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The Chair and Members of Standards
and Audit Committee

8 February 2022

Dear Councillor,

Please attend a meeting of the STANDARDS AND AUDIT COMMITTEE to be held on WEDNESDAY, 16 FEBRUARY 2022 at 2.00 pm in Committee Room 2, Town Hall, Rose Hill, Chesterfield, the agenda for which is set out below.

AGENDA

Part 1(Public Information)

1. Declarations of Members' and Officers' Interests relating to Items on the Agenda

2. Apologies for Absence

3. Minutes (Pages 3 - 6)

4. Standards and Audit Committee Work Programme 2021/22 (Pages 7 - 10)

5. Risk Management Strategy and Strategy Risk Register (Pages 11 - 52)

6. Treasury Management Strategy 2021-22 (including Investment and Capital Strategy) (Pages 53 - 82)

7. External Audit Progress Report (Pages 83 - 98)

8. Audit Strategy Memorandum (Pages 99 - 132)

9. Procurement of External Auditors (Pages 133 - 138)

10. External Review of Internal Audit - Action Plan Progress (Pages 139 - 152)

11. Outstanding Internal Audit Recommendations (Pages 153 - 164)

12. Local Government Act 1972 - Exclusion of Public

    To move “That under Section 100(A)(4) of the Local Government Act 1972 the 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 defined in Paragraphs 1 and 3 of Part 1 of Schedule 12A of the Act".

Part 2 (Non Public Information)

13. Progress Update on the 2021/22 Internal Audit Plan (Pages 165 - 196)

14. Annual Report - Standards of Conduct (Pages 197 - 206)

Yours sincerely,

Head of Regulatory Law and Monitoring Officer

STANDARDS AND AUDIT COMMITTEE

Wednesday, 24th November, 2021

Present:-

Councillor Rayner (Chair)

Councillors	Caulfield Brady Kellman	Councillors	T Murphy Snowdon

*Matters dealt with under the Delegation Scheme

24 DECLARATIONS OF MEMBERS' AND OFFICERS' INTERESTS RELATING TO ITEMS ON THE AGENDA

No declarations of interest were received.

25 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Cawthorne.

26 MINUTES

RESOLVED –

That the Minutes of the meeting of the Standards and Audit Committee held on 27 October, 2021 be approved as a correct record and be signed by the Chair.

27 PROGRESS UPDATE ON THE 2021/22 INTERNAL AUDIT PLAN

The Internal Audit Consortium Manager presented a report summarising the internal audit reports issued during the period September 2021 to October 2021 in relation to the 2021/22 internal audit plan.

It was noted that three reports had been issued during this period which had been given the following levels of assurance:

- ‘Substantial assurance’ – one

- ‘Reasonable assurance’ – two

A summary of these reports was provided in Appendix 1 of the officer’s report; no fraud had been detected.

Members were also informed on the progress against the internal audit plan which was detailed in Appendix 2 of the officer’s’ report.

***RESOLVED –**

That the report be noted.

28 STANDARDS AND AUDIT COMMITTEE SELF-ASSESSMENT

The Internal Audit Consortium Manager presented a report outlining the CIPFA Guidance for Local Authority Audit Committees which included a tool for use by Audit Committees to undertake a self-assessment of good practice.

The Standards and Audit Committee undertook their first self-assessment in November 2020 and subsequently produced an action plan which was attached at Appendix 2 of the officer’s report.

The Internal Audit Consortium Manager went through the action plan and Members had the opportunity to ask questions and comment on the progress made. With regard to question one of the action plan, Members discussed ways to raise the profile of the Committee and proposed requesting the Cabinet Member for Governance to act as a sponsor, highlighting the role of the Committee within the authority whenever appropriate.

***RESOLVED –**

1. That the CIPFA Guidance for Local Authority Audit Committees, as detailed at Appendix 1 of the officer’s report, be noted.

2. That the action plan be updated to include an action against question one to request that the Cabinet Member for Governance act as a sponsor for the Committee in order to raise the profile of the role and purpose of the Committee across the authority.

29 STANDARDS AND AUDIT COMMITTEE WORK PROGRAMME

2021/22

The work programme for the Standards and Audit Committee for 2021/22 was considered.

RESOLVED –

That the work programme be noted.

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Standards and Audit Committee
2021/22 Work Programme

Scheduled meeting dates:	**Business items:** (please note these are subject to change due to operational or workload pressures)	**Function/Lead**
28 July, 2021	Standards and Audit Committee Annual Report	Internal Audit
	Internal Audit Consortium Annual Report 2020/21	Internal Audit
	Internal Audit Consortium Progress Report	Internal Audit
	Implementation of Internal Audit Recommendations	Internal Audit
	External Review of Internal Audit	Internal Audit
	Review of the Anti-Fraud, Bribery and Corruption Strategy (including Money Laundering)	Internal Audit
	Updates to the Constitution	Standards and Governance
29 September, 2021	Summary of Internal Audit Reports issued and progress update on the 2021/22 Internal Audit Plan	Internal Audit
	Ombudsman Annual Review Letter	Standards and Governance
	Review of the Internal Audit Charter	Internal Audit
	Treasury Management Annual Report 2020/21 and Monitoring Report 2021/22	Finance
27 October, 2021	Audit Report on the 2020/21 Statement of Accounts	Finance/Mazars
24 November, 2021	Summary of Internal Audit Reports issued and progress update on the 2021/22 Internal Audit Plan	Internal Audit

	Review of Unreasonable Complaints Policy	Standards and Governance
	Standards and Audit Committee Self-Assessment	Internal Audit
16 February, 2022	Risk Management Strategy and Strategy Risk Register	Health, Safety and Risk
	Treasury Management Strategy 2022/23	Finance
	External Audit Progress Report	Mazars
	Audit Strategy Memorandum	Mazars
	Procurement of External Auditors	Finance
	External Review of Internal Audit – Action Plan Progress Update	Internal Audit
	Outstanding Internal Audit Recommendations	Internal Audit
	Progress Update on the 2021/22 Internal Audit Plan	Internal Audit
	Standards of Conduct Annual Report	Standards and Governance
20 April, 2022	Progress update on the 2021/22 Internal Audit Plan	Internal Audit
	Chesterfield Borough Council Internal Audit Plan 2022/23	Internal Audit
	CIPFA Fraud and Corruption Survey Results 2021	Internal Audit
	Review of the Code of Corporate Governance and the 2021/22 Annual Governance Statement	Internal Audit
	Audit Strategy Memorandum 2021/22	External Auditors
	2021/22 Audit Progress Report	External Auditors

	RIPA Annual Report	Standards and Governance
Business items scheduled for future years:		
July 2023	Review of the Anti-Fraud, Bribery and Corruption Strategy (including Money Laundering)	Internal Audit
	Appointment of Independent Renumeration Panel	Standards and Governance

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For publication

Risk Management Strategy and Strategic Risk Register (GV10R)

Meeting:	Standards and Audit Committee
Date:	16.02.22
Cabinet portfolio:	Governance
Directorate:	Corporate
For publication	

1.0 Purpose of the report

1.1 To provide a report on the Risk Management activities during 2021/22 and to consider the revised Risk Management Strategy and Strategic Risk Register for 2022/23.

2.0 Recommendations

2.1 To note the progress made on developing the Council's approach to risk management during 2021/22.

2.1 To recommend for Council approval the Risk Management Strategy for 2022/23 and Strategic Risk Register base document for 2022/23.

3.0 Reasons for recommendations

3.1 To provide a framework for the effective and systematic management of risk, which will ensure that risk management is embedded throughout the Council.

4.0 Report details

4.1 <u>Risk Management Progress during 2021/22</u>

The Corporate Leadership Team restructure moved responsibility for Corporate Risk Management from the Directorate Finance to the Directorate Corporate in December 2020 with transition taking place during 2021/22. Key changes include:

- Tier 4 restructure created focused capacity for Risk Management with the new Strategic Health, Safety and Risk Manager role (started January 2022)
- Refreshed Corporate Risk Management Group membership, meeting frequency and agenda
- Consideration of priorities for spend from the Zurich Risk Management Reserve and Risk Management budget via risk profiling and horizon scanning activities
- Revised Corporate Risk Management Group terms of reference and meeting schedule to take into account the findings of the Internal Audit Report 2019/20
- Revised Strategic Risk Register with quarterly reviews carried out during 2021/22 by the Corporate Risk Management Group and reported into the Corporate Leadership Team
- Revised Risk Management Strategy with new reporting and monitoring arrangements as recommended within the 2019/20 audit review
- Alignment of Risk Management timetabling with the development of the Council Plan and associated delivery plans and the Medium Term Financial Strategy

4.2 Risk Management Strategy

The revised Risk Management Strategy for 2022/23 is attached at Appendix 1. This strategy establishes a framework for the effective and systematic management of risk, which will ensure that risk management is embedded throughout the Council. Effective risk management will:

- Support the achievement of our Vision ‘putting our communities first’ and our three priorities: making Chesterfield a thriving borough, improving quality of life for local people and providing value for money services
- Provide a consistent approach to managing risk
- Inform decision making and business planning
- Protect the Council and our communities

4.3 Within the strategy we have provided examples of key strategic, operational and governance risks and how applying a consistent approach across the Council enables risks to be escalated where necessary and risks at all levels to be effectively identified and managed.

4.4 Roles and responsibilities have been clearly defined, with the Corporate Risk Management Group (accountable to the Corporate Leadership Team) being the "driving force" behind developing and implementing the Risk Management Strategy. A key principle is that risk needs to be addressed at the point at which decisions are being taken. The Risk Management Strategy and work of the Corporate Risk Management Group ensures that this principle is kept in sharp focus at all times with an emphasis on all reasonable steps being taken to ensure decision makers can fully consider the risks involved in a decision.

4.5 Risk identification, appetite and treatment approaches have been developed alongside clear links to other plans and activities including Emergency Planning and Business Continuity. A commitment is also made that all employees will undertake risk management training via Aspire Learning (e-learning) and that additional learning and development requirements for more in-depth issues will be identified via the Corporate Risk Management Group.

4.6 The Corporate Risk Management Group will develop quarterly updates for Portfolio holders and the Corporate Leadership Team to raise awareness and enable challenge of risk management activity. Standards and Audit Committee will receive a monitoring report twice per annum and Council once per annum (as part of the annual review).

4.7 Risk Management Strategy reviews are now co-ordinated and in sync with the development of the Council Plan and associated delivery plans and the Medium-Term Financial Strategy. This Risk Management Strategy will run for one financial year 2022/23, however the next Strategy will run for four years 2023/24 to 2026/27 to coincide with the next Council Plan. There will, however, continue to be an annual light touch review.

4.8 <u>Strategic Risk Register 2022/23</u>

The Corporate Risk Management Group have reviewed the Council's Strategic Risk Register utilising a variety of information, data and techniques including:

- The Strategic Risk Register for 2021/22
- Risks escalated via Directorate Risk Registers
- Internal Audit and External Audit reports and information
- Annual Governance Statement

- Horizon scanning to consider emerging or changing legislative, emergency planning/ business continuity, economic, environmental, technological, insurance and health and safety factors

4.9 The Strategic Risk Register summary (Appendix 2) and Strategic Risk Register (Appendix 3) are the base starting point documents for 2022/23. They are live documents and will be updated on a quarterly basis by the Corporate Risk Management Group. There are opportunities built in for escalation and further discussion and action via monitoring and management arrangements with the Corporate Leadership Team, Cabinet Portfolio Holders and Standards and Audit Committee.

5.0 Alternative options

5.1 The risk management approach detailed within the revised Risk Management Strategy responds to the recommendations identified by the 2019 Internal Audit review of the function. These recommendations had already been agreed so alternative options have not been developed.

6.0 Implications for consideration – Financial and value for money

6.1 The Council transfers funds during the year to maintain a £5k balance on the Risk Management Reserve which is managed by the Corporate Risk Management Group. This reserve can be used on priority risk management activities which contribute towards mitigating key risk areas or preparing for emerging areas of concern.

6.2 As part of our insurance contract with Zurich, £2,500 per annum is held by Zurich in a risk management reserve for us to spend on risk related products with Zurich. Previous activities have included risk management training and focused risk assessment and reviews for key areas.

6.3 Decisions on budget spend for these two small funding pots is delegated to the Corporate Risk Management Group.

7.0 Implications for consideration – Legal

7.1 A key element of the risk management process is ensuring measures are in place for legislative compliance across functions and activities. Legal and legislative considerations has been introduced as one of the key areas for horizon scanning by the Corporate Risk Management Group to inform the Risk Management Strategy, Strategic Risk Register and Directorate Risk Registers.

8.0 Implications for consideration – Human resources

8.1 The Tier 4 restructure in July 2021 created a new role – Strategic Health, Safety and Risk Manager, which has operational responsibility for risk management. This role has now been successfully recruited to.

8.2 The membership of the Corporate Risk Management Group has been reviewed to ensure appropriate officer and member representation.

9.0 Implications for consideration – Council plan

9.1 The Risk Management Strategy and Strategic Risk Register underpin and inform the development and delivery of the Council Plan priorities.

10.0 Implications for consideration – Climate change

10.1 Climate Change has been introduced as a risk within the Strategic Risk Register, identifying a range of mitigation activity taking place across the Council and where there are further measures to be developed.

11.0 Implications for consideration – Equality and diversity

11.1 A pre-liminary equality impact assessment has been completed. No negative impacts have been identified in relation to protected characteristics.

12.0 Implications for consideration – Risk management

Description of the Risk	Impact	Likelihood	Mitigating Action	Impact	Likelihood
Failure to accurately identify and assess key strategic risks.	H	M	• Corporate Risk Management Group draw on a variety of information sources and horizon scanning techniques to identify and assess existing and emerging risks • Feed-up and feed-down opportunities from Directorate and Strategic Risk Registers • Risk management training	M	L

Failure to deliver on key mitigation activity for key strategic risks.	H	M	• Regular review at Corporate Risk Management Group • Monitoring and oversight arrangements developed with Corporate Leadership Team, Portfolio holders, Standards and Audit and Council • Internal Audits of Risk Management • Risk Management identified as a consideration for decision making reports and projects/programmes	M	L

Decision information

Key decision number	**1074**
Wards affected	**All**

Document information

Report author
Donna Reddish – Service Director Corporate
Background documents These are unpublished works which have been relied on to a material extent when the report was prepared.
None
Appendices to the report
Appendix 1 – Risk Management Strategy
Appendix 2 – Strategic Risk Register Summary
Appendix 3 – Strategic Risk Register

CHESTERFIELD
BOROUGH COUNCIL

Risk Management Strategy

Owner: Risk Management Group

Date: February 2022 – February 2023

Review by: Annual update to Full Council in February

CHESTERFIELD
BOROUGH COUNCIL

Contents

FOREWORD

By Cllr Sharon Blank, Cabinet Member for Governance

Risk management should be embedded within the daily operations of the Council, from strategy and policy formulation through to business planning and operational processes. It also needs to be applied where the Council works in partnership with other organisations to ensure that partnership risks and identified and managed effectively.

Through understanding risks and opportunities, decision makers will be better able to evaluate the impact of particular decisions or actions. It is important that risk management does not focus upon risk avoidance, but on the identification an management of an acceptable level of risk, weighed up and balanced across a range of factors.

It is our aim to proactively identify, understand and manage the risks inherent in providing high quality services and associated with our plans, policies and strategies in order to support informed and proportionate risk taking to achieve strategic objectives and provide value for money services.

Risk management is increasingly recognised as being concerned with both the positive and negative aspects of risk; that is to say opportunities and well as threats and this strategy seeks to inform both perspectives.

EXECUTIVE SUMMARY

This strategy establishes a framework for the effective and systematic management of risk, which will ensure that risk management is embedded throughout the Council. Effective risk management will:

- Support the achievement of our Vision 'putting our communities first' and our three priorities: making Chesterfield a thriving borough, improving quality of life for local people and providing value for money services
- Provide a consistent approach to managing risk
- Inform decision making and business planning
- Protect the Council and our communities

Within the strategy we have provided examples of key strategic, operational and governance risks and how applying a consistent approach across the Council enables risks to be escalated where necessary and risks at all levels to be effectively identified and managed.

Roles and responsibilities have been clearly defined, with the Corporate Risk Management Group (accountable to the Corporate Leadership Team) being the "driving force" behind developing and implementing the Risk Management Strategy. A key principle is that risk needs to be addressed at the point at which decisions are being taken. The Risk Management Strategy and work of the Corporate Risk Management Group ensures that this principle is kept in sharp focus at all times with an emphasis on all reasonable steps being taken to ensure decision makers can fully consider the risks involved in a decision.

Risk identification, appetite and treatment approaches have been developed alongside clear links to other plans and activities including Emergency Planning and Business Continuity. A commitment is also made that all employees will undertake risk management training via Aspire Learning (e-learning) and that additional learning and development requirements for more in-depth issues will be identified via the Corporate Risk Management Group.

The Corporate Risk Management Group will develop quarterly updates for Portfolio holders and the Corporate Leadership Team to raise awareness and enable challenge of risk management activity. Standards and Audit Committee will receive a monitoring report twice per annum and Council once per annum (as part of the annual review).

SECTION 1: Introduction, purpose and aims

1.1 **Introduction**

The effective management of risk is an important principle for all businesses to properly address. For local authorities such as Chesterfield Borough Council, managing risk is a key element of our Corporate Governance responsibilities. This risk management strategy seeks to promote the identification, assessment and response to key risks that may adversely impact upon the achievement of the Council's stated aims and objectives. It also seeks to maximise the rewards that can be gained through effectively managing risk.

Risk Management is not new; the Council has been doing it effectively for many years. However, to comply with the Corporate Governance requirements the Council must ensure that its procedures are sufficiently formalised and reviewed at regular intervals to identify areas for improvement. This strategy has been updated to clarify the arrangements for managing risk and to further embed Risk Management within the thinking of all Council employees, Officers and Members.

1.2 **Purpose**

The purpose of this Risk Management Strategy is to establish a framework for the effective and systematic management of risk, which will ensure that risk management is embedded throughout the Council and makes a real contribution to the achievement of the Council's vision and priorities as described in the Council Plan. The objectives of the strategy are to:

- Define what risk management is about and what drives risk management within the Council
- Set out the benefits of risk management and our strategic approach
- Outline how the strategy will be implemented
- Identify relevant toles and responsibilities for risk management within the Council

Effective risk management will require an iterative process of identification, analysis and prioritisation, action, monitoring and reporting of material risk. The processes required to deliver these objectives will need to ensure:

- A clear vision, priorities and values identified via the Council Plan and delivery plans and feeding into business planning and project management via the organisational development approach
- Requirement to analyse, prioritise, respond to and monitor material and significant risks including effective reporting and challenge
- Specification of key risk management roles and responsibilities
- Specification of guidance and support arrangements to assist officers in their consideration of risk
- Facilitation of shared organisational intelligence and learning

1.3 **Risk management strategy aims**

The following risk management aims have been identified:

- Ensure that risk management is an integral part of corporate and service planning, decision making and project management
- Enables the Council to deliver its priorities and services economically, efficiently, and effectively
- Protect the Council's position when entering into new partnerships and/or evaluating existing partnerships.
- Align risk management and performance management to drive improvement and achieve better outcomes
- Guard against impropriety, malpractice, waste and poor value for money
- That appropriate training and guidance is available to officers and members
- Ensure compliance with legislation, such as that covering the environment, health and safety, employment practice, equalities and human rights
- Increase awareness and visibility of different types risk including financial, reputational, environmental, technological, health and safety etc.
- Exploring opportunities and options such as new collaborations, approaches, emerging practices
- To have a performance framework that continues to allow managers to proactively track performance and assess and mitigate risk

We recognise that it is not always possible, nor desirable, to eliminate risk entirely. However, visibility of these areas is essential, so that the Council can explore external options, such as insurance.

CHESTERFIELD
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SECTION 2: Scope and definitions

2.1 Strategy scope

Risk includes anything which may prevent the Council from achieving its vision, priorities and service delivery and risk management is the process of identifying what can go wrong and then seeking to mitigate the risk and/or could be an opportunity and seeking to trying to take advantage of it. Risks will be managed through a series of activities including:

- Strategic risk tolerance through the application of our risk scoring mechanism within the strategic risk register, strategies, plans, emergency planning / business continuity and decision making
- At an operational level via service risk registers, business continuity, service and project delivery and effective performance management arrangements
- Good corporate governance provisions as provided by the Standards and Audit Committee's terms of reference
- Incorporated into the Council's Annual Governance Statement
- Examination of the strategic and insurable risks to identify risk reduction measures via the Risk Management Group
- Provide risk assessment evidence for decision making processes via inclusion within committee reports
- Maintain documented procedures, toolkits and guidance for use across the Council
  by application of the risk register process and user advice
- Provide officers with suitable information and training to enable them to perform their duty (Risk Management Group).
- Make all partners, providers and contractors aware of the Council's expectations on risk, both generally as set out in the Risk Management Strategy, and where necessary, in particular areas of service delivery

2.2 Key definitions

Risk – A threat that an event or action will adversely affect the Council's ability to achieve its vision, priorities, perform its duties or meet expectations of its stakeholders.

Risk management - Risk is unavoidable, organisations must manage risk in a way that can be justified to a level which is tolerable and as a result, risk is the chance that an event will occur that will impact upon the organisation's objectives. It is measured in terms of consequence and likelihood.

A glossary of risk management terms and definitions in attached at Appendix 2.

Section 3: The benefits of risk management

3.1 **Why we want to and need to undertake risk management**

Risk management will, by adding to the business planning and performance management processes, strengthen the ability of the Council to achieve its vision and priorities and enhance the value of the services we provide.

The Chartered Institute of Public Finance and Accountancy (CIPFA)/ Society of Local Authority Chief Executives (SOLACE) framework on Strategic Governance requires the Council to make a public assurance statement annually, on amongst other areas, the Council's Risk Management Strategy, process and framework. The framework requires the Council to establish and maintain a systematic strategy, framework and processes for managing risk.

3.2 **Benefits of risk management**

Successful application of risk management has many organisational benefits including:

- Achievement of the Council's vision and priorities
- A consistent approach to the way risks are managed throughout the Council
- Improved informed decision making – risks reported and considered within Council decision making
- Becoming less risk averse in innovation
- Improved business planning through a risk based decision making processes
- A focus on outcomes not processes
- Improved performance (accountability and prioritisation) - feeds into performance management framework
- Better governance - and demonstration of it to stakeholders
- Protecting the Council and our communities

3.3 **Risk management within decision making**

Effective risk management should be applied within all decision making processes at an *appropriate scale*. The risk management approach should encompass all types of risks and the table below may aid in the identification of risks to the Council.

CHESTERFIELD BOROUGH COUNCIL

Sources of risk	Risk examples
STRATEGIC	
Infrastructure	Functioning of transport, communications and infrastructure. Impact of storms, floods, pollution.
Legislative and Regulatory	Effects of the change in Central Government policies, UK or EU legislation, local and National changes in manifestos. Exposure to regulators (auditors/inspectors).
Social Factors	Effects of changes in demographic profiles (age, race, social makeup etc.) affecting delivery of objectives. Crime statistics and trends. Numbers of children/vulnerable adults 'at risk'.
Technological	Capacity to deal with (ICT) changes and innovation, product reliability, developments, systems integration etc. Current or proposed technology partners.
Competition and Markets	Cost and quality affecting delivery of service or ability to deliver value for money. Competition for service users (leisure, car parks etc). Success or failure in securing funding.
Stakeholder related factors	Satisfaction of the Council's taxpayers, Central Government and other stakeholders.
Political	Local or national political issues that may impact on the Council meeting its objectives.
Economic	Affecting the ability of the Council to achieve its commitments.
Environmental	Environmental impact from Council, stakeholder activities (e.g. pollution, energy efficiency, recycling, emissions, contaminated land etc). Traffic problems and congestion.
OPERATIONAL (Internal influences)	
Finance	Associated with accounting and reporting, internal financial delegation and control, managing revenue and capital resources, funding taxation and pensions.
Human Resources	Recruiting and retaining appropriate staff and applying and developing skills in accordance with corporate objectives, employment policies, health and safety.
Contracts and Partnership	Failure of contractors to deliver services or products to the agreed cost and specification. Procurement, contract and life cycle management, legacy. Partnership arrangements, roles and responsibilities.
Tangible Assets	Safety and maintenance of buildings and physical assets i.e. plant and equipment, ICT equipment and control.
Environmental	Pollution, noise, licensing, energy efficiency of day-to-day activities.
Processes	Compliance, assurance, project management, performance management, revenue and benefits systems, parking systems etc.
Legal	Relating to potential breaches of legislation and prosecutions.
Physical	Related to physical damage, security, accident prevention and health and safety.
Professional Judgement and Activities	Risks inherent in professional work, designing buildings, assessing needs (children and adults).

Sources of risk	Risk examples
CORPORATE GOVERNANCE	
Integrity	Fraud and corruption, accountability, transparency, legality of transactions and transactions and limit of authority.
Leadership	Reputation, authority, democratic changes, trust and branding.
Policy and Strategy	Clarity of policies, communication. Policy Planning and monitoring and managing performance.
Data and information for decision making	Data protection, data reliability and data processing. Control of data and information. E-government and service delivery.
Risk Management	Incident reporting and investigation, risk analysis or measurement, evaluation and monitoring. Taking advantage of opportunities.

3.4 A consistent approach

A consistent approach from the top to the bottom of the Council enables risks to be escalated up where necessary and strategic risks to be effectively identified and managed. In practice, risks within the Council exist at many different levels (e.g., high level strategic risks to lower level everyday service based risks). For the purpose of this strategy, risks are split into two levels as follows:

Strategic Risk Register – the strategic, high level council risks related specifically to the achievement of the Councils vision, priorities and purpose

Operational Risks – service based risks that may prevent individual service aims and objectives being met (and therefore impact upon the attainment of corporate priorities). Given the changing landscape of local government the importance of projects and partnerships are ever increasing, so a more specific and tailored risk management approach is required.

The Council's risk matrix and scores are attached at Appendix 1.

Section 4: Roles and responsibilities

4.1 In cases of operational risk, risk management will follow existing service management arrangements. Corporate risks will be managed at Senior Officer Level. The Corporate Risk Management Group will be accountable to the Corporate Leadership Team and will be the "driving force" behind developing and implementing the Council's Risk Management Strategy. The Corporate Risk Management Group Terms of Reference are attached at Appendix 3.

4.2 Risk needs to be addressed at the point at which decisions are being taken. Where Members and Officers are asked to make decisions, they should be advised of the risks associated with recommendations being made. The Council needs to be able to demonstrate that it took reasonable steps to consider the risks involved in a decision. Risks must be addressed within Committee reports. In order to ensure the successful implementation of the strategy, roles and responsibilities have been reviewed and are updated in the following table:

Group	Roles & Responsibilities
Full Council	• Formal approval and adoption of the Risk Management Strategy • Approve the Strategic Risk Register (annually) • Receive a half yearly monitoring report • Contribute to the identification of strategic risks
Standards & Audit Committee	• To review the effectiveness of the Risk Management arrangements • To review and endorse the Risk Management Strategy prior to Council consideration • To receive and review half yearly monitoring reports • Receive reports including the annual statement of Internal Control/external audit reports/effectiveness of internal audit • Contribute to the identification of strategic risks
Cabinet and committees	• To ensure that risk management is a key consideration in decision making reports • Contribute to the identification of strategic risks
Corporate Leadership Team	• Overall responsibility for implementing the risk management framework and embedding risk management throughout the Council • Address strategic issues that cannot be addressed within service budgets or risk management fund of an extreme or high assessment • To ensure that risk management is a key consideration in decision making • Receive and challenge quarterly updates from the Corporate Risk Management Group • Contribute to the identification of strategic risks and co-ordinate Directorate risk registers

Portfolio holders	• Receive and challenge quarterly updates from the Corporate Risk Management Group • Contribute to the identification of strategic risks

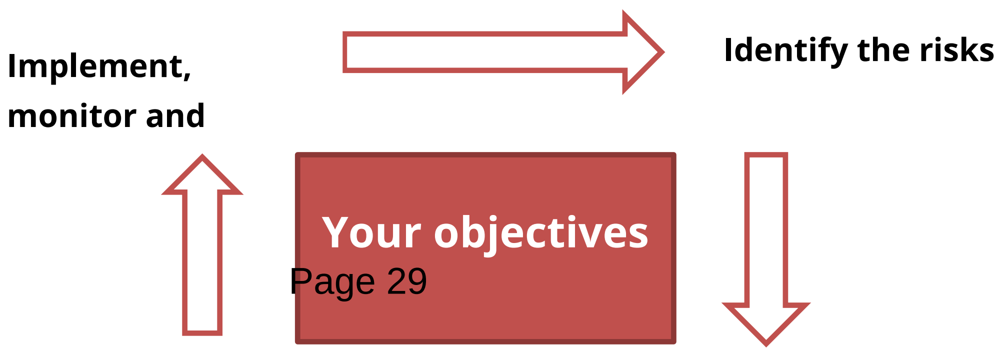
Group	**Roles & Responsibilities**
Corporate Risk Management Group (CRMG)	• Overall responsibility for ensuring that processes are in place to effectively manage risks within the Council • Increase awareness of risk management across the Council • Develop the Risk Management Strategy, Strategic Risk Register and monitoring reports • Horizon scanning and identification of emerging risk areas • Identify and commission task and finish groups where appropriate • Review Directorate risk registers • Review Insurance claims analysis in order to identify ways of reducing or eliminating future claims • Identify good practice and share learning • Approve the use of the Risk Management budget and training days • Arranging and providing risk management training as appropriate
Service Managers (Tier 4)	• Ensure that risk management is incorporated into service plans and project plans • Ensure regular review of Service Risk Registers (every 3 months) • Review risk treatment schedules as identified by the line managers and team leaders • Review risk action plans and ensure they are implemented • Contribute towards the identification and management of operational risks for their service • Ensure that risks which have been identified are addressed and mitigated and that any high risks are addressed urgently • To provide annual assurance on the effectiveness of controls in place to identify and mitigate risks within their service through the annual service planning process • To maintain awareness of and promote effective risk management techniques (incl. awareness of the strategy and policy) to all relevant staff • Ensure that risk issues are highlighted in decision making reports
Line Managers and team leaders	• Identify and analyse risks • Undertake assessments at service level • Evaluate risk/perform risk assessment

	• Prepare risk treatment schedule and action plans • Support the development of service, directorate and strategic risk registers

Group	Roles & Responsibilities
All employees	• Manage risk effectively in their job and report opportunities and risks to their service manager • Participate in risk assessment and action planning where appropriate • Adhere to Council policies and procedures • Attend training and development sessions as appropriate
Project managers	• Project leaders have a responsibility to ensure that the risks associated with their projects are identified, recorded and regularly reviewed as part of the project management process • Risk to be a key part of project applications and decisions
Internal Audit	• Audit the risk management process • Assess the adequacy of the mechanisms for identifying, analysing and mitigating key risks • Provide assurance to senior officers and Members on the effectiveness of controls • Use the strategic risk register to drive the Internal Audit Plan to ensure resources are used on the areas of highest risk and where the need for assurance is greatest

Section 5: Risk Management Process

5.1 The risk management process is the same for the management of both strategic and operational risks. The process comprises of the following four basic steps; these are indicated in the diagram below and should be driven by the Council's objectives.



Mitigation and action planning ← **Prioritise the risks**

Risk identification and risk appetite

At the strategic level, risks may be addressed by a variety of means. These include and having identified a risk there are four basic choices about how to deal with it – the 4T's:
Treat the risk (i.e. do something about it)
Tolerate the risk – (i.e. accept it as it is)
Transfer the risk – (i.e. pass it to someone else, for example insurance)
Terminate the risk – (i.e. cease the activity that gives rise to the risk)

Risk Treatment

The most important part of the risk process is the resulting decisions and actions, and this will become an increasing focus of the Council. Risk analysis will identify actions required as well as target deadlines. However, overall responsibility for progress falls to the risk owner.

There are four basic ways of treating an opportunity, which are:
Enhance – seek to increase the likelihood and/or the impact of the opportunity in order to maximise the benefit;
Ignore – minor opportunities can be ignored by adopting a reactive approach without taking any explicit actions;
Share – seek a partner/stakeholder able to manage the opportunity, which can maximise the likelihood of it happening and increase the potential benefits;
Exploit – seek to make the opportunity definitely happen by adopting aggressive measures to ensure the benefits from the opportunity are realised.

Where risk control or reduction is required, focus should be given to both the impact and the likelihood of the risk. All actions should be taken within the context of the likely cost of the actions required to reduce the risk. The anticipated level of risk the Council is prepared to accept taking into account the implementation of the actions identified is shown as the Target Risk. This Target Risk will vary depending upon the risk appetite.

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Section 6: Links to emergency planning and business continuity

6.1 There is a key link between risk management, emergency planning and business continuity which is vital to their success. While linked they are however different.

Risk management is about trying to identify and manage those risks which are more than likely to occur and where the impact on the Council's objectives can be critical or even catastrophic.

Business continuity management is about trying to identify and put in place measures to protect the priority functions against catastrophic risks that can stop the organisation in its tracks. There are some areas of overlap e.g. where the I.T infrastructure is not robust then this will feature as part of the organisation risk assessment and also be factored into the business continuity plans. Further information about business continuity and our plans is available via aspire intranet.

Emergency planning is about managing those incidents that can impact on the community (in some cases they could also be a business continuity issue) e.g. a plane crash is an emergency, it becomes a continuity event if it crashes on the office. Further information about emergency planning and our plans is available via aspire intranet.

Section 7: Communication and training

7.1 The latest version of the Risk Management Strategy will be available via aspire intranet and key messages will also be included in the managers e-bulletin to enable cascade via team meetings.

7.2 Risk management should be a regular item at Directorate Management Team meetings and team meetings to ensure that all employees can contribute to risk management and that risk can be managed at the most appropriate level.

7.3 Risk management training is mandatory for all employees and is delivered via Aspire learning. Additional more in-depth modules and in some cases external courses will also be available where appropriate. The Corporate Risk Management Group can make recommendations around additional learning and development requirements to ensure officers are sufficiently confident to undertake the process of risk identification, controls and monitoring within their service areas.

Section 8: Monitoring and review

8.1 The Corporate Risk Management Group will develop quarterly updates for Portfolio holders and the Corporate Leadership Team to raise awareness and enable challenge of risk management activity.

8.2 Standards and Audit Committee will receive a monitoring report twice per annum and Council once per annum (as part of the annual review).

Appendix 1 – Risk Matrix

A Risk Matrix is used to assess risks in terms of their likelihood of occurring and the impact they could have. The scores for each factor (likelihood and impact) are plotted on a matrix (see below) to identify those that require management action i.e. focus on the 'red' area. The objective is to devise mitigating actions that will reduce the risk and ideally move the assessment into a safer area of the matrix (green or amber).

Total Risk Score = Likelihood x Impact. Rating: 0-8 Green, 9-14 Amber, 15+ Red

Risk Likelihood

Score 1 – Highly unlikely	**Score 2 – Unlikely**	**Score 3 – Possible**	**Score 4 – Likely**	**Score 5 – Very Likely**
Previous experience at this or other similar organisations make this outcome highly unlikely to occur.	Previous experience discounts this risk as being unlikely to occur but other organisations have experienced problems.	The Council has in the past experienced problems but not in the past three years.	The Council has experienced problems within the past three years.	The Council is currently experiencing problems or expects to within the next 12 months.

Risk Impact

Risk Impact	**Score 1 – Negligible**	**Score 2 – Low**	**Score 3 – Medium**	**Score 4 – High**	**Score 5 – Very High**
Priorities	No impact on the delivery of the Council's priorities.	It may cost more or delay in delivery of one of the Council's priorities	A number of Council priorities would be delayed or not delivered	The majority of Council priorities would be delayed or not delivered	Unable to deliver all Council priorities
Financial	Less than £5k	Less than £25k	Less than £100k	Less than £500k	More than £500k
Service	No disruption	Some temporary disruption of activities in one service area.	Regular disruption to activities in one of more service areas.	Severe service disruption or regular disruption affecting more than one service.	Severe disruption to the activities of all Council services.
Information	None	Minor – no personal details compromised	Isolated, personal details compromised	Across several services – personal details compromised	Severe personal details compromised
Public engagement and reputation	No loss of trust with the council and no media attention.	Some loss of confidence and trust with some local media attention.	A general loss of confidence and trust and adverse media coverage.	Major loss of trust and confidence and adverse national media coverage.	Severe loss of trust and confidence and adverse extensive media

					coverage – national

Risk scoring matrix

likelihood						
	5	5	10	15	20	25
	4	4	8	12	16	20
	3	3	6	9	12	15
	2	2	4	6	8	10
	1	1	2	3	4	5
		1	2	3	4	5
	Impact					

Appendix 2 – Glossary

Risk	Risk can be defined as a threat that an event or action will adversely affect the Council's ability to achieve its objectives, perform its duties or meet expectations of its stakeholders.
Hazard	Anything that has the potential to cause harm.
Risk Management	Risk is unavoidable, organisations' must manage risk in a way that can be justified to a level which is tolerable and as a result, risk is the chance that an event will occur that will impact upon the organisation's objectives. It is measured in terms of consequence and likelihood.
Assessing risks	The approach and process used to prioritise and determine the likelihood of risks occurring and their potential impact on the achievement of the Councils objectives.
Contingency	An action or arrangement that can be put in place to minimise the impact of a risk if it should occur.
Control (control measures)	Any action, procedure or operation undertaken to either contain a risk to an acceptable level, or to reduce the likelihood.
Corporate Governance	Set of internal controls, processes, policies, affecting the way the Council is directed, administered or controlled.
Service risk	Significant operational risks which affect the day-to-day activities of the council.
Identifying risks	The process by which events that could affect the achievement of the Council's objectives, are drawn out and listed.
Risk Prioritisation	Risk prioritisation is the process used to evaluate the hazard/ risk and to determine whether precautions are adequate or more should be done. The risk is compared against predetermined acceptable levels of risk.

Impact	The effect that a risk would have if it occurs.

Issue	An event or concern that has occurred or is taking place and needs to be addressed (as opposed to a risk which has not yet, or might not, occur).
Consequence	A measure of the impact that the predicted harm, loss or damage would have on the people, property or objectives affected.
Likelihood	A measure of the probability that the predicted harm, loss or damage will occur
Risk Treatment	The action(s) taken to remove or reduce risks
Key Risk Driver	Describes the type of risk and what the value of that potential risk is likely to be.
Raw Risk	Worst case scenario – without intervention
Current risk	Current assessment of risk having considered controls already in place to mitigate the risk
Target risk	The best position the Council can get to when all mitigating measures are applied.
Managing and controlling risks	Developing and putting in place actions and control measures to treat or manage a risk.
Control	The control of risk involves taking steps to reduce the risk from occurring such as application of policies or procedures.
Mitigation (Plan)	A strategy that reduces risk by lowering the likelihood of a risk event occurring or reducing the impact of the risk should it occur.
Objective	Something to work towards – goal.
Operational risk	Risks arising from the day to day issues that the Council might face as it delivers its services.
Overall risk score	The score used to prioritise risks – impact multiplied by likelihood.
Risk Assessment	Analysis undertaken by management when planning a new process or changing an existing procedure to identify risks that may occur, their potential impact and likelihood of occurrence. It will also identify the controls needed to control the risk and who is responsible for this.
Risk Register	A risk register is a log of risks of all kinds that threaten an organisation's success in achieving its objectives. It is a dynamic living document which is populated through the organisation's risk assessment and evaluation process. The risk register enables risks to be quantified and ranked. It provides a structure for collating information about risks.

Appendix 3 - Risk Management Group

Terms of reference

Purpose

Strategic oversight of the Council's risk management arrangements including the development of the risk management strategy, strategic risk register and key monitoring and challenge reports. Horizon scanning for key organisational, reputational, legal, financial and operational risks including the regular review of Directorate risk registers and emerging issues.

Responsibilities

1. To develop, adapt and maintain the Council's Risk Management Strategy as the formal framework for the identification and management of strategic and operational risks.

2. To develop, review, monitor and challenge the Council's Strategic Risk Register ensuring key risks are identified and effectively mitigated and managed.

3. To review, monitor and challenge Directorate Risk Registers, providing a two way flow of information and development in support of the Strategic Risk Register and ensuring a 'One Council, One Team' approach to risk management.

4. Horizon scanning for new and emerging risk management concerns and opportunities across a broad range of areas including legal, financial, legislative, operational, insurance and partnerships to feed into the Risk Management Strategy and Risk Registers.

5. To provide assurance to Standards and Audit Committee and Full Council that effective risk management arrangements are in place and are improving via twice yearly reports.

6. To provide assurance to Cabinet Portfolio holders and Corporate Leadership team with quarterly update reports.

7. To develop and progress task and finish groups on specific areas of interest e.g. major projects, governance, training etc.

Meeting arrangements

Quarterly Risk Management Group meetings with the opportunity for additional task and finish groups.

The meetings will be chaired and administrated by the Health, Safety and Risk Team within the Directorate Corporate.

Membership

Cabinet Portfolio – Governance (Chair)
Executive Director (Senior Leadership Team Sponsor)
Service Director – Corporate
Service Director – Digital, HR and Customer Services
Service Director – Economic Growth
Service Director – Finance
Service Director – Housing
Service Director – Leisure, Culture and Community Wellbeing
Strategic Health, Safety and Risk Manager
Head of Internal Audit
Regulatory Law Manager and Monitoring Officer
Senior Emergency Planning Officer
Insurance lead

Appropriate substitutes can be arranged but all areas should be represented

Timetable

Meeting	Activity	Timescale
Risk Management Group	• Risk Management Strategy • Strategic Risk Register • Directorate Risk Registers • Horizon Scanning • Start to feed into Annual Governance Statement	January

Corporate Leadership Team (Quarterly report also available to Cabinet portfolio holders for information)	• Quarterly Risk Management report • Risk Management Strategy • Strategic Risk Register	January
Finance and Performance Board (on route to S&A and Council)	• Risk management update • Risk Management Strategy • Strategic Risk Register	February
Standards and Audit Committee	• Risk Management update • Risk Management Strategy • Strategic Risk Register	February
Council	• Risk Management update • Risk Management Strategy • Strategic Risk Register	February – coincide with Council Plan and MTFP
Risk Management Group	• Strategic Risk Register • Directorate Risk Registers • Horizon Scanning	April
Corporate Leadership Team (Quarterly report also available to Cabinet portfolio holders for information)	Quarterly Risk Management report	April
Risk Management Group	• Strategic Risk Register	July

	• Directorate Risk Registers • Horizon Scanning	
Risk Management Group	• Strategic Risk Register • Directorate Risk Registers • Horizon Scanning	September
Corporate Leadership Team (Quarterly report also available to Cabinet portfolio holders for information)	• Quarterly Risk Management report • Strategic Risk Register	September
Finance and Performance Board (on route to S&A and Council)	• Risk management update • Strategic Risk Register	September
Standards and Audit Committee	• Risk Management update • Strategic Risk Register	October
Council	• Risk Management update • Strategic Risk Register	October
Risk Management Group	• Strategic Risk Register • Directorate Risk Registers • Key regeneration schemes • Horizon Scanning	November
Corporate Leadership Team (Quarterly report also available to Cabinet portfolio holders for information)	• Quarterly Risk Management report • Strategic Risk Register	November

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Appendix 2

Strategic Risk Register 2022/23 Summary

Risk scoring matrix

likelihood	5	5	10	15	20	25
	4	4	8	12	16	20
	3	3	6	9	12	15
	2	2	4	6	8	10
	1	1	2	3	4	5
		1	2	3	4	5
	Impact					

Strategic Risk Register Summary

Ref	Risk	Current risk rating	Target risk rating
SR1	Financial Sustainability	15	12
SR2	Project management	15	10
SR3	Capacity to deliver	16	9
SR4	ICT transformation programme	12	9
SR5	Emergency planning and business continuity	12	9
SR6	Health and Safety	12	6
SR7	Information assurance / governance	16	12
SR8	Procurement and contract management	12	8
SR9	Council housing provision	12	9
SR10	Safeguarding children and vulnerable adults	12	8
SR11	Non-housing property maintenance	16	12
SR12	Climate Change	16	12
SR13	Changes to local government structures	15	9
SR14	EU Exit	9	6
SR15	Covid-19	20	15

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Appendix 3

Strategic Risk Register 2022/23

Risk ref	Risk description and impact	Existing controls to mitigate the risk	Current risk rating			Further mitigating action identified and dates for completion	Target risk rating			Risk lead
			Likelihood	Impact	Risk rating		Likelihood	Impact	Risk rating	
SR1	**Financial sustainability** Budget pressures, increased income volatility and uncertainty around local government finance. Significant pressures include: • Potential changes around government policy e.g. business rates (retention, growth and appeals), new homes bonus and fair funding • Cost pressures e.g. pensions, pay inflation, pay policy decisions, real living wage, interest rate charges, service charges, energy prices etc. • Concerns around inflation affecting key income streams – council tax, rent etc. • Asset management and capital programme e.g. fall in capital receipts, reduced rental income, increasing borrowing required to fund capital programme, ten year maintenance plan for buildings • Income streams – volatile market conditions • Additional spend pressures & reduced income generation opportunities due to Covid19 pandemic **Potential impact** • Re-assessment of range and scope of services currently provided and of Council Plan priorities to reduce costs • Review of the asset management plan • Short-term use of reserves • Critical external audit inspection/ audit reports • Damage to Council's reputation • Loss of confidence from elected members and the public • Negative impact on staff morale	• Five year medium term financial plan in place – reviewed on a quarterly basis • MTFP includes prudent assumptions re: income levels and challenges • Budget monitoring and reporting (to Finance and Performance Board, Scrutiny, Cabinet, Council) • Internal audit controls and reporting • Capital strategy and asset management plan • Monthly budget monitoring • Expenditure and vacancy control procedures • SLT/CLT monitoring of progress in delivering Action Plan for achievement of savings to address future years deficits • Monthly monitoring of impact of pandemic on current & future year financial position	**3**	**5**	**15**	• Horizon scanning activities to inform quarterly review of the MTFP – Identifying emerging pressures and opportunities • Assessment of implications of external pressures as further details become available – feeding into MTFP and updating assumptions • Responding to key Government consultation activity and lobbying where necessary for fair and improved funding settlements including new burdens • Delivery of the 2022/23 savings plan and income targets • Ensuring that all external funding opportunities to mitigate the impact of the pandemic are identified and maximised	**3**	**4**	**12**	**TC**
SR2	**Project management** Effective project and programme management to deliver key activities and change agenda. • Lack of effective project management approach, tools and governance leads to ineffective planning and delivery of key activities and change agendas. • Insufficient planning or having no plan at all to support delivery of key activities and change agendas can lead to lack of output delivery, Inadequate resources being available and overspend of budgets. • Lack of effective project management will undermine effective performance management and monitoring of key activities and change **Potential impact** • Unplanned expenditure of resources and budget leads to stresses on staff and services and creates budget pressures. • Activities and change are not delivered to the required outputs/outcome. • Diminishing Political support due to the failure to deliver on promised activities and change by Officers. • Reputational damage both within and outside of the Council due to output delivery failure and deadlines not being achieved. • Failure to deliver the ambitions of the Council Plan	• In April 2021 Joint Cabinet and Employment and General Committee approved a new Corporate Project Management Framework and supporting resource to ensure implementation over the next two years • Recruitment to key posts has now been completed • Boards developed to oversee significant programmes e.g. ICT improvement programme, Staveley Town Deal, Heart of Chesterfield	**3**	**5**	**15**	• Full implementation of the Corporate Project Management Framework due in 2022/23 • This will provide a robust and pragmatic approach, tools and governance to support effective delivery of key activities and change	**2**	**5**	**10**	**RON**

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Risk ref	Risk description and impact	Existing controls to mitigate the risk	Current risk rating			Further mitigating action identified and dates for completion	Target risk rating			Risk lead
			Likelihood	Impact	Risk rating		Likelihood	Impact	Risk rating	
SR3	**Capacity to deliver** Ensuring that we have the right skills and capacity to deliver the council's priorities and core services. • Workload demands exceed capacity • Loss of key people within the organisation e.g. loss of corporate memory and key skills • Lack of training - due to for example budgetary pressures • No effective succession planning • Difficulties in recruitment and retention of key skills / staff **Potential impact** • Inability to deliver services to the desired standard or projects effectively • Performance suffers due to low morale & job fears • Increased sickness (stress related) • Impact on staff health & well being • Financial e.g. severance costs arrangements	• Fortnightly review and prioritisation of the activity required during Covid-19 pandemic • Effective corporate vacancy control processes are in place. • The Council's People Plan has been developed and is progressing well • HR Business Partners have worked alongside service managers to develop effective performance, development and succession plans. • Employee Assistance Programme implemented • Webinar training sessions provided to managers to support them with agile working • Centralised training budget is in place and prioritised so that essential training is provided and desirable training is supported where budget allows. • Tier 4 restructure implemented to improve capacity and resilience	**4**	**4**	**16**	• Complete the implementation of organisational development principles across the Council during 2022/23 • Continued delivery and development of the People Plan 2019 – 2023 • Incorporating the learning from IIP 2022 into the development of the new People Plan	**3**	**3**	**9**	**RON**
SR4	**ICT Transformation Programme** • Lack of resources and expertise to develop the infrastructure and manage the technology life cycle • Ad-hoc development and flawed project documentation • Reliance on external expertise and resources **Potential impact** • Inefficient & expensive services • Poor service outcomes • Additional Project delays and costs	• In-house ICT team – key recruitment to strengthen expertise within the Council • ICT improvement programme developed and approved • Delivery monitored via ICT Improvement Board • Engagement of Overview and Scrutiny • Salesforce platform procured, with core elements new implemented including the MyChesterfield digital account – enabling access to a range of CBC services online	**3**	**4**	**12**	• Embed into Corporate Project Management Framework • Training and development plans implemented, ensuring knowledge, skills and competency is maintained • Regular review and adjustment of programme priorities to meet Covid-19 requirements, ensuring resources are focused on key needs • Next phases of the programme are currently being developed	**3**	**3**	**9**	**RON**
SR5	**Emergency Planning and Business Continuity** Ensuring that we are able to respond effectively to unexpected events, minimising any damage caused and keeping services running. Risks include inadequate or untested plans to respond to extreme events e.g. severe weather, pandemic etc. **Potential impact** • Loss of damage to life or property • Financial (loss of revenue / additional costs) • Disruption to service • Damage to reputation	• Strong Emergency Planning and Business Continuity partnership arrangements in place with DCC • Active member of the Local Resilience Forum • Staff trained and experienced for strategic and tactical roles • Robust Emergency Plan and Business Continuity Plan in place • Key plans updated and available via resilience direct • Regularly updated key contacts and out of hours document • Flooding and severe weather plans updated • Test exercises undertaken • Snow Wardens scheme continuing	**3**	**4**	**12**	• 6 monthly cyber security desk top exercises • Key exercises throughout the year on specific emergencies • Maintain Emergency Planning and Business Continuity documents update cycles • Continued engagement with Derbyshire LRF – ensuring training of staff is up to date • New Emergency Planning Liaison Officer – handovers and training taking place.	**3**	**3**	**9**	**DR**

Risk ref	Risk description and impact	Existing controls to mitigate the risk	Current risk rating			Further mitigating action identified and dates for completion	Target risk rating			Risk lead
			Likelihood	Impact	Risk rating		Likelihood	Impact	Risk rating	
		• ICT improvement programme approved, which will improve ICT controls • Cyber security assessment completed								
SR6	**Health and Safety** Protecting the Public & Staff (Health & Safety) - to ensure that we have systems in place to reduce the risk of accidents occurring and their severity. • Failure to manage the health & safety risk of the Council's undertakings • Lack of training • Budget pressures • Ageing infrastructure • Lack of awareness and understanding of duties and responsibilities. **Potential impact** • Death or injury • Damage to property or the environment • Litigation or prosecutions • Financial - claims and increasing insurance premiums • Damage to reputation	• Health and safety Committee with Service Director H&S reports. • Corporate H&S policy and procedures reviewed regularly • Health and Safety key element of management and staff team meetings • Health and Safety key feature of personal development plans and reviews • H&S plans for services • Risk assessments and safe systems of work • Aspire learning – range of H&S learning and development (some mandatory) and access to a range of external courses • Control of contractors' procedures established and implemented through learning • CDM Policy and learning programme • Asbestos Policy and surveys • Internal and External H&S audits to support • Programme of fire risk assessments and action planning. • Internal audit review of areas for improvement. • Council wide SHE system to capture issues. • Health and Safety forum to drive health and safety improvements	**3**	**4**	**12**	• New Strategic Health, Safety and Risk Managing starting in 2022 – capacity increase for this core function • Health and Safety review scheduled for 2022/23 – looking at policy and procedures, learning and development, resources and developing improvement areas • Enhanced utilisation of technology to support H&S development across the organisation. Ongoing programme. Integration of salesforce across services will support this programme e.g. embedding staff caution list etc.	**2**	**3**	**6**	**DR**
SR7	**Information Assurance / Governance** Protection from internet facing assets and data security – to comply with the statutory and other requirements to ensure that the data we hold is held securely. • Lack of cyber security controls • Failure to patch ICT systems • ICT systems which are unsupported • Lack of cyber security knowledge • Data breach **Potential impact** • Service disruption • Data exchange with Government departments restricted • ICT network suffers breach or attack • Reputational damage • Financial loss • Information Commissioner sanctions	• PSN compliance achieved • Monitoring in place • ICT health check commissioned annually • ICT health check mitigation plan in place • ICT improvement programme includes information assurance / security as a key pillar • Increased knowledge, skills and competence of staff • Information Assurance framework developed • Information assurance policies and procedures reviewed • Mandatory training in place • Data Protection Officer appointed • Information Rights officer appointed • Data protection Impact Assessments built into project governance framework	**4**	**4**	**16**	• ICT improvement programme delivery • Full engagement in annual health checks and improvement plans • Cyber security desktop exercises • Horizon scanning activities and responding to key consultations • Engaging with Information commissioner best practice and learning and development opportunities	**4**	**3**	**12**	**RON / GR**

Risk ref	Risk description and impact	Existing controls to mitigate the risk	Current risk rating			Further mitigating action identified and dates for completion	Target risk rating			Risk lead
			Likelihood	Impact	Risk rating		Likelihood	Impact	Risk rating	
SR8	**Procurement and Contract Management** Ensuring that contracts are procured properly and deliver value for money. Risks include failure to comply with procurement and contract management legislation. **Potential impact** • Financial impact (valuable funding is used for rectification costs) • Increase in staff resource to defend the challenge • Potential litigation and fines being procured • Reduced value for money • Discouraged providers may not tender for the contract in the future - potentially reducing the portfolio of providers	• Experienced in-house procurement team recruited • Procurement policy and documentation regularly reviewed • Procurement portal developed and imbedded • Review of procurement data and data cleanse completed • Dedicated procurement & legal team to support where necessary on contract management • Scheme of delegation and guidance available, registers and online information • Staff training completed	**3**	**4**	**12**	• Implementation of category management within the new service • Continuing delivery against newly developed procurement strategy • Ongoing training and development of staff in new procurement processes • Regular internal audits being implemented	**2**	**4**	**8**	**RON**
SR9	**Council Housing Provision** The provision of Social Housing - ensuring that the Council is able to support delivery of social housing and that there is a sustainable 40 year business plan for the Housing Revenue Account. Key risk factors include: • Legislative change • Introduction of a new regulatory framework for LA Housing providers • Building Safety Bill • Changes to definition of decent homes • Housing White paper • Changes to the rent setting formula • Changes to local housing allowance • Increasing inflation rates • Increased interest rates **Potential impacts** • Reduced resources within the Housing Revenue Account business plan due to additional interest payments due to extra borrowing requirements, falling rent collection rates and increased void rent loss • Increase in Right-to-Buy sales loss of stock and inability to replace the stock which is sold due to reduced resources. • Risk of being required to repay retained Right to Buy 1-4-1 receipts to Government • Increased administrative burden in implementing new policies. • Increased costs of meeting Building safety bill and revised decent homes standard	• Effective Business Planning to model the implications of changes • Effective housing operational management & policy framework to collect rents, manage voids and sustain tenancies • Effective cost management of operational services repairs and housing management services • Effective customer engagement • Quarterly assessment of Right to Buy receipt spend integrated into Quarterly Capital programme review • Implementation of integrated housing management system	**3**	**4**	**12**	• Annual review of the HRA Business Plan • Quarterly review of the Housing Capital Programme. • Assessment of borrowing approach, including the debt repayment policy • Stock conditioning survey • Review of repairs and maintenance standards and lifecycles of building components & asset performance • Covid 19 Recovery action plan • Reshaping Housing Service to deliver a more effective frontline housing management service to tenants	**3**	**3**	**9**	**LC**
SR10	**Safeguarding children and vulnerable adults** Safeguarding Children and Vulnerable Adults - the ability to fulfil our moral and legal obligations to ensure a duty of care for children and vulnerable adults across our services and facilities. Risks include inadequate policies, procedures, learning and development partnership working to safeguard children and vulnerable adults living in our communities, using our services and to protect the council, its staff, elected members and volunteers. **Potential impacts** • Negative impact on the well-being of children and vulnerable adults • Reputation damage • Public expectations / reaction	• Senior Leadership Team/ Corporate Leadership Team Safeguarding lead roles identified • Safeguarding group established to develop effective response, audit and share best practice • Strong dialogue and engagement with key partners on Derby and Derbyshire Safeguarding children partnership and Derbyshire safeguarding adults board ' member of the Derbyshire districts subgroup	**3**	**4**	**12**	• Keeping up to date with legislative changes, policy changes and best practice • Monitoring trends and horizon scanning via Derbyshire districts group and CBC group • Maintaining annual section 11 audits and improvements • 3 yearly Internal audits – 2021/22 audit gave substantial assurance	**2**	**4**	**8**	**DR**

Risk ref	Risk description and impact	Existing controls to mitigate the risk	Current risk rating			Further mitigating action identified and dates for completion	Target risk rating			Risk lead
			Likelihood	Impact	Risk rating		Likelihood	Impact	Risk rating	
	• Loss of Trust • Loss of Member confidence • Loss of staff morale • Critical external inspection / investigation	• Policies and procedures are up to date • Learning and development arrangements in place for members and staff • Annual audit / self-assessment • Regular internal audits • Effective partnerships with community and voluntary sector • Organising welfare checks where concerns identified • Full engagement with VARM processes				• Review of safeguarding leads following Tier 4 restructure completion				
SR11	**Non-housing property maintenance** The Council owns and manages a significant portfolio of non-housing properties used for a variety of purposes including CBC operational buildings and a large commercially let portfolio. This requires a planned and fully funded maintenance programme. **Potential impact** • Service disruption if buildings are not safe and well maintained • Service disruption for commercial tenants if buildings are not safe and well maintained • Loss of rental income and additional costs • Large costs of repair and maintenance • Health and Safety risks • Reputational damage • Legal disputes	• Internal audit report completed – identifying improvements required • Condition survey of buildings is underway - Progress during 2021 was directly affected by the Covid-19 pandemic response. • Work is in progress to draw the current tranche of 10-year maintenance reports together, to assess the current position, gaps for future requirements and associated costs. However, additional resource is required to enable this detailed and extensive piece of work to be completed within the necessary timescales. This will be allocated on an urgent basis and timescales for completion reviewed.	**4**	**4**	**16**	• The Asset Management Group has identified this as a priority risk • The Executive Director will be taking a report with both financial and non-financial recommendations to the appropriate Boards/Committee to establish agreed plans and appropriate resources to mitigate this risk once all of the appropriate information becomes available.	**3**	**4**	**12**	**AM / NJ**
SR12	**Climate Change** Ongoing global warming leading to higher sea levels and extreme climate conditions. **Potential impact** • Potential changes around government policy and targets • Cost pressures e.g. adapting to new requirements and opportunities • Resource capacity – increasing area of focus impacting all council activities • Failing to reach key climate change targets • Asset management – property portfolio carbon neutrality challenges • Place leadership challenges around climate change education and engagement with communities • Environmental changes leading to more frequent extreme weather occurrences	• Council declared a climate emergency • Climate Change Action Plan 2020 – 2023 developed and is currently being delivered • Key targets established – CBC to be carbon neutral by 2030 and Chesterfield Borough by 2050 • £100k per annum earmarked for climate change action plan funding • Full time Climate Change Officer appointed • Regular performance updates to Cabinet and Overview and Scrutiny Challenge • Strong Climate Change partnership established with DCC and district councils to maximise climate change actions via Vision Derbyshire • Community engagement with key local and regional groups • Local democracy programme focusing on Climate Change to educate and engage children and young people • Climate Action Now campaign developed to educate and engage communities	**4**	**4**	**16**	• Key pieces of work are being commissioned and delivered in 2022 to inform the next Climate Change Action Plan • Are You Being Served survey used to benchmark community engagement – inform next Climate Change Action Plan • Key partnerships including Vision Derbyshire and Local Authority energy partnership utilised to maximise Derbyshire wide benefit • Horizon scanning activities to plan reviews • Regular Overview and scrutiny engagement	**4**	**3**	**12**	**DR**

Risk ref	Risk description and impact	Existing controls to mitigate the risk	Current risk rating			Further mitigating action identified and dates for completion	Target risk rating			Risk lead
			Likelihood	Impact	Risk rating		Likelihood	Impact	Risk rating	
		• Range of activities including sustainable business award category and workshops with Destination Chesterfield								
SR13	**Changes to Local Government structures** Levelling Up White Paper sets Government's policy position re: Levelling Up, devolution and local government re-organisation. This may be a voluntary position or mandated. This follows on from a raft of local government re-organisation activity following the Cities and Devolution Act 2015. **Potential impact** • More complicated landscape for governance and service delivery with potential for combined authorities, mayoral combined authorities, unitary authorities • White Paper states that there is a case for wholescale local government reform but this should be locally led not top down	• Developed a research and discussion paper identifying the key issues • Following national LGR activity • Membership of key sector support organisations – LGA, EMCs, DCN • Developed with the support of PWC viable alternative to unitarisation – Vision Derbyshire – a collaborative approach for the county council and districts • Case for change developed and submitted to Government • Vision Derbyshire pilots have been completed • Several authorities formally signed up to Vision Derbyshire delivery phase which includes a resource package and governance arrangements • CBC officially signed up to Vision Derbyshire participation in October 2021	**3**	**5**	**15**	• Continue to update research and maintain discussions with political and officer senior leadership • Analysis of Levelling Up White Paper and its implications • Analysis of impact of 'County Deal' • Continue to work constructively with Derbyshire and other districts via Vision Derbyshire • Continue to engage Derby City and other potential partners where appropriate • Dialogue with Government regarding the case for change as a viable alternative to unitarisation • Implementation of Governance arrangements and resourcing for Vision Derbyshire.	**3**	**3**	**9**	**DR**
SR14	**EU Exit** Responding to issues post EU exit transition period 31.12.20. This will includes changes to the way in which the UK works with the EU will potentially create difficulties for the Council, businesses and residents **Potential Impact** • Legislative changes across functions and services • Employment law changes • Communications challenges in supporting residents and business community • Potential impact medium term financial plan • Potential community cohesion impacts • Potential challenges with availability of supplies	• Full engagement with Local Resilience Forum post EU exit planning activities • Responding to latest government guidance within strategy, policy and service development and changes • Supporting national, regional and local communications to provide information as part of the ongoing changes • Review of potential supply challenges and mitigation where possible	**3**	**3**	**9**	• Arrangements to step up Local Resilience Forum activity as necessary • Continue to monitor and evaluate impact on functions, services, staff and essential supplies • Continued internal communications • Continued support of national communications campaign	**2**	**3**	**6**	**CD**
SR15	**COVID-19** During the Covid-19 pandemic - the ability to fulfil our moral and legal obligations to ensure a duty of care for employees, contractors, visitors and service users across our services and facilities. The ability to respond effectively to unexpected events, minimising any losses caused and keeping services running. **Potential impact** • Risk of serious ill-health or death to employees, contractors, visitors and service users. • Increased workloads stressful to staff and detrimental to mental wellbeing.	• Emergency plan in place • Emergency planning liaison officer and deputy emergency planning liaison officer in place. • Management teams trained in resilience, emergency planning and business continuity. • Campaigns to support central government, NHS and partner agency key messaging • Advice and documentation available on Resilience website	**5**	**4**	**20**	• Ongoing comprehensive and timely response to Government announcements • Engagement in Local Resilience Forum activity • Engagement in Government support activity including special briefings and regular Cabinet Communications calls • Maximising funding available for communities and CBC via Covid-19 support schemes	**5**	**3**	**15**	**AM / CD**

Risk ref	Risk description and impact	Existing controls to mitigate the risk	Current risk rating			Further mitigating action identified and dates for completion	Target risk rating			Risk lead
			Likelihood	Impact	Risk rating		Likelihood	Impact	Risk rating	
Page 51	• Lockdown of some Council premises and services disrupting service continuity. • Financial (loss of revenue / additional costs) • Damage to reputation	• Advice available from central government and DCC • Three task and finish groups established to co-ordinate management and response to pandemic • Corporate guidance and risk assessments regularly updated for teams to implement and maintain Covid-19 secure services • Weekly e-bulletins introduced for managers and members to cascade vital messages • Covid-19 hub developed on website – community and business help and support and via aspire intranet for management and employee support and information • Workplace layouts and arrangements re-designed to reduce capacity and ensure social distancing can be maintained • Test and trace arrangements in place at all council premises								

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For publication

Treasury Management Strategy 2022/23

Meeting:	Standards and Audit Committee Council
Date:	16th February 2022 23rd February 2022
Cabinet portfolio:	Deputy Leader
Directorate:	Finance

1.0 Purpose of report

1.1 To approve the Treasury Management Strategy Statement for the financial year 2022/23.

1.2 To approve the Capital Strategy Report for the financial year 2022/23.

1.3 To approve the Investment Strategy Report for the financial year 2022/23.

1.4 To approve the Minimum Revenue Provision (MRP) policy for the financial year 2022/23.

2.0 Recommendations

That the Standards and Audit Committee recommends to the full Council that:

2.1 That the Treasury Management Strategy Statement be approved.

2.2 That the Capital Strategy Report, including the Prudential Code Indicators be approved.

2.3 That the Investment Strategy Report be approved.

2.4 That the Minimum Revenue Provision policy be approved.

CHESTERFIELD
BOROUGH COUNCIL

3.0 Reasons for recommendations

3.1 To keep Members informed about the council's treasury management, capital and investment strategies and to comply with the CIPFA Code of Practice for Treasury Management in the Public Services.

4.0 Report Details

4.1 Background

4.1.1 The key aims of the CIPFA 'Code of Practice for Treasury Management in the Public Services' (the Code) are:

a) Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities;
b) Their policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities;
c) They should acknowledge that the pursuit of best value in treasury management, and the use of suitable performance measures, are valid and important tools to employ.

4.1.2 CIPFA amended the Code in 2017 to take account of recent developments in the financial market place and the introduction of the Localism Act.

4.1.3 CIPFA also amended the Prudential Code for Capital Finance in Local Authorities in 2017, which now includes the requirement for the Council to produce a separate Capital Strategy.

4.1.4 CIPFA have further amended both the Treasury Management Code and the Prudential Code in December 2021, however the changes to reporting requirements in respect of these amendments are not required to be incorporated into the strategies until the 2023/24 financial year.

4.1.5 In 2018 the then Ministry of Housing, Communities and Local Government completely revised their statutory guidance on treasury management investments. This included the requirement for the Council to produce an Investment Strategy for non-treasury investments.

4.2 Treasury Management Strategy

4.2.1 The Treasury Management Strategy defines what categories of investments are to be used and the restrictions placed on their use. The primary objective is to protect capital and the maximisation of returns is secondary. However, the strategy allows sufficient flexibility for the Council to diversify into higher yielding asset classes where appropriate. The credit ratings of the approved counterparties for investments are regularly reviewed.

4.2.2 The Treasury Management Strategy Statement 2022/23 can be found at Appendix A.

4.3 Capital Strategy Report

4.3.1 The Prudential Code for Capital Finance in Local Authorities (the Code) is a professional Code that provides a framework for self- regulation of capital spending.

4.3.2 The Code was revised in 2017 and introduced the requirement for the Council to produce a capital strategy, with the purpose of demonstrating that capital expenditure and investment decisions are taken in line with service objectives, and take account of stewardship, value for money, prudence, sustainability and affordability. The Capital Strategy Report 2022/23 can be found at Appendix B.

4.3.3 To facilitate the decision making process, the Code also requires the Council to agree and monitor a number of prudential indicators covering affordability, prudence, capital expenditure, debt levels and treasury management.

4.3.4 Capital Expenditure - This prudential indicator is a summary of the Council's capital expenditure plans.

Capital Expenditure £millions	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate

General Fund	12.3	42.7	10.9	16.6	14.0
HRA	19.1	32.5	22.9	20.4	21.3
Total	**31.4**	**75.2**	**33.8**	**37.0**	**35.3**

The table below shows how these plans are being financed by external sources such as grants and contributions, internal sources such as reserves and capital receipts and debt.

Capital Expenditure £millions	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Financed by:					
External sources	5.6	5.9	9.3	14.5	7.9
Capital resources	3.4	6.6	5.7	3.2	3.4
Revenue Resources	15.8	26.5	15.2	14.6	15.5
Debt	6.6	36.2	3.6	4.7	8.5
Total	**31.4**	**75.2**	**33.8**	**37.0**	**35.3**

4.3.5 The Council's Borrowing Need – 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, and measures the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

£millions	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Capital Financing Requirement					
CFR – General Fund	23.8	59.6	59.8	58.0	60.2
CFR – HRA	126.4	124.6	126.3	129.1	131.7
Total CFR	**150.2**	**184.2**	**186.1**	**187.1**	**191.9**
Movement in CFR	**4.3**	**34.0**	**1.9**	**1.0**	**4.8**

Movement in CFR represented by					
Net financing need for the year (above)	6.6	36.2	4.9	4.7	8.5

Less MRP/VRP and other financing movements	-2.3	-2.2	-3.0	-3.7	-3.7
Movement in CFR	**4.3**	**34.0**	**1.9**	**1.0**	**5.2**

4.3.6 Affordability Ratio - Estimates of financing costs to net revenue stream shows the trend in the cost of capital based on the programme against the net revenue stream (i.e. council tax for the General Fund and rent income for the Housing Revenue Account). The estimates of financing costs include current commitments and the proposals in the budget report.

%	**2020/21 Actual**	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**
General Fund	3.75	4.66	10.05	11.70	11.10
HRA	17.89	17.34	16.35	15.24	14.20

The General Fund ratio increases from 2021/22 to 2023/24 due to increased financing costs associated with the capital programme. The HRA ratio decreases steadily over the forthcoming years due to an increased revenue stream.

4.3.7 External Debt **-** The Code specifies a number of prudential indicators in respect of external debt. These are described below:

Limits to Borrowing Activity

- Operational Boundary - this is an estimate of the probable external borrowing during the year, it is not a limit and actual borrowing can vary for short periods during the year.

- Authorised Limit - represents the limit beyond which borrowing is not permitted. It includes estimates for long and short-term borrowing. The limit must be set and can be revised by the Council.

£millions	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**
Operational Boundary (£m)	175.6	167.3	169.0	174.9
Authorised Limit (£m)	188.8	185.7	187.6	194.1

4.3.8 Borrowing Strategy - The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in the future. The Authority has previously raised the majority of its long-term borrowing from the PWLB. However, with short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

4.4 Investment Strategy

4.4.1 In 2018 the Ministry for Housing, Communities and Local Government's Investment Guidance was revised, and introduced the requirement for Authorities to produce an Investment Strategy Report.

4.4.2 The report focuses on non-treasury investments and sets out how these contribute towards the Council's core objectives to deliver services to residents, and the procedures for risk assessing potential investments.

4.4.3 The Investment Strategy Report 2022/23 can be found at Appendix C.

4.5 Minimum Revenue Provision (MRP) Policy

4.5.1 The Local Authorities (Capital Finance & Accounting) (England) Amendment Regulations 2008 require local authorities to agree a policy on the calculation of the Minimum Revenue Provision (MRP) for each financial year. The MRP is the amount the authority has to provide for the repayment of debt. The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

4.5.2 The Minimum Revenue Provision (MRP) Policy 2022/23 can be found at Appendix D.

5 Alternative options

5.1 The strategies within this report have been prepared in accordance with legislation and external treasury management advice. No alternative options are proposed.

6 Implications for consideration – Council Plan

6.1 These arrangements enable the priorities set out in the Council Plan to be achieved.

7 Implications for consideration – Financial and value for money

7.1 The report in its entirety deals with financial and value for money implications.

8 Implications for consideration – Legal

8.1 This report provides a framework for treasury management in accordance with legislation. There are no other legal implications.

9 Implications for consideration – Human resources

9.1 There are no human resource considerations arising from this report.

10 Implications for consideration – Risk management

10.1 There are a number of risks inherent within any treasury management strategy, and these are covered in detail within the individual strategies appended to this report. The most significant risks at the moment include:

- Reporting is not compliant with statutory guidelines.
- Investment and borrowing activity is outside the approved TM framework.
- Long term borrowing is taken at rates that are not advantageous.
- Investment of principal sums with insecure counterparties.
- Investment returns are volatile and may not meet budgeted amounts.
- Borrowing is not affordable.

11 Implications for consideration – community wellbeing

11.1 There are no community wellbeing implications arising from this report.

12 Implications for consideration – Economy and skills

12.1 There are no Economy and skills implications arising from this report.

13 Implications for consideration – Climate Change

13.1 There are no climate change implications arising from this report.

14 Implications for consideration – Equality and diversity

14.1 There are no and diversity impact implications arising from this report.

Decision information

Key decision number	
Wards affected	

Document information

Report author	**Contact number/email**
Karen Ludditt	01246 936276 Karen.ludditt@chesterfield.gov.uk
Background documents These are unpublished works which have been relied on to a material extent when the report was prepared.	
This must be made available to the public for up to 4 years.	

Appendices to the report	
Appendix A	Treasury Management Strategy 2022/23
Appendix B	Capital Strategy 2022/23
Appendix C	Investment Strategy 2022/23
Appendix D	Minimum Revenue Provision (MRP) Policy 2022/23

Treasury Management Strategy Statement 2022/23

Introduction

Treasury management is the management of the Authority's cash flows, borrowing and investments, and the associated risks. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Authority's prudent financial management.

Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

Investments held for service purposes or for commercial profit are considered in Appendix C to this report, the Investment Strategy.

External Context

Economic background: The ongoing impact on the UK from coronavirus, together with higher inflation, higher interest rates, and the country's trade position post-Brexit, will be major influences on the Authority's treasury management strategy for 2022/23.

The Bank of England (BoE) increased Bank Rate to 0.25% in December 2021 while maintaining its Quantitative Easing programme at £895 billion. The Monetary Policy Committee (MPC) voted 8-1 in favour of raising rates, and unanimously to maintain the asset purchase programme.

UK CPI for November 2021 registered 5.1% year on year, up from 4.2% in the previous month. Core inflation, which excludes the more volatile components, rose to 4.0% y/y from 3.4%. The most recent labour market data for the three months to October 2021 showed the unemployment rate fell to 4.2% while the employment rate rose to 75.5%.

Credit outlook: Since the start of 2021, relatively benign credit conditions have led to credit default swap (CDS) prices for the larger UK banks to remain low and had steadily edged down throughout the year up until mid-November when the emergence of Omicron has caused them to rise modestly. However, the generally improved economic outlook during 2021 helped bank profitability and reduced the level of impairments many had made as provisions for bad loans. However, the relatively recent removal of coronavirus-related business support measures by the government means the full impact on bank balance sheets may not be known for some time.

The improved economic picture during 2021 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several financial institutions, revising them from negative to stable and even making a handful of rating upgrades.

Looking ahead, while there is still the chance of bank losses from bad loans as government and central bank support is removed, the institutions on the Authority's counterparty list are well-capitalised and general credit conditions across the sector are expected to remain benign. Duration limits for counterparties on the Authority's lending list are under regular review and will continue to reflect economic conditions and the credit outlook.

Interest Rate Forecast: The Authority's treasury management adviser Arlingclose is forecasting that Bank Rate will continue to rise in calendar Q1 2022 to subdue inflationary pressures and the perceived desire by the BoE to move away from emergency levels of interest rates.

Investors continue to price in multiple rises in Bank Rate over the next forecast horizon, and Arlingclose believes that although interest rates will rise again, the increases will not be to the extent predicted by financial markets. In the near-term, the risks around Arlingclose's central case are to the upside while over the medium-term the risks become more balanced.

For the purpose of setting the budget, it has been assumed that new treasury investments will be made at an average rate of 0.20%, and that new long-term loans will be borrowed at an average rate of 2.0%.

Local Context

On 31st December 2021, the Authority held £130.0m of borrowing and £25.1m of treasury investments. This is set out in further detail at page 10. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance sheet summary and forecast

	31.3.21 Actual £000	31.3.22 Estimate £000	31.3.23 Forecast £000	31.3.24 Forecast £000	31.3.25 Forecast £000
General Fund CFR	24,665	59,624	59,775	57,989	60,176
HRA CFR	126,477	124,580	126,309	129,067	131,652
Total CFR	**151,142**	**184,204**	**186,084**	**187,056**	**191,828**
Less: Other debt liabilities*	0	0	-1,325	-884	-441
Less: External borrowing	-125,429	-138,460	-139,089	-140,741	-146,724
Internal borrowing	**25,713**	**45,744**	**45,670**	**45,431**	**44,663**
Less: Balance Sheet Resources	-58,133	-55,744	-55,670	-55,431	-54,663
Treasury Investments	**32,420**	**10,000**	**10,000**	**10,000**	**10,000**

*Lease liabilities that form part of the Council's total debt

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

The Authorities General Fund CFR increases in the financial years to 2022/23 due to the capital programme. It then reduces in 2023/24 as MRP contributions are applied until 2024/25 when it increases again due to the capital programme. The HRA CFR increases from 22/23 due to the HRA capital programme. The increased need for borrowing is offset by an annual 1.5% voluntary repayment of debt contribution. Investments are forecast to fall as useable reserves are utilised to finance the HRA and General Fund capital programmes, however a minimum of £10 million investments will be maintained in order to retain Professional Client status under MiFID 2.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation.

Borrowing Strategy

The Authority currently holds £130 million of loans, an increase of £3 million on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the Authority expects to need to externally borrow in 2022/23 to fund the HRA capital programme. The Authority may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing.

Objectives: The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

Strategy: Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2022/23 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

The Authority has previously raised the majority of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Authority intends to avoid this activity in order to retain its access to PWLB loans.

Alternatively, the Authority may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Authority may borrow further short-term loans to cover unplanned cash flow shortages.

Sources of borrowing: The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except Derbyshire Pension Fund)
- capital market bond investors

- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

Other sources of debt finance: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

The Authority has previously raised the majority of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local authority loans and bank loans, that may be available at more favourable rates.

Municipal Bonds Agency: UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.

Short-term and variable rate loans: These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk (see section below).

Debt rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

Treasury Investment Strategy

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's treasury investment balance has ranged between £12 and £40 million and similar levels are expected to be maintained in the forthcoming year.

Objectives: The CIPFA Code requires the Authority to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

Negative interest rates: The COVID-19 pandemic has increased the risk that the Bank of England will set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. Since investments cannot pay negative income, negative rates will be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Strategy: Given the increasing risk and very low returns from short-term unsecured bank investments, the Authority aims to further diversify into more secure and/or higher yielding asset classes during 2022/23. This is especially the case for the estimated £10m that is available for longer-term investment. This diversification will represent a change in strategy over the coming year.

Business models: Under the new IFRS 9 standard, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Approved counterparties: The Authority may invest its surplus funds with any of the counterparty types in table 2 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 2: Approved investment counterparties and limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	5 years	£5m	Unlimited
Secured investments *	5 years	£5m	Unlimited
Banks (unsecured) *	13 months	£5m	£15m
Building societies (unsecured) *	13 months	£5m	£5m
Registered providers (unsecured) *	5 years	£5m	£10m
Money market funds *	n/a	£12m	Unlimited
Strategic pooled funds	n/a	£10m	£10m
Real estate investment trusts	n/a	£5m	£10m
Other investments *	5 years	£5m	£5m

This table must be read in conjunction with the notes below

Minimum Credit rating: Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.
For entities without published credit ratings, investments may be made where external advice indicates the entity to be of similar credit quality.

Government: Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

Secured investments: Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

Banks unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Banks and building societies (unsecured): Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Registered providers (unsecured): Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Money market funds: Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

Strategic pooled funds: Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties. Investments in REIT shares cannot be withdrawn but can be sold on the stock market to another investor.

Other investments: This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk.

Operational bank accounts: The Authority may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £50,000 per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other information on the security of investments: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Authority's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

Investment limits: The maximum that will be lent to any one organisation (other than the UK Government) will be £5 million. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 3: Investment limits

	Cash limit
Any single organisation, except the UK Central Government	£5m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£7.5m per group
Any group of pooled funds under the same management	£10m per manager
Negotiable instruments held in a broker's nominee account	£15m per broker
Foreign countries	£10m per country
Registered providers and registered social landlords	£10m in total
Unsecured investments with building societies	£5m in total
Loans to unrated corporates	£5m in total
Money market funds	£12m per manager

Liquidity management: The Authority uses purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium-term financial plan and cash flow forecast.

Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

Interest rate exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	£300,000
Upper limit on one-year revenue impact of a 1% fall in interest rates	£300,000

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.

Maturity structure of borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	25%	0%
12 months and within 24 months	25%	0%
24 months and within 5 years	30%	0%
5 years and within 10 years	40%	0%

10 years and within 25 years	70%	20%
25 years and above	75%	15%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal sums invested for periods longer than a year: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Price risk indicator	2021/22	2022/23	2023/24
Limit on principal invested beyond year end	£10m	£10m	£10m

Related Matters

The CIPFA Code requires the Authority to include the following in its treasury management strategy.

Financial Derivatives: Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

In line with the CIPFA Code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

Housing Revenue Account: On 1st April 2012, the Authority notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured annually and interest transferred between the General Fund and HRA at the Authority's average interest rate on investments, adjusted for credit risk.

Markets in Financial Instruments Directive: The Authority has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, the Chief Finance Officer believes this to be the most appropriate status.

Financial Implications

The budget for investment income in 2022/23 is £30k based on an average investment portfolio of £15 million at an interest rate of 0.20%. For the General Fund the budget for debt interest paid in 2022/23 is £337k, based on an average debt portfolio of £20.0 million at an average interest rate of 1.68%. For the HRA the budget for debt interest paid in 2022/23 is £4.4 million, based on an average debt portfolio of £121 million at an average interest rate of 3.66%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Finance Officer believes that the above strategy represents an appropriate balance between risk management and cost effectiveness.

Existing Investment & Debt Portfolio Position

	31/12/21 Actual Portfolio £m	31/12/21 Average Rate %
External borrowing:		
Public Works Loan Board	125.0	3.74
Other Short Term Loans	5.0	0.09
Total external borrowing	**130.0**	**3.63**
Treasury investments:		
Government (incl. local authorities)	6.6	0.02
Money Market Funds	18.5	0.04
Total treasury investments	**25.1**	**0.03**
Net debt	**104.9**	

Appendix B

Capital Strategy Report 2022/23

Introduction

This capital strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members' understanding of these sometimes technical areas.

Decisions made this year on capital and treasury management will have financial consequences for the Council for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report.

Capital Expenditure and Financing

Capital expenditure is where the Council spends money on assets, such as property or vehicles, that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £20,000 for land and buildings and £10,000 for vehicles, plant and equipment are not capitalised and are charged to revenue in year.

In 2022/23, the Council is planning capital expenditure of £33.8 as summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions

	2020/21 actual	2021/22 forecast	2022/23 budget	2023/24 budget	2024/25 budget
General Fund services	12.3	42.7	10.9	16.6	14.0
Council housing (HRA)	19.1	32.5	22.9	20.4	21.3
TOTAL	**31.4**	**75.2**	**33.8**	**37.0**	**35.3**

The main General Fund capital projects include Stephenson Memorial Hall (£2.5m), Staveley Town Deal schemes (3.7m) and Disabled Facilities Grants (£2.3m).

The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately, and includes the building of new homes, as well as enhancements to current housing stock.

Governance: The Finance and Performance Board appraises all requests for capital growth based on a comparison of service priorities against financing costs and ongoing revenue commitments. Approval at Finance and Performance Board allows new schemes to be added to the latest version of the capital programme which is presented to Council for approval. Copies of all Council reports can be found on the Authority's website.

All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £ millions

	2020/21 actual	2021/22 forecast	2022/23 budget	2023/24 budget	2024/25 budget
External sources	5.6	5.9	9.3	14.5	7.9
Capital resources	3.4	6.6	5.7	3.2	3.4
Revenue Resources	15.8	26.5	15.2	14.6	15.5
Debt	6.6	36.2	3.6	4.7	8.5
TOTAL	**31.4**	**75.2**	**33.8**	**37.0**	**35.3**

Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP and use of capital receipts are as follows:

Table 3: Replacement of prior years' debt finance in £ millions

	2020/21 actual	2021/22 forecast	2022/23 budget	2023/24 budget	2024/25 budget
General Fund	0.3	0.3	1.2	1.4	1.4
HRA	1.9	1.9	1.8	1.9	1.9

The Council's full minimum revenue provision statement can be found at Appendix D to this report.

The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The General Fund CFR is expected to increase by £150k during 2022/23 and the HRA CFR is expected to increase by £1.7m during the same period. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions

	31.3.2021 actual	31.3.2022 forecast	31.3.2023 budget	31.3.2024 budget	31.3.2025 budget
General Fund services	23.8	59.6	59.8	58.0	60.2
Council housing (HRA)	126.4	124.6	126.3	129.1	131.7
TOTAL CFR	**150.2**	**184.2**	**186.1**	**187.1**	**191.9**

£1.3m of the CFR increase in 2022/23 arises from a change in the accounting for leases

Asset disposals: When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. Repayments of capital grants, loans and investments also generate capital receipts. The Council plans to receive £5.7m of capital receipts in the 2022/23 financial year as follows:

Table 5: Capital receipts in £ millions

	2020/21 actual	2021/22 forecast	2022/23 budget	2023/24 budget	2024/25 budget
General Fund Asset sales	1.1	0.5	1.6	1.5	1.5
Right to Buy Receipts	3.0	5.3	2.6	2.0	1.5
Other HRA Asset sales	0	0	0.8	0.7	0.8
TOTAL	**4.1**	**5.8**	**5.0**	**4.2**	**3.8**

Treasury Management

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account.

Due to decisions taken in the past, the Council currently has £125m borrowing at an average interest rate of 3.76% and £26m treasury investments at an average rate of 0.07%.

Borrowing strategy: The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheap short-term loans (currently available at around 0.45%) and long-term fixed rate loans where the future cost is known but higher (currently 1.8 to 2.3%).

Projected levels of the Council's total outstanding debt (which comprises borrowing and transfers from local government reorganisation) are shown below, compared with the capital financing requirement (see above).

Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions

	31.3.2021 actual	31.3.2022 forecast	31.3.2023 budget	31.3.2024 budget	31.3.2025 budget
Debt	125.4	138.5	139.1	140.1	146.7
Capital Financing Requirement	150.2	184.2	184.8	186.2	191.4

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 6, the Council expects to comply with this in the medium term.

Affordable borrowing limit: The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year and to keep it under review. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 7: Prudential Indicators: Authorised limit and operational boundary for external debt in £m

	2021/22 limit	2022/23 limit	2023/24 limit	2024/25 limit
Authorised limit - borrowing	188.8	180.7	182.6	189.1
Authorised limit - leases	0	5.0	5.0	5.0
Total authorised limit	188.8	185.7	187.6	194.1
Operational boundary - borrowing	175.6	164.3	166.0	171.9
Operational boundary - leases	0	3.0	3.0	3.0
Total operational boundary	175.6	167.3	169.0	174.9

Treasury Investment strategy: Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

The Council's policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms can be invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

Table 8: Treasury management investments in £millions

	31.3.2021 actual	31.3.2022 forecast	31.3.2023 budget	31.3.2024 budget	31.3.2025 budget
Near-term investments	32.4	10.0	0	0	0
Longer-term investments	0	0	10.0	10.0	10.0
TOTAL	**32.4**	**10.0**	**10.0**	**10.0**	**10.0**

Risk management: The effective management and control of risk are prime objectives of the Authority's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.

Governance: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Service Director - Finance and staff, who must act in line with the treasury management strategy approved by Council. Regular reports on treasury management activity are presented to Council. The Standards and Audit Committee is responsible for scrutinising treasury management decisions.

Investments for Service Purposes

The Council may from time to time make investments to assist local public services, including making loans to local service providers and local small businesses to promote economic growth. In light of the public service objective, the Authority is willing to take more risk than with treasury investments, however it still plans for such investments to generate a profit after all costs.

Governance: Decisions on service investments are made by the Service Director - Finance in consultation with the relevant Executive Directors, and must meet the criteria and limits laid down in the investment strategy. Most loans and shares are capital expenditure and purchases will therefore also be approved as part of the capital programme.

Commercial Activities

The Council invests in commercial properties which are held primarily for service purposes such as economic regeneration, but which in addition generate a profit that will be spent on local public services. With central government financial support for local public services declining, the Council may in the future decide to invest in commercial property purely or mainly for financial gain.

With financial return being the main objective, the Council would accept higher risk on commercial investment than with treasury investments. Further details can be found in the Investment Strategy at Appendix C to this report.

Liabilities

In addition to debt of £125m detailed above, the Council is committed to making future payments to cover its pension fund deficit (valued at £102.4m) This deficit is planned to be reduced to a break-even position over the next 19 years.

Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

Table 9: Prudential Indicator: Proportion of financing costs to net revenue stream

	2020/21 actual	2021/22 forecast	2022/23 budget	2023/24 budget	2024/25 budget
Financing costs General Fund(£000)	415	500	1,090	1,247	1,211
Financing costs HRA (£000)	6,547	6,431	6,291	6,156	6,049
Proportion of net revenue stream General Fund	3.75%	4.66%	10.05%	11.70%	11.10%
Proportion of net revenue stream HRA	17.89%	17.34%	16.35%	15.24%	14.20%

Sustainability: Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 40 years into the future. The Service Director - Finance is satisfied that the proposed capital programme is prudent, affordable and sustainable.

Knowledge and Skills

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Council pays for staff to study towards relevant professional qualifications including CIPFA and AAT.

Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

Appendix C

Investment Strategy Report 2022/23

Introduction

The Authority invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
- to support local public services by lending to other organisations (**service investments**), and
- to earn investment income (known as **commercial investments** where this is the main purpose).

This investment strategy meets the requirements of statutory guidance issued by the government in January 2018 and focuses on the second and third of these categories.

Treasury Management Investments

The Authority typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to fluctuate between £30m and £10m during the 2022/23 financial year.

Contribution: The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.

Further details: Full details of the Authority's policies and its plan for 2022/23 for treasury management investments are covered in Appendix A of this report.

Service Investments: Loans

Contribution: The Authority from time to time may lend money to local businesses, local charities or housing associations to support local public services and stimulate local economic growth.

The Council currently has three active service loans. The first is a start-up loan that was made to the Derbyshire Building Control Partnership during the 2017/18 financial year, which currently has an outstanding balance of £100,000. The second is a loan to Staveley Town Council that was made in April 2020, which currently has an outstanding balance of £52,500. The third is a loan to support the acquisition and operation of CFC 2001 Limited, trading as Chesterfield Football Club, which was made in July 2020. The current outstanding balance on this loan is £500,000.

Security: The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due.

Accounting standards require the Authority to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Authority's statement of accounts are shown net of this loss allowance. However, the Authority makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

Risk assessment: The Authority assesses the risk of loss before entering into and whilst holding service loans, on a case by case basis. A thorough examination of the borrowers' accounts and/or business plans is undertaken by the Service Director - Finance. The services of external advisors will be sought for any areas requiring specific expertise.

Commercial Investments: Property

Contribution: The Council owns local industrial and commercial properties which are held primarily for service purposes such as economic regeneration, but which in addition generate a profit that will be spent on local public services. These properties can be split into three main categories: industrial units and trading estates, retail and office and undeveloped land. The majority of these properties have been held for a substantial period of time, more than 30 years in the case of some assets.

Table 1: Property held for investment purposes in £ millions

Type of Property	Value in accounts 31.03.2021
Industrial Units and Trading Estates	24.1
Retail and Office	9.2
Undeveloped Land	10.3
TOTAL	**43.6**

Security: In accordance with government guidance, the Authority considers a property investment to be secure if its accounting valuation is at or higher than its purchase / construction cost.

A fair value assessment of the Authority's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment. Should the 2021/22 year end accounts preparation and audit process value these properties below their purchase cost, then an updated investment strategy will be presented to full council detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom.

Liquidity: Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice, and can take a considerable period to sell in certain market conditions. As the main purpose of owning these properties is for service reasons, the Authority does not need to rely on selling these assets for investment purposes, for example to repay capital borrowed.

Income: The Authority is dependent on profit generating investment activity to achieve a balanced revenue budget. The net amount of investment income (after operating expenses) received in 2020/21 was £2.7m, this equated to 4.8% of all general fund income received and is expected to increase in 2022/23. Income received is monitored on a regular basis and any expected shortfall would be reported in the revised budget

Risk assessment of future commercial investments: The Service Director - Finance will assess the risk of loss before entering into and whilst holding commercial property investments. Due consideration will be given to the risks relating to failure to create income/exposure to market changes, ongoing maintenance/management of the asset, possibility of arrears and exposure in one sector or locality. External advice will be sought for any investments requiring specific expertise.

Commercial property investments will be evaluated on a case by case basis and it must be demonstrated that the level of risk is acceptable for the expected yield, including benchmarking against alternative investment products. Full contingency plans are required to be in place before entering into any commercial property investments, in the event that the investment will fail to meet the expected yield.

Capacity, Skills and Culture

Elected members and statutory officers: All investment and commercial decisions will be taken with the involvement of the Service Director - Finance, who will ensure that all elected members and other officers are fully aware of the risks involved and how the decision could change the overall risk exposure of the Authority. All decisions made will also have regard to the principles of the prudential framework and of the regulatory regime in which local authorities operate.

Investment Indicators

The Authority has set the following quantitative indicators to allow elected members and the public to assess the Authority's total risk exposure as a result of its investment decisions.

Total risk exposure: The first indicator shows the Authority's total exposure to potential investment losses.

Table 2: Total investment exposure in £millions

Total investment exposure	31.03.2021 Actual	31.03.2022 Forecast	31.03.2023 Forecast
Treasury management investments	32.4	10.0	10.0
Service investments: Loans	0.66	0.60	0.50
Commercial investments: Property	43.6	43.6	43.6
TOTAL EXPOSURE	76.66	54.20	54.10

How investments are funded: Government guidance is that these indicators should include how investments are funded. Since the Authority does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. The Authority does not have any investments that could be described as being funded by borrowing. All of the Authority's investments are funded by usable reserves and income received in advance of expenditure.

Rate of return received: This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Table 3: Investment rate of return (net of all costs)

Investments net rate of return	2020/21 Actual	2021/22 Forecast	2022/23 Forecast
Treasury management investments	0.19%	0.02%	0.20%
Service investments: Loans	3.31%	3.31%	3.31%
Commercial investments: Property	6.19%	6.19%	6.19%

Minimum Revenue Provision Statement 2022/23

Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the former Ministry of Housing, Communities and Local Government's *Guidance on Minimum Revenue Provision* (the MHCLG Guidance) most recently issued in 2018.

The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The MHCLG Guidance requires the Authority to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. The following statement only incorporates options recommended in the Guidance.

> For capital expenditure incurred before 1st April 2008, MRP will be determined by charging the remaining expenditure over 40 years as the principal repayment on an annuity with an annual interest rate of 2%.
>
> For unsupported capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset as the principal repayment on an annuity with an annual interest rate of 2%, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.
>
> For capital expenditure where MRP is to be met by a contribution from Enterprise Zone business rates, MRP will be determined by charging the expenditure over the remaining period of allowable business rates retention for the Enterprise Zone.
>
> For assets acquired by leases MRP will be determined as being equal to the element of the charge that goes to write down the balance sheet liability.
>
> Where former operating leases have been brought onto the balance sheet on 1st April 2022 due to the adoption of the IFRS 16 Leases accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or discounts, then the annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard.
>
> For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Council will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational.

Capital expenditure incurred during 2022/23 will not be subject to an MRP charge until 2023/24.

No MRP will be charged in respect of assets held within the Housing Revenue Account, however a voluntary revenue provision will be charged at 1.5% of the outstanding Housing Revenue Account Capital Financing Requirement in respect of housing assets.

	31.03.2022 Estimated CFR £	**2022/23 Estimated MRP/VRP £**
Capital expenditure before 01.04.2008	4,847,878	95,067
Unsupported capital expenditure after 31.03.2008	54,776,122	1,078,563
Total General Fund	**59,624,000**	**1,173,630**
Assets in the Housing Revenue Account	124,579,488	1,868,692
Total Housing Revenue Account	**124,579,488**	**1,868,692**

External Audit Progress Report

Chesterfield Borough Council

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Standards and Audit Committee February 2022

Appendix 7

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1. Audit Progress
2. National publications

01

Section 01:

Audit Progress

Audit Progress

Purpose of this report

This report provides the Committee's February 2022 meeting with:

- an update on progress in delivering the 2020/21 audit and assurance work;
- the 2021/22 audit planning process; and
- a summary of recent relevant reports and publications for your information (Section 2).

2020/21 Audit

The position on the key elements of the audit are as follows:

- Financial Statements Audit – our Audit Completion Report was presented at the Committee's October 2021 meeting and we gave the audit opinion on the 23 November 2021.
- Value for Money – as summarised in our Audit Completion Report we have not identified any significant weaknesses in the Council's arrangements and our Value For Money Commentary is included in our our Auditor's Annual Report which was issued in January 2022.
- Other auditor responsibilities – we have not needed to take any action in relation to any of our broader auditor responsibilities.
- Assurance work – The work on target for completion by the end of February 2022 deadline

As explained in our Auditor's Annual Report we have not yet issued the Audit Certificate for 2020/21, which formally closes the audit. We complete this work and close the audit when the National Audit Office has confirm their requirements, and will update the Committee when this has been done..

2021/22 Audit

At this stage we do not expect any significant changes to the audit risk profile and the overall audit approach, and we have not identified any significant changes to the financial reporting requirements under the 2021/22 CIPFA Code. The operating and financial environment for Councils continues though to be challenging and its important our audit plan is properly tailored to the risks and issues. We held planning discussions with management in January 2022, including the normal wash up session on the current year's accounts audit to identify any opportunities for improvement or logistical issues. We will share our formal 2021/22 Audit Strategy Memorandum with the Committee.

02

Section 02:

National publications

National publications

	Publication/update	Key points
Chartered Institute of Public Finance and Accountability (CIPFA)		
1.	New Prudential and Treasury Management Codes	These two statutory and professional codes are important regulatory elements of the capital finance framework within which local authorities operate.
2.	CIPFA launches value for money toolkit with the University of Oxford's GO Lab	Based on the UK National Audit Office's standard definition of value for money, the toolkit offers a consistent approach to programme evaluation.
3.	Emergency proposals for an update of the 2021/22 Code of Practice on Local Authority Accounting in the United Kingdom and the 2022/23 Code	CIPFA published a consultation on emergency proposals for the update of the 2021/22 (and 2022/23) Code. They are aimed at improving the completion rates for publication of audited accounts and include: • delaying the implementation of IFRS 16 for at least 1 year, so the implementation date would now be 1 April 2023 at the earliest; and • allowing for an optional pause of the property revaluation cycle.
Department for Levelling Up, Housing and Communities		
4.	Consultation on changes to the capital framework: Minimum Revenue Provision	This consultation seeks views on proposed changes to regulations to better enforce the duty of local authorities to make prudent Minimum Revenue Provision each year.
5.	Measures to improve local audit delays and accounts and audit timetable confirmed	DLUHC have announced a new package of measure to support the improved timeliness of local audit. These include additional funds and an extension of the deadline for publishing accounts.
National Audit Office (NAO)		
6.	The Government's preparedness for the COVID-19 pandemic: lessons learned for government on risk management	The report sets out central government's risk analysis, planning, and mitigation strategies prior to the arrival of the COVID-19 pandemic, with the aim of drawing out wider learning for the government's overall approach.
7.	The Local Government finance system in England: Overview and Challenges	This overview looks at what local government in England spends, how this spending is funded and the effect of changes in recent years. It draws on relevant findings from past NAO work.
8.	Departmental Overview 2020-21: Department for Levelling Up, Housing and Communities	This provides a summary of the Department's spending in 2020-21, its major areas of activity and performance, and the challenges it is likely to face in the coming year.
9.	Cyber and Information Security: Good practice guide	Audit committees should be scrutinising cyber security arrangements. This guidance complements government advice by setting out high-level questions and issues for audit committees to consider.

National publications

	Publication/update	Key points
National Audit Office (NAO) - continued		
10.	Climate change risk: A good practice guide for Audit and Assurance Committees	This guide helps Committees recognise how climate change risks could manifest themselves and support them in challenging senior management on their approach to managing climate change risks.
11.	AGN/03 – Auditor's work on Value for Money Arrangements – Updated Guidance	NAO has updated its guidance and confirmed there are no significant changes to the expected approach or timetable.
Financial Reporting Council		
12.	Inspection findings into the quality of major local body audits	The findings show an improvement on the previous year but the timeliness of reporting was a concern.

NATIONAL PUBLICATIONS
CIPFA

1. CIPFA publishes new Prudential and Treasury Management Codes, December 2021

CIPFA has published the new Prudential Code for Capital Finance in Local Authorities (Prudential Code) and Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (the Treasury Management Code) following a consultation period. These two statutory and professional codes are important regulatory elements of the capital finance framework within which local authorities operate. Local authorities are required by regulation to 'have regard to' their provisions. Guidance notes will follow shortly in the new year.

The updated **Prudential Code** includes the following as the focus of the substantive changes:

- The provisions in the code, which present the approach to borrowing in advance of need in order to profit from additional sums borrowed, have been strengthened. The relevant parts of the code have augmented to be clear that borrowing for debt-for-yield investment is not permissible under the Prudential Code. This recognises that commercial activity is part of regeneration but underlines that such transactions do not include debt-for yield as the primary purpose of the investment or represent an unnecessary risk to public funds.

- Proportionality has been included as an objective in the Prudential Code. New provisions have been added so that an authority incorporates an assessment of risk to levels of resources used for capital purposes.

The main changes to the updated **Treasury Management Code** and the accompanying guidance for local authorities are as follows:

- Investment management practices and other recommendations relating to non-treasury investments are included within the Treasury Management Practices (TMPs) alongside existing TMPs.

- The guidance will recommend the introduction of the Liability Benchmark as a treasury management indicator for local government bodies (note that CIPFA has issued a toolkit to assist local authorities with the production of this indicator).

- Environmental, Social and Governance (ESG) risks are incorporated into TMP1 (Risk Management) rather than a separate TMP 13.

- The purpose and objective of each category of investments should be described within the Treasury Management Strategy.

https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/cipfa-issues-new-prudential-and-treasury-management-codes

CIPFA (continued)

2. CIPFA launches value for money toolkit with the University of Oxford's GO Lab, August 2021

CIPFA has partnered with the Government Outcomes Lab (GO Lab) from the University of Oxford's Blavatnik School of Government to develop the innovative GO Lab-CIPFA Value for Money (VfM) Toolkit.

Based on the UK National Audit Office's standard definition of value for money, the toolkit offers a consistent approach to programme evaluation and has been developed in response to recent trends towards the use of outcomes-based contracts (OBCs) and impact bonds.

The toolkit provides public managers with a framework to help assess the economic validity of public programmes, while also serving as a self-assessment instrument. The toolkit promotes thinking about the longer-term effects of interventions, such as outcomes and impacts, during the design and planning stage of public sector programmes.

The GO Lab-CIPFA VfM toolkit is available for free download on the CIPFA website.

https://www.cipfa.org/services/go-lab-cipfa-value-for-money-toolkit

3. Emergency proposals for an update of the 2021/22 Code of Practice on Local Authority Accounting in the United Kingdom and the 2022/23 Code, February 2022

CIPFA LASAAC has issued an exceptional consultation on time limited changes to the code to help alleviate delays to the publication of audited financial statements. Only 9% of local authority accounts in England met the audit publication deadline of 30 September 2021. The consultation closes on 3 March 2022.

In December 2021, the Department of Levelling-up Housing and Communities asked CIPFA LASAAC to consider ways in which the code may ameliorate this crisis position. CIPFA LASAAC considered this request and has issued this exceptional consultation, which explores two possible changes that might be made as an update to the 2021/22 code and to the agreed position in the 2022/23 code. After considering a wide range of options CIPFA LASAAC decided to explore two approaches:

- an adaptation to the code to allow local authorities to pause professional valuations for operational property, plant and equipment for a period of up to two years (though the initial proposal is for the 2021/22 financial year); this approach also explores the use of an index to be used to increase or reduce that valuation
- deferring the implementation of IFRS 16 *Leases* for a further year and reversing the planned changes to the 2022/23 code to implement that standard.

The consultation also shows the wide range of options that CIPFA LASAAC considered, which includes some which the board considered were outside of its terms of reference.

https://www.cipfa.org/policy-and-guidance/consultations/emergency-proposals-for-update-of-202122-and-2022223-codes

Department for Levelling Up, Housing and Communities

4. Consultation on changes to the capital framework: Minimum Revenue Provision, December 2021

This consultation seeks views on proposed changes to regulations to better enforce the duty of local authorities to make prudent Minimum Revenue Provision each year.

Local authorities borrow and invest under the Prudential Framework (the Framework), which comprises legislation and 4 statutory codes that authorities must have regard to. Under this system, authorities have wide freedoms to borrow and invest without the need to seek the government's consent, provided that borrowing is affordable. The intent of the Framework is to make sure local decisions are prudent, affordable and sustainable.

The government is aware that some authorities employ practices that are not fully compliant with the duty to make a prudent revenue provision, resulting in underpayment of MRP. This was reported in the NAO's report Local Authority Investment in Commercial Property (February 2020) and the subsequent report by the Public Accounts Committee in July 2020, which recommended the government take steps to address the issue.

https://www.gov.uk/government/consultations/changes-to-the-capital-framework-minimum-revenue-provision/consultation-on-changes-to-the-capital-framework-minimum-revenue-provision#excluding-specific-debt-from-mrp-determination

5. A new package of measures to support the improved timeliness of local audit

This publication sets out a range of measures agreed with key partners to support the timely completion of local government audits and the ongoing stability of the local audit market. The measures include:

- Steps to increase the number of auditors with skills to carry out the work;
- Additional funding to support increases in audit fees; and
- Extension of the audit deadlines to 30 November 2022 and 30 September for 2023 onwards.

https://www.gov.uk/guidance/measures-to-improve-local-audit-delays?utm_medium=email&utm_campaign=govuk-notifications&utm_source=81365e1a-e6b1-4c1b-bce1-b5ef8fafef6f&utm_content=daily#section-4-longer-term-measures-to-help-stabilise-the-market-and-address-long-term-supply-issues

National Audit Office

6. The Government's preparedness for the COVID-19 pandemic: lessons learned for government on risk management, November 2021

In November 2021

This report sets out the facts on:
• the government's approach to risk management and emergency planning (Part One);
• the actions the government took to identify the risk of a pandemic like COVID-19 (Part Two);
• the actions the government took to prepare for a pandemic like COVID-19 (Part Three); and
• recent developments (Part Four).
The report sets out central government's risk analysis, planning, and mitigation strategies prior to the arrival of the COVID-19 pandemic, with the aim of drawing out wider learning for the government's overall risk management approach.

The report concludes that this pandemic has exposed a vulnerability to whole-system emergencies – that is, emergencies that are so broad that they engage the entire system. Although the government had plans for an influenza pandemic, it did not have detailed plans for many non-health consequences and some health consequences of a pandemic like COVID-19. There were lessons from previous simulation exercises that were not fully implemented and would have helped prepare for a pandemic like COVID-19. There was limited oversight and assurance of plans in place, and many pre-pandemic plans were not adequate. In addition, there is variation in capacity, capability and maturity of risk management across government departments.

The pandemic also highlighted the need to strengthen the government's end-to-end risk management process to ensure that it addresses all significant risks, including interdependent and systemic risks. This will require collaboration on risk identification and management not only across government departments and local authorities, but also with the private sector and internationally. For whole-system risks NAO states that the government needs to define its risk appetite to make informed decisions and prepare appropriately so that value for money can be protected. NAO state that the pandemic has also highlighted the need to strengthen national resilience to prepare for any future events of this scale, and the challenges the government faces in balancing the need to prepare for future events while dealing with day-to-day issues and current events.

The full report can be seen at this link: https://www.nao.org.uk/report/the-governments-preparedness-for-the-covid-19-pandemic/

National Audit Office

7. The Local Government finance system in England: Overview and Challenges, November 2021

This overview looks at what local government in England spends, how this spending is funded and the effect of changes in recent years. It draws on relevant findings from past NAO work.

The overview aims to enhance financial transparency about local government in England. It covers:

- An introduction to local government funding
- Government policy and actions since 2010
- Some results or consequences of these changes.

The report headlines include the following in respect of the impact of the changes implemented by government on councils:

- Rising social care spending has squeezed funds available for non-social care services, yet rising spend has not prevented concerns about social care, and projections suggest continued cost and demand pressures.
- Local authorities have made substantial spending reductions in some services and sought to maximise revenue funding from other sources. Some local authorities have sought to maximise revenue available for services in ways that may reduce financial resilience. Commercial property investment strategies have increased some local authorities' exposure to risk. Local authorities now rely more on sources of income that are dependent on local economic conditions.
- A lack of short-term funding certainty hampers local authorities' ability to plan. Local authorities are also planning and delivering services amid medium-term financial uncertainty. Financial uncertainty does not support value-for-money decision-making.
- The governance mechanisms that support decision-making about financial sustainability are under strain. The financial resilience of the local government sector was being tested, even before the COVID-19 pandemic

The full report can be seen at this link: https://www.nao.org.uk/report/the-local-government-finance-system-in-england-overview-and-challenges/

National Audit Office

8. Departmental Overview 2020-21: Department for Levelling Up, Housing and Communities, November 2021

This provides a summary of the Department for Levelling Up, Housing and Communities' spending in 2020-21, its major areas of activity and performance, and the challenges it is likely to face in the coming year, based on the insights from NAO's financial audit and value for money work.

The full report can be seen at this link: https://www.nao.org.uk/report/departmental-overview-2020-21-department-for-levelling-up-housing-and-communities/

9. Cyber and Information Security: Good practice guide, October 2021

Audit committees should be scrutinising cyber security arrangements. To aid them, this guidance complements government advice by setting out high-level questions and issues for audit committees to consider.

The guide provides a checklist of questions and issues covering:

- The overall approach to cyber security and risk management;
- Capability needed to manage cyber security; and
- Specific aspects, such as information risk management, engagement and training, asset management, architecture and configuration, vulnerability management, identity and access management, data security, logging and monitoring and incident management.

The guidance is based on NAO previous work and our detailed systems audits, which have identified a high incidence of access-control weaknesses. It also provides links to other government guidance and NAO resources.

The full report can be seen at this link: https://www.nao.org.uk/report/cyber-security-and-information-risk-guidance/

NATIONAL PUBLICATIONS
National Audit Office

10. Climate change risk: A good practice guide for Audit and Assurance Committees, August 2021

This guide will help ARACs recognise how climate change risks could manifest themselves and support them in challenging senior management on their approach to managing climate change risks.

The full report can be seen at this link: https://www.nao.org.uk/report/climate-change-risk-a-good-practice-guide-for-audit-and-risk-assurance-committees/

11. AGN/03 – Auditor’s work on Value for Money Arrangements – Updated Guidance, December 2021

NAO has updated its guidance and confirmed there are no significant changes to the expected approach or timetable for 2021/22 audits.

The guidance can be seen at this link: https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/

Financial Reporting Council

12. Inspection findings into the quality of major local body audits, October 2021

The Financial Reporting Council (FRC) published in October 2021 its **inspection findings into the quality of major local body audits** in England (which includes large health and local government bodies) for the financial year ended 31 March 2020.

The FRC reviewed 20 major local audits performed by six of the largest audit firms and found 6 (30%) required improvements. This is an improvement on the prior year inspection results where 60% of audits inspected required either improvements or significant improvements.

The FRC found that the firms have taken action in response to previous findings, however, the timeliness of auditor reporting was disappointing.

The key areas requiring action by some of the audit firms included:

- strengthening the audit testing of expenditure;
- improving the evaluation and challenge of assumptions used in concluding over investment property valuations;
- improving the evaluation of assumptions used in property, plant and equipment valuations; and
- providing improved rationale supporting a modified audit opinion.

FRC found that all Value for Money arrangement conclusions inspected by the FRC required no more than limited improvements.

The full report can be seen at this link: https://www.frc.org.uk/news/october-2021/frc-publishes-latest-major-local-audit-quality-ins

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Audit Strategy Memorandum

Chesterfield Borough Council

Year ending 31 March 2022

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Contents

Standards and Audit Committee
Chesterfield Borough Council
Town Hall
Rose Hill
Chesterfield
S40 1LP

Mazars LLP
5th Floor
3 Wellington Place
Leeds
LS1 4AP

4 February 2022

Dear Committee Members

Draft Audit Strategy Memorandum – Year ending 31 March 2022

We are pleased to present our Draft Audit Strategy Memorandum for Chesterfield Borough Council for the year ending 31 March 2022. The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, section 7 of this document also summarises our considerations and conclusions on our independence as auditors. We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Chesterfield Borough Council which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

With that in mind, we see this document, which has been prepared following our initial planning discussions with management, but subject to completion of our full planning procedures, as being the basis for our audit approach. This document also contains an appendix that outlines our key communications with you during the course of the audit,

It is clear that the accounts preparation and audit will once again be significantly impacted by the COVID-19 working arrangements and it is important that we continue to keep in close contact with the finance team and are able to respond to emerging issues.

We will keep the Standards and Audit Committee informed and updated on the matters identified in this document as the audit progresses but if you have any concerns or comments about this document or our audit approach at this stage then please contact me on 07795 506766.

Yours faithfully

Mark Dalton

Mazars LLP

01

Section 01:

Engagement and responsibilities summary

1. Engagement and responsibilities summary

Overview of engagement

We are appointed to perform the external audit of Chesterfield Borough Council (the Council) for the year to 31 March 2022. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/. Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.

Audit opinion

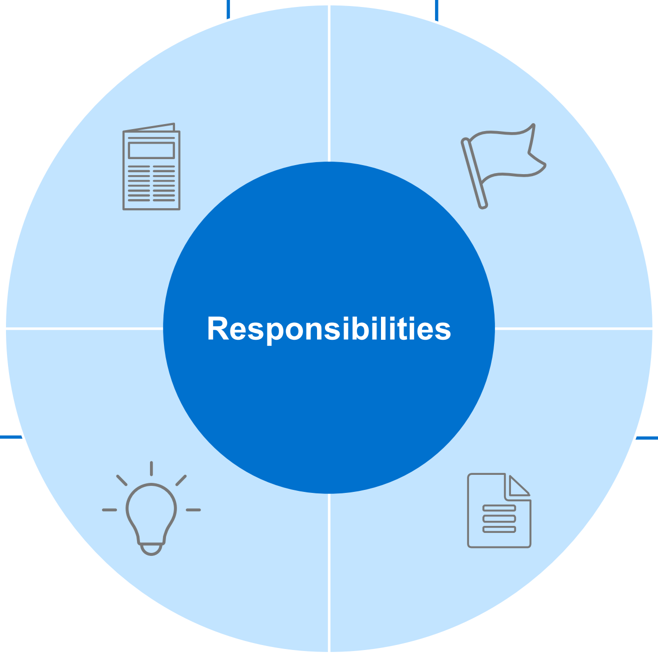
We are responsible for forming and expressing an opinion on the financial statements. Our audit does not relieve management or the Standards and Audit Committee, as those charged with governance, of their responsibilities.

The Service Director Finance is responsible for the assessment of whether is it appropriate for the Council to prepare its accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on: a) whether a material uncertainty related to going concern exists; and b) consider the appropriateness of the Service Director Finance's use of the going concern basis of accounting in the preparation of the financial statements.

Fraud

The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. This includes establishing and maintaining internal controls over reliability of financial reporting.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance, including key management and internal audit as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.



Value for money

We are also responsible for forming a commentary on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.

Wider reporting and electors' rights

We report to the NAO on the consistency of the Council's financial statements with its Whole of Government Accounts (WGA) submission.

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom

Engagement and responsibilities summary | Your audit engagement team | Audit scope, approach and timeline | Significant risks and key judgement areas | Value for money | Fees for audit and other services | Our commitment to independence | Materiality and misstatements | Appendices

02

Section 02:

Your audit engagement team

2. Your audit engagement team

Your external audit service continues to be led by Mark Dalton.

Who	Role	E-mail
Mark Dalton Director	Engagement Lead	mark.dalton@mazars.co.uk
Mike Norman Senior Manager	Engagement Manager	michael.norman@mazars.co.uk
David Schofield Assistant Manager	Assistant Manager	David.Schofield@mazars.co.uk

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03

Section 03:

Audit scope, approach and timeline

3. Audit scope, approach and timeline

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements. Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

Audit approach

Our audit approach is a risk based approach primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment. At this stage our risk assessment remains in progress and this Audit Strategy Memorandum is draft. Following completion of our planning procedures, we will update the Standards and Audit Committee on any new risks, if necessary.

If we conclude that appropriately designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise: tests of details (of classes of transactions, account balances, and disclosures); and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram on the next page outlines the procedures we perform at the different stages of the audit and the indicative timeline at this stage based on the current national timetable. The specific dates are subject though to

- the timely provision of information by third parties; and
- us being able to fully complete the audit procedures to the required quality standards.

COVID-19 Working Arrangements and impact on our audit

The accounts preparation and audit will once again be significantly impacted by the COVID-19 remote working arrangements and it is important that we continue to keep in close contact with the finance team and are able to respond to emerging issues. The 2021/22 audit is again expected to be carried out largely remotely.

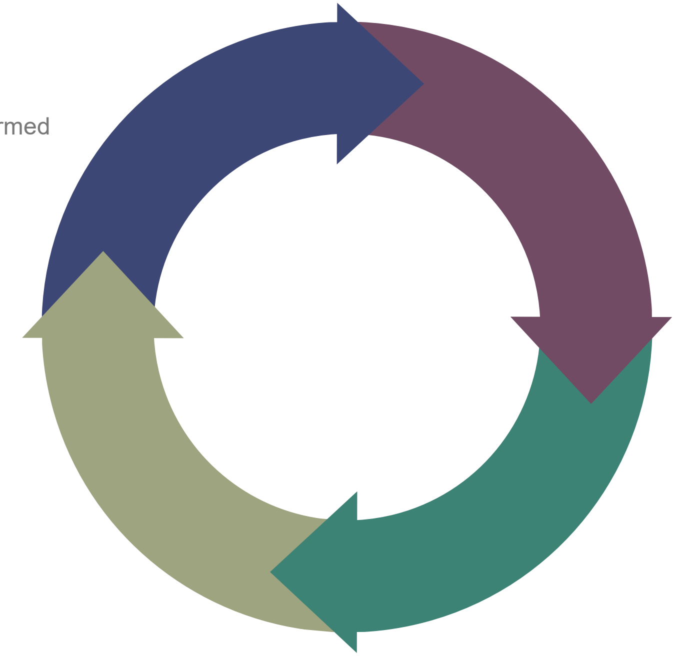
3. Audit scope, approach and timeline

Planning – February/March

- Planning visit and developing our understanding of the Council
- Initial opinion and value for money risk assessments
- Considering proposed accounting treatments and accounting policies
- Developing the audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Preliminary analytical review

Interim – March/April

- Documenting systems and controls
- Performing walkthroughs
- Interim controls testing including tests of IT general controls
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary



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Completion – by 30th November

- Final review and disclosure checklist of financial statements
- Final Engagement Lead review
- Agreeing content of letter of representation
- Reporting to the Standards and Audit Committee
- Reviewing subsequent events
- Signing the auditor's report

Fieldwork – July to September

- Receiving and reviewing draft financial statements
- Reassessment of audit plan and revision if necessary
- Executing the strategy starting with significant risks and high risk areas
- Communicating progress and issues
- Clearance meeting

DLUHC has confirmed the 2021/22 draft accounts and audited accounts deadlines as 31st July 2022 and 30th November 2022 respectively.

3. Audit scope, approach and timeline

Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures, and we will take the Head of Internal Audit's Annual Report findings into account in forming our Value for Money Conclusion.

Management's and our experts

Management makes use of experts in specific areas when preparing the Council's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

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Item of account	Management's expert	Our expert
Defined benefit liability	Hymans Robertson *Actuary for Derbyshire Pension Fund*	PWC *Consulting actuary appointed by the NAO*
Property, plant and equipment valuation	Christopher Oakes *Internal valuation specialist*	Not expected to be required but we will engage our internal valuation expert if needed.
Business Rates Appeals valuation	Inform CPI Ltd *Analyse LOCAL Valuation System*	Not applicable
Financial instrument disclosures	Arlingclose *Treasury management advisors*	Not applicable

Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third party organisations that provide services to the Council that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. We have not identified any service organisations which are relevant to the Council.

04

Section 04:

Significant risks and other key judgement areas

4. Significant risks and other key judgement areas

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard. The definitions of the level of risk rating are given below:

Significant risk

A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.

Enhanced risk

An enhanced risk is an area of higher assessed risk of material misstatement ('RMM') at audit assertion level other than a significant risk. Enhanced risks require additional consideration but does not rise to the level of a significant risk, these include but may not be limited to:

- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

Standard risk

This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

4. Significant risks and other key judgement areas

Summary risk assessment

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant and other enhanced risks in respect of the Council. We have summarised our audit response to these risks on the next page.

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1. Management override of controls
2. Net defined benefit liability valuation
3. Valuation of Land and Buildings and Investment Properties

4. Significant risks and other key judgement areas

Specific identified audit risks and planned testing strategy

We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to Standards and Audit Committee.

Significant risks

	Description	Fraud	Error	Judgement	Planned response
	Management override of controls This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur. Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.	●	○	○	We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.

Significant risks

	Description	Fraud	Error	Judgement	Planned response
2	**Net defined benefit liability valuation** The Council's accounts contain material liabilities relating to the local government pension scheme. The Council uses an actuary to provide an annual valuation of these liabilities in line with the requirements of IAS 19 Employee Benefits. Due to the high degree of estimation uncertainty associated with this valuation, we have determined there is a significant risk in this area.	○	●	●	In relation to the valuation of the Council's defined benefit pension liability we will: • Critically assess the competency, objectivity and independence of the Derbyshire Pension Fund's Actuary; • Liaise with the auditors of the Derbyshire Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This will include the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 valuation is complete and accurate; • Test payroll transactions at the Council to provide assurance over the pension contributions which are deducted and paid to the Pension Fund by the Council; • Review the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This will include comparing them to expected ranges, utilising information provided by PWC, the consulting actuary engaged by the National Audit Office; and • Agree the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements.

4. Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
3 Page 115	**Valuation of Land and Buildings and Investment Properties** The Council's accounts contain material balances and disclosures relating to its holding of land, buildings and investment properties which are required to be carried at valuation. Due to high degree of estimation uncertainty associated with those held at valuation, we have determined there is a significant risk in this area.	○	●	●	In relation to the valuation of land and buildings, and investment properties we will: • Critically assess the Council's valuer's scope of work, qualifications, objectivity and independence to carry out the required programme of revaluations; • Consider whether the overall revaluation methodologies used by the Council's valuer's are in line with industry practice, the CIPFA Code of Practice and the Council's accounting policies; • Critically assess the treatment of the upward and downward revaluations in the Council's financial statements with regards to the requirements of the CIPFA Code of Practice; • Critically assess the approach that the Council adopts to ensure that any assets not subject to revaluation in 2021/22 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuer's; and • Consider movement in market indices between revaluation dates and the year end in order to determine whether these indicate that values have moved materially over that time.

05

Section 05:

Value for Money

6. Value for Money

The framework for Value for Money work

We are required to form a view as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our view, and sets out the overall criterion and sub-criteria that we are required to consider.

The new Code of Audit Practice (the Code) has changed the way in which we report our findings in relation to Value for Money (VFM) arrangements from 2020/21. We are still required to be satisfied that the Council has proper arrangements in place and to report in the auditor's report where we identify significant weaknesses in arrangements. However, the key output of our work on VFM arrangements will now be a commentary on the Council's arrangements which will form part of the Auditor's Annual Report.

Specified reporting criteria

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The Code requires us to structure our commentary to report under three specified criteria:

1. **Financial sustainability** – how the Council plans and manages its resources to ensure it can continue to deliver its services
2. **Governance** – how the Council ensures that it makes informed decisions and properly manages its risks
3. **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

Our approach

Our work falls into three primary phases as outlined opposite. We need to gather sufficient evidence to support our commentary on the Council's arrangements and to identify and report on any significant weaknesses in arrangements. Where significant weaknesses are identified we are required to report these to the Council and make recommendations for improvement. Such recommendations can be made at any point during the audit cycle and we are not expected to wait until issuing our overall commentary to do so.

Identified risks of significant weaknesses in arrangements

We reported our 2020/21 VFM commentary in the Annual Auditor's Report issued to the Council in January 2022. We reported that we had not identified any risks of, or actual, significant weaknesses in the Council's VFM arrangements and there were no recommendations arising from our work. We have not fully completed our 2021/22 planning and risk assessment work at this stage but have so far not identified any risks of, or actual, significant weaknesses. We will, if necessary, report any identified risks or weaknesses to the Standards and Audit Committee on completion of our planning and risk identification.

Planning	Obtaining an understanding of the Council's arrangements for each specified reporting criteria. Relevant information sources will include: • NAO guidance and supporting information • Information from internal and external sources including regulators • Knowledge from previous audits and other audit work undertaken in the year • Interviews and discussions with staff and members
Additional risk based procedures and evaluation	Where our planning work identifies risks of significant weaknesses, we will undertake additional procedures to determine whether there is a significant weakness.
Reporting	We will provide a summary of the work we have undertaken and our judgements against each of the specified reporting criteria as part of our commentary on arrangements. This will form part of the Auditor's Annual Report. Our commentary will also highlight: • Significant weaknesses identified and our recommendations for improvement • Emerging issues or other matters that do not represent significant weaknesses but still require attention from the Council.

06

Section 06:

Fees for audit and other services

6. Fees for audit and other services

Fees for work as the Council's appointed auditor

Details of the 2020/21 actual and planned 2021/22 fees are set out below:

Area of work	2021/22 Fees	2020/21 Actual Fee
Scale audit fee	£40,383	£40,383
Fee variations:		
Additional Testing on Property, Plant & Equipment and Defined Benefit Pensions Schemes as a result of changes in regulatory expectations	£7,952	£7,952
Additional testing as a result of the implementation of new auditing standards	TBC	£2,000
Other additional costs		
Additional work arising from the change in the Code of Audit Practice	£8,000	£8,000
Total	**£56,335**	**£58,335**

As reported to you in previous Audit Strategy Memoranda, the scale fee needs to be adjusted to take into account the additional work required as a result of increased regulatory expectations. The specific 2020/21 fee variations are subject to PSAA approval.

The 2021/22 fee variations are subject to change and any variations will be discussed with management.

6. Fees for audit and other services

Fees for non-PSAA work

In addition to the fees outlined above in relation to our appointment by PSAA, we have been separately engaged by the Council to carry out additional work as set out in the table below. Before agreeing to undertake any additional work we consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.

Area of work	2021/22 Estimated Fee	2020/21 Actual Fee
Other services - Housing Benefits Subsidy Assurance	£7,800	£7,800
Other Services – Pooling of Housing Capital Receipts Assurance	£4,000	£4,000

07

Section 07:

Our commitment to independence

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7. Our commitment to independence

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually in writing that we comply with the FRC's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

The Ethical Standard 2019 is applicable for any non-audit services commencing on or after 15 March 2020.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- All partners and staff are required to complete an annual independence declaration;
- All new partners and staff are required to complete an independence confirmation and also complete computer based ethical training;
- Rotation policies covering audit engagement partners and other key members of the audit team; and
- Use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Mark Dalton in the first instance.

Prior to the provision of any non-audit services Mark Dalton will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

Principal threats to our independence and identified associated safeguards in relation to the planned non-audit work for 2021/22 are set out below. Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

Issue	
Housing benefit subsidy certification Pooling of Housing Capital Receipts assurance	We have considered threats and safeguards as follows: • Self Review: The work does not involve the preparation of information that has a material impact upon the financial statements subject to audit by Mazars; • Self Interest: The total fee level is not deemed to be material to the Council or Mazars. The work undertaken is not paid on a contingency basis; • Management: The work does not involve Mazars making any decisions on behalf of management; • Advocacy: The work does not involve Mazars advocating the Council to third parties; • Familiarity: Work is not deemed to give rise to a familiarity threat given this piece of assurance work used to fall under the Audit Commission / PSAA certification regimes and was the responsibility of the Council's appointed auditor; and • Intimidation: The nature of the work does not give rise to any intimidation threat from management to Mazars.

08

Section 08:

Materiality and other misstatements

8. Materiality and misstatements

Summary of initial materiality thresholds

Threshold	Initial threshold £'000s
Overall materiality	2,400
Performance materiality	1,900
Specific materiality: - Senior Officers' remuneration and Exit Packages	£5k
Trivial threshold for errors to be reported to Standards and Audit Committee	73

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- Have a reasonable knowledge of business, economic activities and accounts;
- Have a willingness to study the information in the financial statements with reasonable diligence;
- Understand that financial statements are prepared, presented and audited to levels of materiality;
- Recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- Will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of total gross expenditure. We will identify a figure for materiality but identify separate levels for procedures design to detect individual errors, and also a level above which all identified errors will be reported to Standards and Audit Committee.

We consider that the total gross expenditure remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

8. Materiality and misstatements

Materiality (continued)

We expect to set a materiality threshold at 2% of total gross expenditure. Based on the 2020/21 audited financial statements we anticipate the overall materiality for the year ending 31 March 2022 to be £2.4m (£2.2m in 2020/21).

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. In setting performance materiality we have taken into account that this is our fourth year of audit, we have cumulative audit knowledge about the Council's financial statements, and there were no significant matters arising last year. We have therefore set our performance materiality again at 80% of our overall materiality being £1.9m.

Misstatements

We accumulate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to Standards and Audit Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £73k based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Mark Dalton.

Reporting to Standards and Audit Committee

The following three types of audit differences will be presented to Standards and Audit Committee:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).

A

Appendix: Key communication points

Appendix: Key communication points

We value communication with Those Charged With Governance as a two way feedback process at the heart of our client service commitment. ISA 260 (UK) 'Communication with Those Charged with Governance' and ISA 265 (UK) 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' specifically require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

Form, timing and content of our communications

We will present the following reports:

- Our Audit Strategy Memorandum;
- Our Audit Completion Report; and
- Auditor's Annual Report

These documents will be discussed with management prior to being presented to yourselves and their comments will be incorporated as appropriate.

Key communication points at the planning stage as included in this Audit Strategy Memorandum

- Our responsibilities in relation to the audit of the financial statements;
- The planned scope and timing of the audit;
- Significant audit risks and areas of management judgement;
- Our commitment to independence;
- Responsibilities for preventing and detecting errors;
- Materiality and misstatements; and
- Fees for audit and other services.

Key communication points at the completion stage to be included in our Audit Completion Report

- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Our conclusions on the significant audit risks and areas of management judgement;
- Summary of misstatements;
- Management representation letter;
- Our proposed draft audit report; and
- Independence.

Appendix: Key communication points

ISA (UK) 260 ‘Communication with Those Charged with Governance’, ISA (UK) 265 ‘Communicating Deficiencies In Internal Control To Those Charged With Governance And Management’ and other ISAs (UK) specifically require us to communicate the following:

Required communication	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and those charged with governance.	Audit Strategy Memorandum
The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks.	Audit Strategy Memorandum
With respect to misstatements: • Uncorrected misstatements and their effect on our audit opinion; • The effect of uncorrected misstatements related to prior periods; • A request that any uncorrected misstatement is corrected; and • In writing, corrected misstatements that are significant.	Audit Completion Report
With respect to fraud communications: • Enquiries of Standards and Audit Committee to determine whether they have a 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 fraud may exist; and • A discussion of any other matters related to fraud.	Audit Completion Report and discussion at Standards and Audit Committee, Audit Planning and Clearance meetings

Appendix: Key communication points

Required communication	Where addressed
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; and • Difficulty in identifying the party that ultimately controls the entity.	Audit Completion Report
Significant findings from the audit including: • 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 or were the subject of correspondence with management; • Written representations that we are seeking; • Expected modifications to the audit report; and • Other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to Standards and Audit Committee in the context of fulfilling their responsibilities.	Audit Completion Report
Significant deficiencies in internal controls identified during the audit.	Audit Completion Report
Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.	Audit Completion Report

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Appendix: Key communication points

Required communication	Where addressed
Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and enquiry of Standards and Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that Standards and Audit Committee may be aware of.	Audit Completion Report and Standards and Audit Committee meetings
With respect to 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; and • The adequacy of related disclosures in the financial statements.	Audit Completion Report
Reporting on the valuation methods applied to the various items in the annual financial statements including any impact of changes of such methods	Audit Completion Report
Indication of whether all requested explanations and documents were provided by the entity	Audit Completion Report

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For publication

Procurement of External Auditors

Meeting:	Standards & Audit Committee Council
Date:	16th February 2022 23rd February 2022
Cabinet portfolio:	Deputy Leader
Directorate:	Finance

1.0 Purpose of report

1.1 To consider the method of procurement for the external audit service to cover the five consecutive financial years commencing 1st April 2023.

2.0 Recommendations

2.1 That the Council opts into the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the procurement and appointment of external auditors (Option2).

3.0 Reasons for recommendations

3.1 To consider the options and determine the arrangements for the appointment of external auditors which demonstrates the best value for money.

4.1 Background

4.1.1 The Councils current external auditor is Mazars and the contract was awarded from 2017/18 for a period of 5 years. The procurement was managed by Public Sector Audit Appointments Ltd (PSAA), a company who were originally established to operate the transitional arrangements following the closure of the Audit Commission. This company is owned by the Local Government Association’s Improvement & Development Agency (IDeA).

4.1.2 The current external audit contract is due to expire at the end of 2022/23 and we are required to agree our preferred method for procuring external audit services for the following 5 financial years.

4.1.3 Local bodies have options to arrange their own procurement and make the appointment themselves or in conjunction with other bodies, or they can join and take advantage of the national collective scheme managed by PSAA.

4.1.4 The scope of the audit is specified nationally: The National Audit Office is responsible for writing the Code of Audit practice which all audit firms must follow. Not all audit firms are eligible to compete for the work and must be registered to be allowed to bid for the work. It is unlikely that small local independent firms would meet the eligibility criteria.

4.1.5 In the first round of procurement of external audit service in 2017, 98% of local authorities opted to procure external audit services using the PSAA procurement route.

4.1.6 The decision to opt in to the PSAA procurement route must be made by full Council before 11th March 2022 which is the deadline for registering an intention to opt in to the PSAA procurement arrangements.

4.2 Options for Appointment of External Auditors

4.2.1 There are two options for the procurement of audit services following the end of the current contract in 2022/23.

4.2.2 Option 1 – to make a stand-alone appointment

To make a stand-alone appointment the Council would need to set up an Auditor Panel made up of elected and independent members and conduct its own procurement exercise.

Advantages

- It would allow the council to take full advantage of the local appointment regime and have local input to the decision

Disadvantages

- Recruitment and servicing of the Auditor panel, running the bidding exercise and negotiating the contract was estimated by the LGA at the time of the first round of procurement in 2017, to cost around £15,000 plus on-going allowances
- The council will be unable to take advantage of reduced fees that may be available through joint or national procurement contracts

- The assessment of bids and decisions on awarding contracts will be taken by independent appointees and not solely by elected members

4.2.3 Option 2 – Opt in to PSAA national procurement

The PSAA are once again offering the opportunity for local authorities to opt into a joint national procurement exercise.

Advantages

- The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt in authorities
- By offering large contract values the firms would be able to offer better rates and lower fees than are likely to result from local negotiation. A national exercise offering large contract values is likely to encourage participating firms to offer more realistic prices in what is currently a challenging market.
- Independence issues would be managed by PSAA who would have a number of contracted firms to call on.

Disadvantages

- In order for PSAA to be viable and to be placed in the strongest possible negotiating position, Councils will need to opt into the process before final contract prices are known.

4.2.4 Events since 2018 have resulted in an audit industry that is under enormous pressure and the local audit system is experiencing its share of strain and unavoidable instability as impacts cascade down to the frontline of individual audits. PSAA believe that the national scheme offers the best option for local bodies to secure the appointment of appropriately qualified auditors in the current challenging market conditions. This is a view that is share by the Local Government Association and the Department for Levelling Up, Housing and Communities (DLUHC).

4.2.5 Option 2 'opt in' is the recommended option on the basis that it is the most efficient way to appoint the external auditor and is likely to achieve the most competitive price.

5 Alternative options

5.1 The auditor panel option (Option 1) is more resource intensive, will be more costly to procure and without the bulk buying power of the sector led procurement, would be likely to result in a more costly service.

6 Implications for consideration – Council Plan

6.1 The work carried out by the external auditor provides an independent assessment of the accounting and internal control arrangements of the authority.

6.2 The external auditor also provides an opinion on the value for money of the authority thereby providing an independent assessment of achievement of the third Council Plan priority of 'delivering value for money services.

7 Implications for consideration – Financial and value for money

7.1 The current revenue budget includes a sum of £53,370 for external audit fees in 2021/22. The Council has benefited from a reduction in external audit fees since the start of the current contract. At the start of the current contract fee levels were £40k per annum but in the last two years have risen to reflect the increased testing requirements imposed by the National Audit Office. This level of fee increase would have occurred irrespective of the provider of the service or the chosen procurement route.

8 Implications for consideration – Legal

8.1 The process outlined in this report and the recommendation should ensure compliance with the Local Audit & Accountability Act 2014.

8.2 Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by the whole Council.

9 Implications for consideration – Human resources

9.1 There are no human resource implications to consider in this report.

10 Implications for consideration – Risk management

10.1 The Council is required to appoint an external auditor for the accounting periods 2023/24 and going forward. If it fails to do so the Secretary of State will do so on its behalf.

11 Implications for consideration – community wellbeing

11.1 There are no community wellbeing implications to consider in this report.

12 Implications for consideration – Economy and skills

12.1 There are no economy and skills implications to consider in this report.

13 Implications for consideration – Climate Change

13.1 There are no climate change implications to consider in this report. Since the onset of Covid 19, all audits are conducted remotely so proximity of the external auditor to Chesterfield does not directly impact delivery of the service.

14 Implications for consideration – Equality and diversity

14.1 There are no equality and diversity implications to consider in this report.

Decision information

Non-Key decision number	**1086**
Wards affected	**All**

Document information

Report author	Contact number/email
Helen Fox	Helen.fox@chesterfield.gov.uk

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For publication

External Review of Internal Audit – Action Plan Progress Update

Meeting:	Standards and Audit Committee
Date:	16th February 2022
Cabinet portfolio:	Governance
Directorate:	Finance
For publication	

1.0 Purpose of the report

1.1 To present, for members' information, a progress update in respect of implementing the recommendations arising from the external review of internal audit.

2.0 Recommendation

2.1 That the report be noted.

3.0 Reason for recommendation

3.1 To provide members with the assurance that the Internal Audit Consortium is continually looking to improve and is actively implementing the recommendations arising from the external review.

4.0 Report details

4.1 The Public Sector Internal Audit Standards require that the internal audit service must have an external review at least every 5 years. In May 2021 an external review of the Internal Audit Consortium was undertaken the results of which were reported to this Committee. Although the results of the review were positive and the service is deemed to be compliant with the Standards, some recommendations were made to help aid further improvement of the service. This report is to detail the progress to date in implementing the recommendations made.

4.2 Appendix 1 details the recommendations made by the external reviewer, the proposed action and an update of the progress achieved so far.

4.3 Some recommendations have already been implemented and others are in progress. A number of the recommendations will be implemented from the 2022/23 financial year in order that we are not changing systems mid –year and to have time to train staff.

4.4 The main focus of the recommendations relates to ensuring that internal audit continues to increase their focus on risk and aligns to the Council's risk appetite. In order to do this we have aligned our assurance levels and recommendation priorities to the defined risk levels within the Council's risk management Strategy. The likely impact of this is that there will be more low priority recommendations and less medium and high priority recommendations as the Council's risk appetite as defined in its strategy is higher than our current definitions. A medium internal audit recommendation for example in future will be more significant then at present.

4.5 All of our documentation has been reviewed and updates made to our scoping document, audit test schedule and report template to further embed risk management throughout the audit process.

4.6 A further update on progress will be brought to this committee as part of the 2021/22 Internal Audit Annual Report.

5.0 Alternative options

5.1 The report is for information.

6.0 Implications for consideration – Council Plan

6.1 The increased focus of internal audit on risk management and the significant risks identified on the strategic risk register will help to ensure that the council's resources and priorities are focused on achieving the objectives within the council plan.

7.0 Implications for consideration – Financial and value for money

7.1 An effective Internal audit service helps to ensure that the Council is delivering high quality, cost effective services.

8.0 Implications for consideration – Legal

8.1 None

9.0 Implications for consideration – Human resources

9.1 None

10.0 Implications for consideration – Risk management

10.1 The action plan attached to this report addresses the recommendations arising from the external review of internal audit thereby minimising the risk that internal audit is not operating in accordance with the Public Sector Internal Audit Standards.

11.0 Implications for consideration – community wellbeing

11.1 Whilst there are not considered to be any direct community and wellbeing impacts in relation to this report, an audit service fully compliant with the PSIAS will support the achievement of the Council's objectives.

12.0 Implications for consideration – Economy and skills

12.1 Whilst there are not considered to be any direct economy and skills impacts in relation to this report, an audit service fully compliant with the PSIAS will support the achievement of the Council's objectives.

13.0 Implications for consideration – Climate Change

13.1 Whilst there are not considered to be any direct climate change impacts in relation to this report, an audit service fully compliant with the PSIAS will support the achievement of the Council's objectives.

14.0 Implications for consideration – Equality and diversity

14.1 None

Decision information

Key decision number	*All key decisions must be in the Forward Plan at least 28 days in advance. There are constitutional consequences if an item is not in the Forward Plan when it should have been. Contact Democratic Services if in doubt.*
Wards affected	

Document information

Report author	
Jenny Williams Internal Audit Consortium Manager Finance	
Background documents None	
This must be made available to the public for up to 4 years.	
Appendices to the report	
Appendix 1	External Review of Internal Audit – Action Plan Progress

Appendix 1

External Review May 2021 - Action Plan Progress Update January 2022

The grading of recommendations is intended to reflect the relative importance to the relevant standard within the Public Sector Internal Audit Standards (PSIAS).

Recommendation Grading	
Enhance	The internal audit service must enhance its practice in order to demonstrate transparent alignment with the relevant PSIAS standards in order to demonstrate a contribution to the achievement of the organisation's objectives in relation to risk management, governance and control
Review	The internal audit service should review its approach in this area to better reflect the application of the PSIAS
Consider	The internal audit service should consider whether revision of its approach merits attention in order to improve the efficiency and effectiveness of the delivery of services

No	Issue Identified	Recommendations	Action	Progress
1	**Internal Audit Charter** Whilst the Charter requires that the HoIA's Annual Opinion is correctly expressed in relation to Risk Management, Governance and Internal Control – there are references in the Charter and other documentation which simply relate to 'internal control' or the 'control environment'.	When the Internal Audit Charter and other documentation is next revised update the requirement for the HoIA to provide an Annual Opinion in the consistent form of Risk Management, Governance and Internal Control.	The Audit Charter was revised in September 21 and updated to use the term Risk Management, Governance and Control.	**Complete**
2	**2020/21 engagement completion** Current year provision has been impacted by Covid and the team holding a number of vacancies.	Where these events impact upon completion of the internal audit plan and therefore the content of the Head of Internal Audit Annual	The CIPFA advice re the Head of Internal Audit Annual Opinion had already been	**Complete**

No	Issue Identified	Recommendations	Action	Progress
	At the time of the review, internal audit plan outcomes for 2020/21 were not available other than in the case of Derbyshire Dales DC, where reference has been made to the internal auditor being required to undertake other duties in relation to COVID-19 business grants processes, queries and government returns.	opinion, a reflection on the advice provided by CIPFA could be beneficially referred to explain the context and advice provided by the professional body.	taken to each Audit Committee. The advice has since been re-iterated in DDDC annual report as the scope of the opinion was limited and partial assurance given. This did not impact on the consortium members	
3	**Audit Planning** The HoIA maintains a spreadsheet-based approach to the conduct of an audit needs assessment which supports the development of the annual plan. This recognises the teams' judgement of factors relating to Materiality, Control Environment, Sensitivity, Management Concern and time since last audit. None of these factors relates directly to the organisations risk appetite as expressed in each clients' risk management system.	Whist it is recognised that client risk registers contain varying levels of detail regarding controls and assurances and certainly may not be comprehensive in terms of covering all risks. Conformance with the PSIAS would be enhanced by formally recognising the risk appetite of each client in internal audit planning, particularly where the concept of 'Control Risk' (the assessed difference between Inherent and Residual risk) is identified.	To be implemented for the 2022/23 internal audit plan. To look at how the spreadsheet can be updated to increase the emphasis on each client's risk appetite as per their risk registers – i.e., bring in a risk weighted column	**In progress**

No	Issue Identified	Recommendations	Action	Progress
4	**Management Objectives** The Internal Audit service currently specifies the Audit Objective as part of the Scoping Document for engagements although there is inconsistency. PSIAS 2201 provides advice regarding planning considerations for engagements and states that: “In planning the engagement, internal auditors must consider - The objectives of the activity being reviewed and the means by which the activity controls its performance and the significant risks to the activity, its objectives, resources and operations and the means by which the potential impact of risk is kept to an acceptable level”.	The Internal Audit Service should consider focusing each audit on agreed Management Objectives for the area for review as this would help structure the engagement on significant risks and align the review with the associated controls that are designed to mitigate this risk. In this respect, this may allow greater focus to be provided on ‘what matters most’ and attention being given to selected controls testing currently contained within established ‘controls check-lists’.	Management Objectives are discussed during the scoping meeting for each audit and it is ensured that these are incorporated into testing. Testing is often broader than just focusing on these objectives which is deemed appropriate as most areas are not reviewed on an annual basis.	**Complete**
5	**Grading of recommendations** Issues on which the audit opinion is based currently reflect High, Medium or Low ratings for which internal audit has defined what it considers as events which merit concern at these levels. The definitions are not currently contained within the internal audit manual or are included in internal audit reports to support gradings. This is inconsistent with terminology used by each Council in their Risk Management Policies where definitions	a) It would be beneficial to align future grading of recommendations with those impact definitions used within the risk management process relating to each clients’ risk appetite. Existing clients appear to use either a 4x4 or 5x5 risk matrix and therefore inclusion within internal audit reports as to how consistent alignment is achieved would assist in both agreeing the specific risk focus of each engagement as well in assessing the relative importance of	Internal audit definitions of High, Medium and Low recommendations will be aligned to each Council’s risk management strategy. These definitions will be adopted from the 2022/23 financial year and appended to each internal audit report for transparency. Staff training on the use of these revised definitions and the potential impact on	**In progress**

No	Issue Identified	Recommendations	Action	Progress
	of impact are contained to varying levels of detail. The PSIAS uses consistent terminology relating to the identification and reporting on 'significant' risk. And it may therefore be beneficial for internal audit to align its understanding of significance with that of each client.	findings at the exit meeting and in determining an opinion within assurance reports through use of a consistent understanding and application of risk. A simple matrix may be: b) Include appropriate explanation of alignment of gradings within the internal audit manual and provide appropriate training to staff regarding how this should be implemented.	assurance levels will be delivered at a team meeting in February 2022 The audit manual will be reviewed and updated in the summer of 2022 to incorporate all the changes made as a result of the external review	
6	**Quality Assurance Improvement Programme (QAIP)** The HoIA currently undertakes an annual self-assessment process and reports a summary of matters arising to Audit Committees in the Annual Report. The current process considers matters such as issues arising from PDR's, client surveys, ideas from team members and training requirements in addition to matters arising from external quality assessments. At present, each element is maintained separately.	It would be beneficial to consider drawing together the various elements of review in a formal QAIP policy and presenting this to Audit Committees, as such in the Annual Report as required in the PSIAS. An example policy has been provided.	A Quality Assurance Improvement Programme has been written and this will be appended to the annual report for 2021/22.	**In progress**

No	Issue Identified	Recommendations	Action	Progress
7	**Risk-based internal audit** The emphasis of the PSIAS concerns significance. Earlier observations referred to the benefit which may be obtained by increasing alignment with each Councils risk management processes. In this respect current practice: a) Includes low risk audits in annual audit plans b) Utilises 'Control Checklists' as the basis for audits, and c) Has a tendency to produce reports that are 'controls based' rather than focusing on risks to achievement of identified management objectives.	Ensure that in all aspects of the internal audit methodology there is transparent consideration of the significant risks that may impact upon successful delivery of management objectives. At an Engagement level this should include identification and focus on particular risks, to the exclusion of others, where risk management policies or discussions identify issues of a potentially catastrophic nature such as safeguarding, health and safety, legislative compliance, failure to deliver statutory services or reputational damage.	Agree need to spend most focus on higher risks but not necessarily at the exclusion of others. I believe lower risk audits should continue to be included in the audit plan - these are at much less frequency than high risk audits Risks are discussed at scoping meetings and reference is made to strategic and operational risk registers. Test schedules are updated to reflect the risks identified during scoping meetings. From 2022/23 audit reports will be updated to detail the risks considered. From 2022/23 test schedules will be updated as audits become due to detail the risks identified at scoping and to link these to the identified control objective and corresponding audit tests.	**In progress**

No	Issue Identified	Recommendations	Action	Progress
8	**Code of Ethics** Internal Audit reports currently state that the audit has been conducted in accordance with the Public Sector Internal Audit Standards.	Increasingly best practice also states that the audit has been conducted in accordance with the Institute of Internal Auditors Code of Ethics	This will be included in the 2021/22 annual reports	**In progress**
9	**Working papers** The file review exercise identified different practices in relation to how the audit working papers were constructed with some focusing on risks and other more reflective of controls.	Establishing the 'Golden Thread' between Management Objectives, significant risks and key controls should be the basis of each audit as this would allow the development of a consistent approach to the conduct of audit engagements and ensure a focus on significance.	As above – from 2022/23 there will be a stronger thread in terms of objectives and risk from the scoping document to the test schedules and end reports	**In progress**
10	**IA Opinions** Internal Audit currently uses four levels of opinion – Substantial, Reasonable, Limited and Inadequate – definitions of expectations is provided clarifying the differences between the levels, although this uses general terminology regarding risk rather than relating specifically to the risk appetite of each client. The PSIAS as stated previously emphasises the requirement to focus on what is 'significant' to the achievement of Management Objectives.	The HoIA should consider rewording basis of overall opinions to provide increasing clarity regarding how internal auditors should assess the assurance level provided based on the significance of the risks identified and the recommendations made. Where a risk/recommendation of a 'Critical, Catastrophic or Severe' nature is identified this would indicate that at best a 'Limited Assurance' opinion should be used.	From 2022/23 internal audit assurance definitions will be linked to risk management strategy definitions. The assurance given relates to the priority of recommendations – the revised definitions of these directly relates to the risk management strategy.	**In progress**

No	Issue Identified	Recommendations	Action	Progress
11	**Head of Internal Audit Annual Report** The Annual Report provides an evidenced approach regarding the basis upon which the opinion regarding risk management, governance and control has been reached and compares favourably with other practice in the sector. This includes increasing recognition of significant risk and those wider sources of assurance that are available to the HoIA in reaching this opinion. Whilst risk management systems do not consistently include a comprehensive analysis of the sources of assurance as a second line of defence, the internal audit team has made good progress in identifying routine sources of assurance that are available as well as compiling a Fraud Risk Assessments for each client.	The Head of Internal Audit should continue to develop the formality of the Annual Report process building the links between this report and the Annual Governance Statement. Inclusion of references to significant risks currently faced by each client will be of benefit to all stakeholders. Further consideration should be given to inclusion other sources of assurances that are available such as that relating to independent assurance regarding PSN, where these are relevant to providing evidence regarding the significant risks faced by each client.	CBC 2020/21 Annual Report includes links to Significant issues in the annual governance statement. A timing difference makes it harder in respect of the other Council's as the internal audit annual report is completed prior to the AGS. . Other sources of assurance used have been included in the 2020/21 Annual Reports To be further considered for the 2021/22 Annual Reports	**In progress**
12	**Exit meeting template** Discussions with management regarding the findings identified within engagements are discussed with management and based upon a first draft of the report. A summary of the discussion is then recorded in a narrative note, which is then used to produce the final report.	It is recognised that the HoIA prefers to use the draft report as the basis for conducting the exit meeting however it may be beneficial to introduce a standard template on which to record findings/recommendations along with draft management reactions as the audit progresses, as this will both formalise the approach to	**Disagreed** Draft audit reports to continue to be used to conduct an exit meeting – there should not be any surprises in the draft report as findings will have been discussed with managers as an audit progresses and the working papers will also have	**Complete**

No	Issue Identified	Recommendations	Action	Progress
	Draft reports can contain misunderstandings or factual inaccuracies which may detract from the value of a report and which may be better clarified before time is incurred constructing a report and recommendations.	arriving at the draft report stage, as well as support timely feedback and verify any misunderstandings or factual inaccuracies. This may represent a more efficient and effective use of time by all parties rather than wait for production of a draft report to correct misunderstandings.	been subject to a quality review so findings will be supported by the testing undertaken. There is no indication that this is a problem, usually only minor word changes to the draft report following exit meetings	
13	**Client surveys** Progress has been made in obtaining feedback from auditees following each audit.	The level of response is similar to that seen in other organisations and therefore Internal Audit may find it useful to utilise an application such as Microsoft Forms or Survey Monkey for collecting feedback, as this can prove to be an efficient means which helps achieve an early response.	CBC does not permit the use of survey monkey etc. This was discussed a few years ago and the cost was prohibitive given the small number of surveys involved. In 2020/21 57% of surveys were returned which is considered to be a good response rate	**Complete**
14	**Working Paper review record** Current practice is to evidence supervision of an engagement using a working paper review template which reflects good practice. Other evidence of review is contained on pre-engagement documentation and at report stage.	It may be beneficial to extend the use of the existing template to include evidence of the review of pre-audit involvement of the nominated supervisor as well as approval of the review and release of draft and final reports.	An audit progress log has been introduced for each audit assignment tracking an audit from start to finish at all stages	**Complete**

No	Issue Identified	Recommendations	Action	Progress
15	**HOI Performance Development Review** The current process is managed as required by the policy at CBC with the review being completed by the Service Director Finance, the Chief Executive reviews and comments as managers manager. The Standards suggest that it is good practice for feedback to also be received from the Chair of the Audit Committee	As the IA Consortium provides a service to four other organisations it would be constructive to also invite feedback on an annual basis from the Chief Executive and Chairs of Audit Committee from these clients.	The Service Director - Finance to invite feedback from the other council's Chief Executives and Chairs of Audit Committee for the next round of PDR's in May 22	**In progress**

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For publication

Implementation of Internal Audit Recommendations

Meeting:	Standards and Audit Committee
Date:	16th February 2022
Cabinet portfolio:	Governance
Directorate:	Finance
For publication	

1.0 Purpose of the report

1.1 To present for members' information a summary of internal audit recommendations made, implemented and outstanding.

2.0 Recommendations

2.1 That the report be noted.

2.2 That a further summary of outstanding internal audit recommendations be submitted to the Standards and Audit Committee in September 2022.

3.0 Reason for recommendations

3.1 To inform Members of the progress made in respect of implementing internal audit recommendations so that they can assess if appropriate and timely action is being taken.

4.0 Report details

4.1 It has previously been agreed by the Standards and Audit Committee that a report detailing outstanding internal audit recommendations be brought to the Standards and Audit Committee every 6 months. The last report was brought in November 2021.

4.2 Attached, as Appendix 1, is a summary of made, implemented and outstanding internal audit recommendations as at the end of January 2022. There is 1 high recommendation, 7 medium recommendations and 9 low priority recommendations outstanding. Appendix 1 provides a current update from managers in respect of each outstanding recommendation.

5.0 Alternative options

5.1 The report is for information.

6.0 Implications for consideration – Council Plan

6.1 The implementation of internal audit recommendations helps to ensure that controls and procedures are in place and operating which in turn helps to ensure that the council's resources and priorities are focused on achieving the objectives within the council plan.

7.0 Implications for consideration – Financial and value for money

7.1 Internal audit recommendations are aimed at ensuring there are controls in place to protect the Council's finances and thus contributing towards achieving value for money.

8.0 Implications for consideration – Legal

8.1 None

9.0 Implications for consideration – Human resources

9.1 None

10.0 Implications for consideration – Risk management

10.1 The timely implementation of internal audit recommendations helps to ensure that the risk of error or fraud is reduced and that internal controls are operating effectively.

11.0 Implications for consideration – community wellbeing

11.1 Whilst there are not considered to be any direct community and wellbeing impacts in relation to this report, the implementation of internal audit recommendations will support the achievement of the Council's objectives.

12.0 Implications for consideration – Economy and skills

12.1 Whilst there are not considered to be any direct economy and skills impacts in relation to this report, the implementation of internal audit recommendations will support the achievement of the Council's objectives.

13.0 Implications for consideration – Climate Change

13.1 Whilst there are not considered to be any direct climate change impacts in relation to this report, the implementation of internal audit recommendations will support the achievement of the Council's objectives.

14.0 Implications for consideration – Equality and diversity

14.1 None

Decision information

Key decision number	*All key decisions must be in the Forward Plan at least 28 days in advance. There are constitutional consequences if an item is not in the Forward Plan when it should have been. Contact Democratic Services if in doubt.*
Wards affected	

Document information

Report author
Jenny Williams Internal Audit Consortium Manager Finance
Background documents None

Appendices to the report	
Appendix 1	Internal audit recommendations status

Summary of Internal Audit Recommendations Made, Implemented and Outstanding (January 22)

	Recommendations made			
	2018/19	2019/20	2020/21	2021/22
High	7	9	1	5
Medium	67	35	28	10
Low	102	96	33	40
Total	**176**	**140**	**62**	**55**

Audit	**Date Audit Undertaken**	**Recommendations outstanding January 22**		
		High	**Medium**	**Low**
Housing Repairs	June 2019		1	
Gifts & Hospitality	January 2020	1		
Recruitment & Selection	May 2020		1	
Housing Repairs Capital Programme	April 2020		1	
Procurement	May 2020		1	
Community Safety	June 2020			2
VAT	September 20			1
Committee Processes	October 20			1
Accounts Payable	May 2021		1	
Ethical Governance	March 2021		1	4
Cyber Security & Network Security	May 2021		1	1
Total		**1**	**7**	**9**

Audit Area	Recommendations	Priority	Agreed Imp Date	Managers Comments
Housing Repairs – June 19	It is essential that a regular costing exercise is completed to ensure that the responsive repairs jobs are profitable for OSD, Consideration should be given to implementing this as part of the inspection process.	M	September 2019 Affected by COVID 19 Extension to March 22	Identified to be part of the Post Inspection checks. On a value over £1000.00. delayed due to Covid and the Senior Technical Officer – Performance dealing with other work streams. Will commence again once workload has decreased and it can be focused upon. 21st January 2022 – same situation however hopefully expect to have the resource back available towards the start of March 2022 to re-introduce more post and quality checking which will include job costing. Covid has however impacted as previous updates where the decision was made not to make unnecessary visits to properties. The Covid situation also needs to improve before we can move this recommendation forward.
Gifts, Hospitality and Personal Interests – January 20	A review of the current declaration process (gifts/hospitality and interests) is required with emphasis on the following controls being implemented: • Central record to be maintained (alleviating the need for six monthly renewal of declaration returns) • All employees are regularly made aware of	H	December 20	Due to competing priorities including ICT transformation required due to the Covid-19 pandemic we have not been able to progress an ICT solution. However, improvements have been made to ensure that returns are being centrally collated on a six monthly basis with retention

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Audit Area	Recommendations	Priority	Agreed Imp Date	Managers Comments
	their duty to disclose gifts/hospitality and personal interests • The awareness communications are clear and easily understood • Declaration forms are made available to all employees • Declarations are reviewed when received • Evidence of approval of gifts/hospitality by Manager's to be retained • A senior corporate manager is given responsibility for overseeing employee record collection and monitoring			and review, improved communication and access to forms. Further improvement is planned for 2022/23.
Recruitment and Selection – May 20	As Recruitment & Selection Training is mandatory it is essential that HR ensure that all members involved in the Selection Process have had the required training.	M	End November 2020	The policy has been updated. Training will be delivered in the spring 2022
Housing Repairs – Capital Programme – April 20	It must be ensured that appropriate contract documentation (including signed SLA's) are held for each contract/programme	M	June 2020	Agreements under review due to re-shape of service area. Currently in Phase 1 of the reshape, review and implementation of new agreements will be reviewed under Phase 2 of the reshape.
Procurement – May 20	It is essential that a comprehensive procurement plan is created to ensure value for money and compliance to the procurement strategy across the council.	M	End September 20	Major progress has been made on this recommendation. However, we continue to identify contracts we are not aware of – the two SPOs are working within their category areas and steadily identifying more unknown contracts

Audit Area	Recommendations	Priority	Agreed Imp Date	Managers Comments
				A work plan report is now being maintained by the procurement team. It is a report which is to be further developed but is now established for monitoring the schedule of contracts on the Proactis system and importantly the review dates to allow controlled actions ranging from contract management to resource planning and compliant process being applied. The procurement team are still currently updating the Contracts Register with historic but live contract data to ensure a final comprehensive corporate workplan is reached. Over 300 files and recently identified additional internal contract records from the legal and finance teams are being assessed and uploaded by the Procurement Support Officer and recently appointed Apprentice team. Progress is on-going and remains reliant on service team use of the system and provision of historic contract data.

Audit Area	Recommendations	Priority	Agreed Imp Date	Managers Comments
Community Safety – June 20	It would be beneficial to request access (with appropriate training) to the Authorities main accounting system (Unit 4 Business World) for CSP staff to enable improved monitoring of income and expenditure, ensuring accounted for in correct years which would also assist in budget monitoring e.g. Kier invoice not paid promptly; no apparent invoice/contribution yet paid in respect of Homeless Shelter	L	October 20	A Head of Community Safety and Regulatory Officer has now been appointed. Access and training for Unit 4 Business World are to be requested.
Community Safety – June 20	Consideration should be given to reconciling the annual spend return to the Police and Crime Commission with the Council's main accounting system to ensure accuracy	L	October 20-	A Head of Community Safety and Regulatory Officer has now been appointed. Advice is to be obtained from Accountancy.
VAT – September 20	Consideration should be given to a review of the VAT Return Completion Procedural notes to confirm that they are adequate with updates occurring as and when necessary	L	March 21 Extension to March 22	Updating procedural notes in relation to the VAT return will be completed during 2021/22. January 22 – Continuing additional workload due to the impact of Covid has delayed this update.
Committee Processes – October 20	Consideration should be given to reporting officer decisions to committees, this could be done on a regular basis or provided annually for member review	L	April 21 Requesting revised implementation date committee year 22/23	Not actioned yet, requires new processes to be put in place which will take time to develop. This has been delayed as a result of increased demands on staff time due to hybrid meeting scenario requiring additional support.

Audit Area	Recommendations	Priority	Agreed Imp Date	Managers Comments
				Looking towards implementation during 2022/23.
Accounts Payable – February 21	It would be prudent for the HR and Support Services Manager to liaise with the System Administrator to determine the viability of expanding the Unit 4 Business World system to incorporate workflows with the objective of reducing paperwork and risk.	M	End May 2021	Reliant on Unit 4 upgrade and availability of resources to progress
Ethical Governance – March 21	Consideration should be given to raising the profile of confidential reporting and fostering a reporting culture within the organisation potentially using some of the following improvements: • Publicising the confidential reporting policy and processes on the front page of the Aspire Intranet • Creating an online form on the Aspire intranet homepage for confidential reports to be sent easily and securely • Including a breach of the council's code of conduct or other council policies as reasons to raise concerns internally	Low	August 2021. Revised completion May 22	The Council's Whistleblowing Policy has been updated and approved by Employment and General Committee to take into account the findings of the audit and latest best practice. An online reporting form has been developed and is currently being tested. This will then be available via aspire and communication started to raise the profile of confidential reporting.
Ethical Governance – March 21	Due to the employee code of conduct being the key policy that underpins the council policies and details the ethical standards to be maintained, consideration should be given to including a separate section of the induction checklist specifically to the employee code of conduct to emphasise the importance of the code.	Low	July 2021. Revised date March 22	This action will be completed in early 2022 when the induction checklist is reviewed.

Audit Area	Recommendations	Priority	Agreed Imp Date	Managers Comments
Ethical Governance – March 21	Inclusion of the confidential reporting (whistleblowing) process within the induction process to support the council in raising the aware of reporting employee concerns and fostering a reporting culture across the organisation should be considered.	Low	July 2021. Revised date March 22	This action will be completed in early 2022 when the induction checklist is reviewed.
Ethical Governance – March 21	An annual review of the council publication scheme is completed to ensure compliance with the Local Government Transparency Code 2015.	Medium	September 2021	A light touch review has been completed with improvements being made. Further work is required during 2022/23 to ensure compliance is maintained.
Cyber Security & Network Security – May 2021	It is essential that a formal record of each employee's ICT policy acceptance is received and retained by ICT prior to access being granted to the corporate network.	Medium	31st July 2021	A new Head of Digital & Technology was appointed on December 13th 2021 and a review of the starter, mover, and leaver process has been scheduled to update the process to the match the changing approach to onboarding/offboarding during the pandemic, this will support policies are issued and accepted prior to system access being granted. Support has been requested from the Learning & Development Team to utilise the E-Learning portal to distribute and enforce mandatory acceptance of ICT's policies.

Audit Area	Recommendations	Priority	Agreed Imp Date	Managers Comments
Cyber Security & Network Security – May 2021	Consideration should be given to the ICT department liaising with Learning and Development to annually review the completion rates of the Information Security Training course. Where completion rates are considered poor, these should be reported to CMT for further action to be taken.	Low	30th September 2021	A new Head of Digital & Technology was appointed on December 13th 2021 who has engaged with the Learning & Development Team to harness the E-Learning portal to deliver and report on completion rates of the Information Security Training Course.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
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