmly in the rear-view mirror.

In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but the on-going conflict between Russia and Ukraine. (More recently, the heightened tensions between China/Taiwan/US also have the potential to have a wider and negative economic impact.)

On the positive side, consumers are still estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above challenges. However, most of those are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

PWLB RATES

- The yield curve movements have become less volatile of late and PWLB 5 to 50 years Certainty Rates are, generally, in the range of 4.10% to 4.80%.

- We view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the elevated inflation outlook.

The balance of risks to the UK economy: -

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

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

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, rising gilt yields).

- **The Bank of England** acts too quickly, or too far, over the next year to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.

- **Geopolitical risks,** for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates: -

- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly and for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project or even necessitates a further series of increases in Bank Rate.

- **The Government** acts too quickly to cut taxes and/or increases expenditure in light of the cost-of-living squeeze.

- **The pound weakens** because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.

- Longer term **US treasury yields** rise strongly and pull gilt yields up higher than currently forecast.

- Projected **gilt issuance, inclusive of natural maturities and QT,** could be too much for the markets to comfortably digest without higher yields consequently.

Document is Restricted

This page is intentionally left blank