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Date: 08 March 2024

Notice of meeting

Audit Committee

Date: Tuesday, 19 March 2024

Time: 7.00 pm

Place: Council Chamber, Council Offices, Knowle Green, Staines-upon-Thames TW18 1XB

To the members of the Audit Committee

Councillors:

J. Button (Chair)
K. Howkins (Vice-Chair)
M. Arnold
M. Bing Dong
J.R. Boughtflower
L. E. Nichols

Independent Member:

P. Briggs

Substitute Members: Councillors C. Bateson, S. Bhadye, M. Buck, J.A. Turner and J.R. Sexton

Councillors are reminded that the Gifts and Hospitality Declaration book will be available outside the meeting room for you to record any gifts or hospitality offered to you since the last Committee meeting.

Agenda

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Minutes of the Audit Committee
29 January 2024

Present:

Councillor J. Button (Chair)
Councillor K. Howkins (Vice-Chair)

Councillors:

M. Bing Dong   L. E. Nichols   P. Briggs

Substitutions: Councillors J.R. Sexton (In place of M. Arnold)

Apologies: Councillors J.R. Boughtflower

In Attendance: Councillors C. Bateson and D.C. Clarke

1/24 Apologies and Substitutes

Apologies were received from Councillor Arnold and Councillor Boughtflower. Councillor Sexton attended as Councillor Arnold's substitute.

2/24 Minutes

The minutes of the meeting held on 30 November 2023 were approved as a correct record.

The Committee requested that the minutes for the meeting held on 7 December 2023 be amended to clarify their request for voting requirements for the deferred item.

3/24 Disclosures of Interest

There were none.

4/24 Exclusion of Public and Press (Exempt Business)

It was proposed by Councillor Howkins, seconded by Councillor Nichols and **resolved** that the public and press be excluded during consideration of the following item, in accordance with paragraph 3 of part 1 of schedule 12A of the Local Government Act 1972 (as amended) because it was likely to disclose information relating to the financial or business affairs of any particular person (including the authority holding that information) and in all circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information because, disclosure to the public would prejudice the financial position of the authority in being able to undertake even-handed negotiations and finalising acceptable contract terms.

5/24 Future Resourcing of the Internal Audit Service

The Committee considered a report from the Group Head of Corporate Governance on the future resourcing of the Internal Audit Service.

The Committee **resolved** to make a recommendation to Council on the future resourcing of the Internal Audit Service.

6/24 Procurement Internal Audit Recommendations Progress Review

The Committee received a report from the Interim Head of Procurement on the progress of the recommendations following the Procurement Internal Audit.

The Interim Head of Procurement advised that an internal audit of the department had been undertaken in July 2023 and resulted in twelve recommendations of low and medium priority.

The Committee noted the recommendations and expressed concern that some of them had been raised. The Interim Head of Procurement explained that Council operated a devolved procurement process, so many procurement actions were undertaken by individual officers rather than by a team. They confirmed that many of the recommendations had already been addressed and there had already been a noticeable improvement in adherence to procedures. The Committee were reassured that support was being provided for officers who were unfamiliar with procurement.

A member of the Committee requested to meet with officers to review the procurement strategy against the recommendations.

The Committee **resolved** to:

1. Note the recommendations made in the Internal Audit of Procurement, and agree the actions taken so far to address the recommendations;
2. Note the further planned and ongoing actions.

7/24 Annual Review of Internal Audit Effectiveness

The Committee received a report from the Internal Audit Manager on the outcome of the annual review of Internal Audit Effectiveness.

An External Quality Assessment on Spelthorne's Internal Audit service had been undertaken and concluded that it conformed to the Public Sector Internal Audit Standards to a large degree and excelled in some areas. A draft action plan had been produced to address the recommendations during the assessment.

The Committee commended the Internal Audit Manager for the service's performance.

The Committee **resolved** to note the Annual Review of Internal Audit Effectiveness, overall conclusions and actions arising from the External Quality Assessment (EQA).

8/24 Update on the use of the Regulation of Investigatory Powers Act Policy (RIPA Policy)

The Committee received a report from the Monitoring Officer on the use of the RIPA Policy.

The Committee were advised that use of the policy was low, and comparable to use in neighbouring boroughs.

The Committee **resolved** to note the approved RIPA Policy and use of RIPA powers during the period 1 January 2020 to 31 December 2023.

9/24 Committee Forward Plan

The Committee considered its Work Programme for the remainder of the 2023-2024 Municipal year.

The Chair advised the Committee that the date of the next meeting had been moved from 28 March 2024 to 19 March 2024.

A member of the Committee expressed concern over a report going to another committee and suggested that it be reviewed against the Corporate Risk Register at the next meeting of the Audit Committee.

The Committee also suggested that a member of the Procurement team attended regularly to provide a progress update on their actions.

Resolved that the Committee Work Programme for the remainder of the 2023-2024 Municipal year, be approved subject to the inclusion of the suggestions above.

10/24 Urgent Item - External Audit Update

The Chair suggested that due to the presence of the external auditor, the Committee hear this item before item six on the agenda. The Committee agreed.

The Deputy Chief Executive introduced the representative from BDO and explained that Councils had received a letter from the Department of Levelling Up, Housing and Communities to advise that proposals had been put forward on how to deal with the national backlog of outstanding audits for Councils. A consultation on those proposals would be undertaken.

The Committee received a verbal update from BDO on the status of external audits. The representative from BDO expanded on the aim of the proposals that would be consulted on and their possible affect on the status of the Council's outstanding audits. It was indicated that it is likely that no further work would be undertaken by BDO on the Council's audits, although work would be undertaken to complete the Value for Money opinions, before the incoming auditors would take over. However, the Council would not be billed any significant costs for the work not undertaken.

The Committee presented several ideas as to how to simplify the work that needed to be undertaken, and the representative from BDO agreed that some of the ideas may be put forward during the consultation. The Committee also queried the approach to the Public Interest Report for the 2017/2018 audits that was issued in 2022 and its impact on future audits and Value for Money conclusions. The representative from BDO confirmed that it would be noted but opinions would only cover the individual years of accounts.

The Deputy Chief Executive assured the Committee that the incoming auditors, Grant Thornton, were liaising with BDO over the Council's audits and were aiming to produce a draft audit plan for presentation at the March Committee meeting, and would be attending the March meeting to present the Audit Plan.

The Committee **resolved** to note the update.

Meeting ended at 21:53

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.
This draft has been created from the template dated DD MMM YYYY

Spelthorne Borough Council Indicative Audit Plan

Financial year ending 31 March 2024

Spelthorne Borough Council

March

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Key matters

National context

The national economic context continues to present challenges to the local government sector. There are increasing cost pressures nationally, such as a growing population and increasing demand for local government services. Combined with inflationary pressures, pay demands and energy price rises, the environment in which local authorities operate is highly challenging.

Local Government funding continues to be stretched, Spelthorne Borough Council (like other local authorities), has seen the level of central government funding reduce over the last decade and has sought alternative ways to increase its income to fund services. As a result, the council borrowed considerable sums of money from Public Works Loans Board to fund investments in commercial properties. The Council's external borrowing based on the unaudited accounts for 22/23 was £1.1bn. This means the council's debt is significantly higher relative to its spending power or annual budget or council size. While the council has managed to receive income to fund services from its investment property portfolio, the level of debt brings additional risks.

Recently, we have seen the additional strain on some councils from equal pay claims, and there has been a concerning rise in the number of councils issuing s.114 notices. These are issued when a council's Chief Financial Officer does not believe the council can meet its expenditure commitments from its income. Additionally, the levels of indebtedness at many councils is now highly concerning, and we have seen commissioners being sent in to oversee reforms at a number of entities.

Our recent value for money work has highlighted a growing number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time.

As your new auditor, in planning our audit, we have taken account of this national context in designing a local audit programme which is tailored to your risks and circumstances.

Audit Reporting Delays

Against a backdrop of ongoing audit reporting delays, in October 2023 PSAA found that only five local government accounts had been signed by the September deadline. In June 2023 the Public Accounts Committee (PAC) also produced a report setting out their concerns over these audit reporting delays. We issued our repot About time? In March 2023 which explored the reasons for delayed publication of audited local authority accounts.

There is currently an on-going national consultation to "fix" the backlog of unaudited local authority accounts and ensure timely audits, involving key stakeholders in the sector (the Department for Levelling Up, Housing and Communities (DLUHC), the Financial Reporting Council (FRC), the National Audit Office (NAO), the Chartered Institute of Public Finance and Accountancy (CIPFA), Public Sector Audit Appointments (PSAA)). Spelthorne Borough Council has produced and published draft financial statements up to 2022/23 (including prior periods), however, these have not been audited, with the last audit opinion issued by KMPG for the 2017/18 accounts in the year 2023. The Council is keen to get back on track to having audited financial statements and ensure accountability to local taxpayers.

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Key matters - continued

Our Responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out in this Audit Plan.
- To ensure close work with our local audited bodies and an efficient audit process, our preference as a firm is work on site with you and your officers. Based on initial discussions your Senior Officers at the Council, their preference is for the audit team to be conducted on-site with council staff. Please confirm in writing if this is acceptable to you, and that your officers will make themselves available to our audit team. This is also in compliance with our delivery commitments in our contract with PSAA.
- We will meet with the Chief Executive twice a year, and with the Director of Finance Quarterly as part of our commitment to keep you fully informed on the progress of the audit.
- We have met the Chair of your Audit Committee (February), to brief them on the status and progress of the audit work to date and we will continue to engage with them and the Audit Committee as relevant throughout the audit.
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work. Should the NAO revise the VFM code during 2023/24, these areas of focus may change.
- Our Value for Money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness.
- We will continue to provide you and your Audit Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our Audit Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretations, to discuss issues with our experts and to facilitate networking links with other audited bodies to support consistent and accurate financial reporting across the sector.
- With the ongoing financial pressures being faced by local authorities, in planning this audit we have considered the financial viability of the Council. We are satisfied that the going concern basis remains the correct basis behind the preparation of the accounts. We will keep this under review throughout the duration of our appointment as auditors of the Council.
- There is an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to ongoing financial pressures. We are required to identify a significant risk with regard to management override of controls.

Prior year disclaimer

- The 2022/23 financial statement accounts will be disclaimed by BDO . We will provide management and members of the audit committee with changes to the indicative audit plan throughout the year.

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Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Spelthorne Borough Council ('the Council') for those charged with governance.

Respective responsibilities

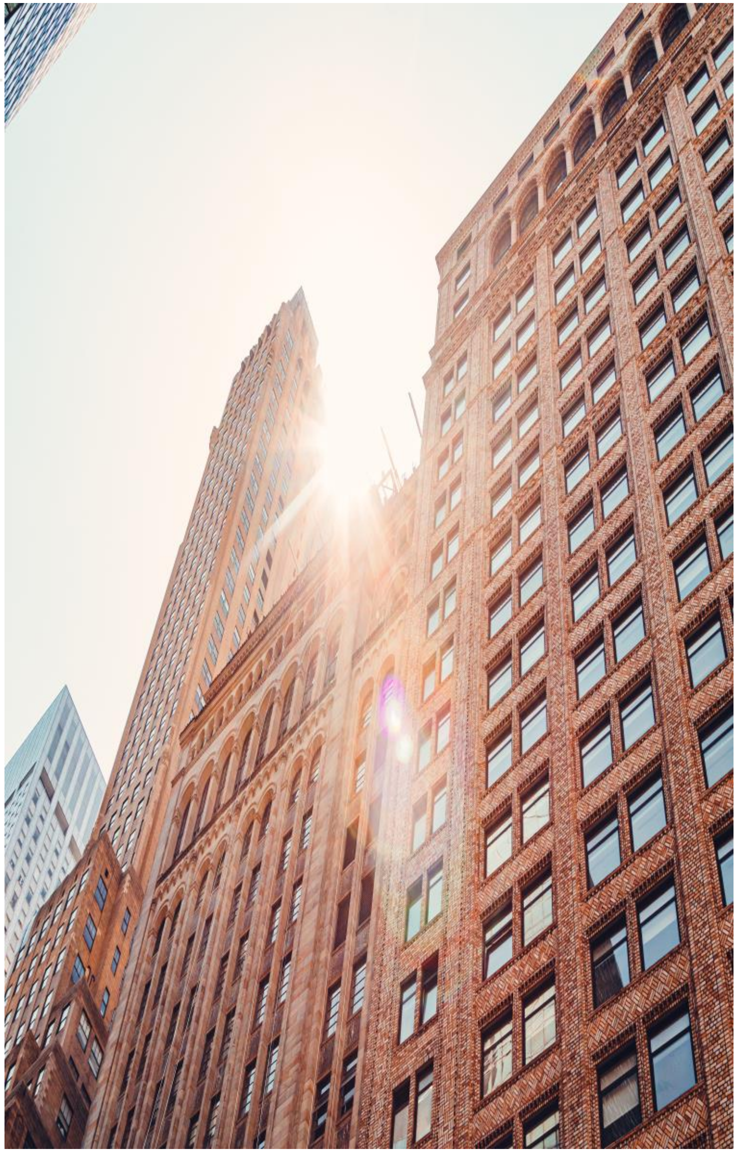
The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. The NAO is in the process of updating the Code. Our respective responsibilities are also set out in the agreed in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of the Council. We draw your attention to these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit committee); and we consider whether there are sufficient arrangements in place at the Council and group for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.



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Introduction and headlines

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls
- Presumed risk of fraud in revenue recognition (rental income, sales and other income)
- Valuation of Pension liability
- Valuation of land and buildings, and investment properties.
- Group Accounts consolidation
- Presentation and disclosures
- Minimum Revenue Provision

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Group Audit

The Council is required to prepare group financial statements that consolidate the financial information of:

Knowle Green Estate LTD

Spelthorne Direct Services

Materiality

We have determined planning materiality to be £1m for the group and £0.9m for the Council, which equates to 1.6% and 1.5% respectively of your prior year gross operating costs for the year (unaudited accounts). We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance.

We will review our materiality throughout the and on receipt of the draft financial statement audit and report to management and members of the audit committee any changes.

Clearly trivial has been set at £50k for the Group and £46k for the Council

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has commenced yet. We will agree with management when we will commence the work once, we understand the arrangements on the conclusion of the prior year 2022/23 value for money by the predecessor auditor.

We will continue to update Audit Committee members on progress of the value for money work for 23/24

Audit logistics

Our planning visit will take place in February and March and our year end audit timeline is to be agreed, but our plan is to issue an audit opinion by 31 December 2024. We will ensure we resource the audit, to meet this deadline [subject to any opening balance and any disclaimer requirements, not yet known at this stage]

Our key deliverables are this Audit Plan, our Audit Findings Report and our Auditor's Annual Report.

Our preference is for all our work to take place on site alongside your officers.

Our proposed fee for the audit will be £223,086 for the Council, subject to the Council delivering a good set of financial statements and working papers and no significant new financial reporting matters arising that require additional time and/or specialist input.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

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Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management override of controls. ISA (UK) 240	Group and Council	Under ISA (UK) 240 there is a non-rebuttable presumption that the risk of management override of controls is present in all entities. The Council faces external scrutiny of their spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, and in particular journals, management estimates, and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Management should expect engagement teams to challenge areas that are complex, significant or highly judgmental. This may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies, with reference to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.' (ISA (UK) 315)

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Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Presumed risk of fraud in revenue recognition. ISA (UK) 240	Group and Council	The council has a significant income stream from commercial properties and based on the unaudited accounts for 22/23, rental income was £53.8m. The Council is also has other sales and charges of approximately £4m. There is a risk of either fraud or improper revenue recognition for these income streams apart from Government Grants & Collection Fund income streams. We have therefore, not rebutted this presumed risk that revenue may be misstated due to improper recognition.	We will • evaluated the group’s accounting policy for recognition of income from commercial properties, sales and other charges for appropriateness; • gained an understanding of the Authority's system for accounting for income from commercial income, sales and other charges, and evaluate the design of the associated controls; • Agreed on a sample basis, amounts recognised as income from commercial rents, sales and other charges in the financial statements to supporting documents. • Test the completeness of revenue within the 23/24 financial statements. • We will test the associated trade receivables or debtors pertaining to commercial rents and other sales and charges.

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Significant risks identified - continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund Net liability.	Council	The pension fund net liability, as reflected in the balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The council participates in the local government pension scheme administered by Surrey County Council. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£15.6million in the single entity's balance sheet at 31 March 2023), complexity of the actuarial valuation and the sensitivity of the estimate to changes in key assumptions. The Council engage the services of Hymans Robertson as a qualified actuary to develop an IAS 19 compliant estimate of the pension fund net liability. We therefore identified valuation of the pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • Update our understanding of the processes and controls put in place by management to ensure that the pension fund net liability is not materially misstated and evaluate the design of the associated controls; • Evaluate the instructions issued by management to their management experts (the actuary) for this estimate and the scope of the actuary's work; • Assess the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation; • Assess the accuracy and completeness of the information provided by the Group to the actuary to estimate the liabilities; • Test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial reports from the actuary; • Undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • Obtain assurances from our pension fund testing as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the Fund and the fund assets valuation in the Fund's financial statements.

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Significant risks identified - continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of council's Land and Buildings , Investment Properties	Group and Council	The Council has a significant property plant and equipment. The following holding of: Land and building assets totalling £86m as at 31 March 2023 (unaudited accounts). The council's valuer for land and building is Wilks Head and Eve Investment properties amounting to £775m as at 31 March 2023 (unaudited accounts) . The council's valuer for investment properties is Carter Jonas LLP. The Group - Knowle Green Estate LTD has land and buildings £35.5m as at 31st March 2023 (audited) . Their valuer is Wilks Head and Eve. This valuation represents a significant estimate by management in the financial statements due to the size of the figures and the sensitivity of this estimate to changes in key assumptions. Management has engaged the above mentioned external valuers' services to provide an estimate of the current value and fair value of these assets in line with the council's valuation cycle. We therefore identified valuation of land, buildings, including Investment Properties assets, as a significant risk of material misstatement.	We will: • Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work. We engage our own valuation expert to support us in this area and other aspects of our work in relation to this risk; • Evaluate the competence, capabilities and objectivity of the valuation expert; • Write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met; • Challenge the information and assumptions used by the valuer to assess the completeness and consistency with our understanding, which will include engaging our own valuer to assess the instructions issued by management to their valuer, the scope of the Group's and Council's valuers' work, the Group and Council's valuers' reports and the assumptions that underpin the valuations; • Assess the value of a sample of assets in relation to market rates for comparable properties; • Test, on a sample basis, revaluations made during the year to see if they had been input correctly into the Council's asset register; and • Evaluate the assumptions made by management regarding assets not revalued during the year particularly regarding how they are satisfied these are not materially different from current value at year end.

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Significant risks identified - continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Group Accounts Consolidation Process	Group and Council	The Authority is required to prepare group financial statements that consolidate the financial information of its wholly owned subsidiary undertakings. The Code of Practice requires a local authority to prepare group accounts if it has a control over one or more other legal entities. Based on the 21/22 Spelthorne Borough Council (the reporting authority) has two wholly owned subsidiary companies: • Knowle Green Estates Limited (KGE) - The purpose of the company is to hold investments in residential property around the borough. • Spelthorne Direct Services (SDS), Incorporated on 29 June 2020. The purpose of the company is the collection, treatment and disposal of non-hazardous waste. The draft 22/23 accounts did not include Group Accounts. We will need to understand the key agreements in place for the above mentioned subsidiary companies. We have therefore identified a potential risk of group accounts consolidation resulting in a risk of error.	We will • review the key agreements to gain an understanding of the agreements put in place on the establishment of the companies; • discuss with key group personnel, the underlying substance of the transactions and the basis of the group's proposed accounting treatment of the arrangements; • critically assess the economic substance of the transactions to assess the appropriateness of the accounting treatment adopted by the group in accordance with the Code, International Financial Reporting Standards (IFRSs) and other relevant accounting guidance; • review the Group structure of the Council; • obtain and copy of the Group materiality assessment to be prepared by the Council; • review the qualitative and quantitative materiality of the Council's subsidiaries in relation to the Council's operations.
Presentation and Disclosure	Council	Presentation and Disclosure – Financial Statement Level Risks The council's last unqualified opinion on the financial statements was in 17/18, and no subsequent external audit opinions have been issued since (at the time of writing this audit plan). We anticipate the outstanding financial statement opinion audits will be backstopped. There is a risk that accounting transactions are not being appropriately presented and disclosed within the 23/24 financial statements. We therefore identified the presentation and disclosure of the financial statements as a significant risk.	We will • consider the Authority's arrangements for preparing the financial statements and working papers; • discuss with key group personnel, the underlying substance of the transactions and judgements made; • critically assess the financial statements in accordance with the Code, International Financial Reporting Standards (IFRSs) and other relevant accounting guidance;

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Significant risks identified - continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Minimum Revenue Provision	Council	Minimum Revenue Provision The Council's Capital Financing Requirement as at 31 March 2023 was £1.1bn with external borrowing £1.1bn. The Council's minimum revenue charge for 2022/23 was £12m. The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. MRP is required to be charged with respect to borrowing obtained as part of acquiring assets to be held in the General Fund (GF). According to regulations, the duty to make MRP extends to Investment Property where their acquisition has been partially or fully funded by an increase in borrowing or credit arrangements.	We • tested that the council has appropriately calculated its Capital Financing Requirement (CFR). • tested that the Council is correctly identifying capital expenditure subject to MRP charge in line with the guidance. • reviewed and check that the Council's policy on MRP complies with statutory guidance • reviewed Council Committee and sub-Committee papers to check that full council has approved the annual Minimum Revenue Provision statement • checked that MRP has been calculated in line with the authority's policy on MRP • assessed whether any changes to the authority's policy on MRP: a. have been discussed and agreed with those charged with governance b. have been approved by full council c. are adequately explained and evidenced d. comply with statutory guidance e. are in accordance with any legal or other professional advice obtained by the authority

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Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Key changes within the group:

We are not aware of any key changes at this point of the audit. This will continuously be evaluated during the 2023/24 audit.

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Group audit scope and risk assessment

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
Spelthorne Borough Council	Yes		Refer to page 7 to 12 on risk identified for the Council	Full scope audit performed by Grant Thornton UK LLP
Knowle Green Estate LTD	Yes		• Management override of controls • Revenue recognition • Valuation of Property Plant and Equipment's	Specific scope procedures on Management override of controls and Valuation of Property Plant and Equipment to be performed by component auditor, MGI Midgley Snelling LLP The nature, time and extent of our involvement in the work of MGI Midgley Snelling LLP will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the MGI Midgley Snelling LLP audit documentation and meeting with appropriate members of management. Depending on the outcome of our risk assessment and planning on the group accounts for 23/24, we may undertake our own procedures on the identified risks.
Spelthorne Direct Services	Yes		N/A	Analytical procedures at group level

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to risks of material misstatement of the group financial statements
- Analytical procedures at group level

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Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your financial statements, consider and decide upon any objections received in relation to the financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act);
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act;
  - issuing an advisory notice under section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, 'irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure'. All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

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Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Description	Planned audit procedures
Determination We have determined financial statement materiality based on a proportion of the gross expenditure of the group and the Council for the prior year financial statements. Materiality at the planning stage of our audit is £1m and £0.9m for the group and the council respectively, which equates to 1.6% and 1.5%% of your prior year gross expenditure for the period.	We determine planning materiality in order to: – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; – assist in establishing the scope of our audit engagement and audit tests; – determine sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements.
Reassessment of materiality Our assessment of materiality is kept under review throughout the audit process.	We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.
Other communications relating to materiality we will report to the Audit Committee Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.	We report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. In the context of the Group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £50k and £46k respectively. If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

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Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Group	Amount (£)	Qualitative factors considered
Materiality for the Group financial statements	1,000,000	This benchmark is determined as a percentage of the Group's Gross Cost of Services (estimated 2022/23) Expenditure in year, which has been set at approximately 1.6%.
Performance Materiality	650,000	Performance Materiality is based on a percentage of the overall materiality. The PM is 65% of materiality for the Group
Trivial matters	50,000	This balance is set at 5% of overall materiality

Local Authority	Amount (£)	Qualitative factors considered
Materiality for the Council financial statements	926,000	This benchmark is determined as a percentage of the Council's Gross Cost of Services Expenditure in year, which has been set at approximately 1.5%.
Performance Materiality	602,000	Performance Materiality is based on a percentage of the overall materiality. The PM is 65% of materiality for the council
Trivial matters	46,300	This balance is set at 5% of overall materiality

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IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e, IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment. However, this is subject to initial inquiries and work and we will review our understanding of the IT Environment and update our planning.

IT system	Audit area	Planned level IT audit assessment
Centros	Financial reporting	We do not plan to test design and implementation of the ITGCs. We will review the controls report produced by the auditors of Hampshire County Council.
iTrent	Payroll	We do not plan to test design and implementation of the ITGCs

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Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2024.

The National Audit Office issued its latest Value for Money guidance to auditors in January 2023 . The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:

Improving economy, efficiency and effectiveness

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

Financial Sustainability

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

Governance

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

Our work on the council's value for money arrangements for 23/24 has not commenced yet. We would have liked to do value for money review early on in our audit appointment, but we will liaise with management on a suitable timetable to undertake the work and communicate with BDO and update our risk assessment in due course. We will continue to provide members of the Audit Committee with progress and update reports on the status of the value for money throughout the year.

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Audit logistics and team

Liaison Meetings

Planning and risk assessment
February/March 2023

Audit Committee
March 2024
Audit Plan

Audit Committee
July 2024
Final Audit Plan & Progress Report

Year end audit
October to December

Audit opinion

Audit Committee
TBC
Target Sign-off
31 December 2024
Auditor's Annual Report

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Joanne Brown Key Audit Partner

Joanne is responsible for overall quality control; accounts opinions; final authorisation of reports; liaison with the Audit Committee, the Chief Executive and the S151 Chief Finance Officer. Joanne will will share her wealth of knowledge and experience across the sector providing challenge and sharing goodpractice. Joanne will ensure our audit is tailored specifically to you, and she is responsible for the overall quality of our audit work. Joanne will sign your audit opinion.

Keith Mungadzi, Senior Manager

Keith is responsible for overall audit management, quality assurance of audit work and output, and liaison with the Audit Committee, S151, Chief Finance Officer and finance team. Keith will undertake reviews of the team's work and draft reports, ensuring they remain clear, concise and understandable. Keith will be responsible for the delivery of our work on your arrangements in place to secure value for money.

Serena Mohd Shariff, Assistant Manager

Serena will support Keith in his work to ensure the early delivery of audit testing and lead on a number of complex accounting issues. Serena will perform first reviews of the team's work. In addition, Serena will also liaise with key members of the finance team to ensure audit testing and reviews are conducted on a timely basis.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- Produce draft financial statements of good quality by the agreed timetable including all notes, the Narrative Report and the Annual Governance Statement.
- Ensure good quality working papers are available at the start of the audit, in accordance with the working paper requirements that we have shared with you.
- Ensure the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing. These reports should be cleansed so that reversing transactions are removed.
- Ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- Respond promptly and adequately to audit queries.

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Audit fees and updated Auditing Standards

Audit fees are set by PSAA as part of their national procurement exercise. In 2022, PSAA awarded a contract of audit for Spelthorne Borough Council to begin with effect from 2023/24. Grant Thornton have been appointed as your auditors. The scale fee set out in the PSAA contract for the 2023/24 audit is £205,556.

This contract sets out four contractual stage payments for this fee, with payment based on delivery of specified audit milestones:

- Production of the final auditor's annual report for the previous Audit Year (exception for new clients in 2023/24 only)
- Production of the draft audit planning report to Audited Body
- 50% of planned hours of an audit have been completed
- 75% of planned hours of an audit have been completed

Any variation to the scale fee will be determined by PSAA in accordance with their procedures as set out here https://www.psaa.co.uk/appointing-auditors-and-fees/fee-variations-overview/'

Assumptions

In setting these fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements
- maintain adequate business processes and IT controls, supported by an appropriate IT infrastructure and control environment.

Updated Auditing Standards

The FRC has issued updated Auditing Standards in respect of Quality Management (ISQM 1 and ISQM 2). It has also issued an updated Standard on quality management for an audit of financial statements (ISA 220). We confirm we will comply with these standards.

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Audit fees

	Proposed fee 2023/24
Spelthorne Borough Council (Scale Fee)	£205,556
ISA 315	£7,530
External Valuer*	£10,000 (fixed + variable element)
IFRS 16 Leases**	tbc
Total audit fees (excluding VAT)	£223,086

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* External Valuer

The review by our expert Valuer is not covered by the PSAA Scale fee. Our expert will review the Council's terms of reference with your valuer plus a review of the valuers report. This work will be £3k. There is an additional variable element which relates to any further work that the audit team considers necessary on individual property valuations.

IFRS 16 – leases

CIPFA have deferred the mandatory implementation of IFRS 16 until 2024/25. If the council implements IFRS 16 in the 2023/24 financial statements, this will require additional work from the audit team. Even if the council is not adopting the implementation until 1st of April 2024, the council will need to consider the impact of its adoption for the disclosure in the 2023/24 financial statements.

Previous year

If the opinion on the 2022/23 (and subsequent audits since 2017/18) audit is disclaimed due to the imposition of a backstop date, we will need to consider the outcome of the backstop guidance issued by the regulator/government. We will discuss the practical implications of this with you should this circumstance arise.

Relevant professional standards

In preparing our fees, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

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IFRS 16 ‘Leases’ and related disclosures

IFRS 16 will need to be implemented by local authorities from 1 April 2024. This Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS17. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. As this is a shadow year for the implementation of IFRS 16, we will need to consider the work being undertaken by the Council to ensure a smooth adoption of the new standard.

Introduction

IFRS 16 updates the definition of a lease to:

> “a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.” In the public sector the definition of a lease is expanded to include arrangements with nil consideration.

IFRS 16 requires all leases to be accounted for 'on balance sheet‘ by the lessee (subject to the exemptions below), a major departure from the requirements of IAS 17 in respect of operating leases.

IFRS 16 requires a lessee to recognise assets and liabilities for leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. There is a single accounting model for all leases (similar to that of finance leases under IAS 17), with the following exceptions:

- leases of low value assets
- short-term leases (less than 12 months).

Lessor accounting is substantially unchanged leading to asymmetry of approach for some leases (operating) although if an NHS body is the intermediary and subletting there is a change in that the judgement between operating and finance lease is made with reference to the right of use asset rather than the underlying asset

Council’s systems and processes

We believe that most local authorities will need to reflect the effect of IFRS 16 changes in the following areas:

- accounting policies and disclosures
- application of judgment and estimation
- related internal controls that will require updating, if not overhauling, to reflect changes in accounting policies and processes
- systems to capture the process and maintain new lease data and for ongoing maintenance

Further information

Further details on the requirements of IFRS16 can be found in the HM Treasury Financial Reporting Manual. This is available on the following link.

IFRS 16 Application Guidance December 2020.docx (publishing.service.gov.uk)

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Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group and Council.

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Independence and non-audit services

Non-audit services provided prior to appointment

Ethical Standards require us to draw your attention to relevant information on recent non-audit / additional services before we were appointed as auditor. We have not provided Spelthorne Borough Council with any additional services prior to the appointment as Auditors .

We do not believe that the previous services detailed above will impact our independence as auditors.

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Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•	
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud		•
Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		n/a

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

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Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud(deliberate manipulation) involving management and/or which results in material misstatement of the financial statements (not typically council tax fraud)		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

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Appendix

SECTOR UPDATE

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Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- Grant Thornton Publications
- Insights from local government sector specialists
- Reports of interest
- Accounting and regulatory updates

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local government

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Exploring the reasons for delayed publication of audited local authority accounts in England – Grant Thornton

Recent performance against target publication dates for audited local authority accounts in England has been poor. There are some reasons for optimism that there will be an improvement in the timeliness of publication of audited accounts as foundations are being laid for the future.

In this report we explore the requirements for publication of draft and audited accounts and look at some of the reasons for the decline in performance against these requirements over time. Only 12% of audited accounts for 2021/22 were published by the target date of 30 November 2022. There is no single cause for the delays in completing local authority audits, and unfortunately there is no quick solution in a complicated system involving multiple parties. We consider a variety of factors contributing to delays, note the measures which have already been taken to support the local audit system and make recommendations for further improvement.

There are some reasons for cautious optimism that the system will begin to recover and there will be a gradual return to better compliance with publication targets. However, we consider that these are outweighed by a number of risk factors and that the September deadline for audited accounts set by DHLUC is not achievable in the short term and also not achievable until there is further significant change in local audit and local government.

We note the following matters that are yet to be tackled:

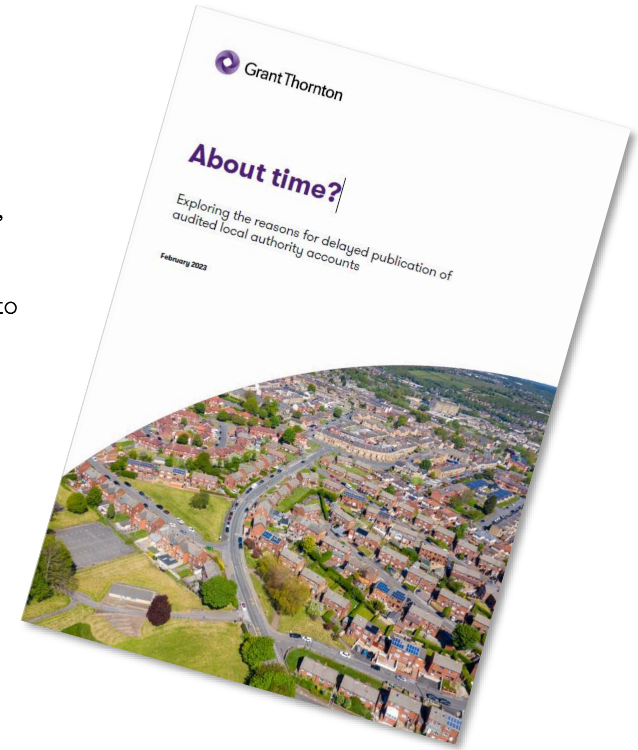
- clarity over the purpose of local audit
- the complexity of local government financial statements
- agreement on the focus of financial statements audit work
- an improvement in the quality of financial statements and working papers
- an agreed approach to dealing with the backlog of local government audits
- Government intervention where there are significant failures in financial reporting processes

All key stakeholders including local audited bodies, the audit firms, the Department for Levelling Up Housing and Communities, PSAA, the NAO, the FRC and its successor ARGA, CIPFA and the Institute of Chartered Accountants in England and Wales will need to continue their efforts to support a coherent and sustainable system of local audit, acknowledging that it will take time to get things back on track.

We make recommendations in our report for various stakeholders, including Audit Committees and auditors, and include a checklist for consideration by management and Audit Committees within an Appendix to the report.

Read the full report here:

[Report: key challenges in local audit accounting | Grant Thornton]



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Current local audit deadline 'unachievable'- Grant Thornton (Oct 23)

Low capacity in council finance teams and the failure to deal with historic accounting issues mean the current September audit deadline is unlikely to be met.

The firm said the changes in recent years to council investment strategies have seen annual accounts become increasingly complex.

In evidence to a Public Accounts Committee inquiry, Grant Thornton said the increased workload and pressure on resources have complicated recruitment and compounded delays.

The auditors said it is unlikely firms will be able to meet the 30 September deadline for publishing opinions on 2022-23 financial statements, because they are still working on previous years' accounts.

The firm said one of the key issues causing delays is the lack of consensus over areas of audit focus, specifically over how land and buildings are audited.

"Too much audit resource is absorbed in dealing with longstanding financial reporting issues at poorly performing bodies," the firm said.

In certain instances, audits are open as far back as 2017-18.

"Perhaps more importantly, there has not been enough debate with the sector on the purpose of local audit and the enhanced audit scrutiny it faces.

"This is particularly the case with the audit of property. Until these matters are resolved we do not consider that the September deadline is achievable."

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Current local audit deadline ‘unachievable’- Grant Thornton(cont.)

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Grant Thornton said that while audit firms can be sanctioned by the Financial Reporting Council for failing to comply with regulations, there are currently no punishments for public bodies that fail to meet requirements.

It said there should be interventions for audited bodies that show “significant failures in financial reporting and an unwillingness to improve”.

In its evidence the firm blamed a lack of council funding to bolster finance teams for a reduction in the quality of reporting, causing further delays.

“Unfortunately, the quality of too many financial statements and working papers are not adequate,” Grant Thornton said.

“Improvement in accounts preparation, and recruitment and investment in finance teams is essential if local government is to prepare consistently high-quality draft accounts and respond to the challenges presented by an enhanced audit regime.”

In December, local audit procurement body Public Sector Audit Appointments revealed that only 12% of local government audits for 2021-22 were completed by the 30 November deadline.

PSAA said that 630 opinions were outstanding from both 2021-22 and previous years, and the level of opinions completed on time has declined significantly from 45% in 2019-20.

Read the full report here

committees.parliament.uk/writtenevidence/118580/pdf/

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DLUHC proposals to clear audit backlog

A range of proposals and actions to address the backlog of local audits in England has been set out by the Department for Levelling Up, Housing and Communities (DLUHC).

These include setting statutory deadlines and issuing qualifications and disclaimers of opinion in the short term.

The proposals have been agreed in principle with key partners across the local audit system, DLUHC said. The National Audit Office (NAO) is considering whether to develop a replacement Code of Audit Practice to give effect to the changes, the department added.

In addition, DLUHC is considering whether legislative change is needed to set new statutory deadlines for local bodies to publish accounts to mirror the proposed changes to the Code of Audit Practice.

Legislative change may also be needed to address any knock-on effects of the proposals which may impact the audit of opening balances within the accounts for future years, the department said.

Under these proposals, section 151 officers will be expected to work with Audit Committee members (or equivalent) to approve the final accounts by the statutory deadline in order for the audit opinion to be issued at the same time.

Read the full proposal here

committees.parliament.uk/publications/40932/documents/199432/default/

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Call for sanctions for late accounts amid fears of 'more Wokings - public accounts committee (PAC)

The Commons' public accounts committee (PAC) published a report, Timeliness of local auditor reporting, which highlights problems caused by the delays to local audit.

Just 12% of local government bodies received their audit opinions in time to publish their 2021-22 accounts by the extended deadline. The committee warned that the problem is likely to get worse before it gets better.

The report points out that there are no sanctions for failing to produce accounts on time, for either auditors or councils.

The PAC and others have been concerned about the implications of audit delays and Sir Geoffrey Clifton-Brown said cases like that of Thurrock Council and Woking Borough Council demonstrate why this issue needs to be addressed. Both councils had years of unaudited accounts when they declared themselves effectively bankrupt due to excessive levels of debt.

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LGPS valuation gives 'cause for optimism' – Hymans Robertson

Many Local Government Pension Schemes are in a stronger position than three years ago to meet future member benefits, pension advisors have said following the most recent valuations.

Despite market instability brought on by Covid-19 and exacerbated by Russia's invasion of Ukraine, the overall funding level rose to 107% of past service in March 2022, compared to 98.5% in 2019, Hymans Robertson said in a report.

Analysts reviewed the triennial valuations of 73 of the 86 LGPS funds, and said that on average fund asset values rose by 27.5% up to March 2022.

Hymans Robertson said the better-than-expected funding outlook has prompted a reduction in employer contributions, from 21.9% of pay in 2019 to 20.8% in 2022.

Robert Bilton, head of LGPS valuations at Hymans Robertson, said: "Our analysis gives cause for optimism that the outlook for the long-term funding sustainability of the LGPS is robust, not least due to the hard work that has taken place across all funds over the last decade and longer.

"While the good news is welcome, the hard work doesn't stop, and it is important that funds use the next two years to continue to systematically review their risks to keep them in the best place possible ahead of the valuations in 2025."

The report said funding levels rose by the most for schemes that were already better-funded in 2019, but balances increased "across the board" in all funds that were reviewed.

Researchers said higher asset values mean funds will only need to deliver real investment returns of about 1.5% per year over the next 20 years to ensure they are fully funded.

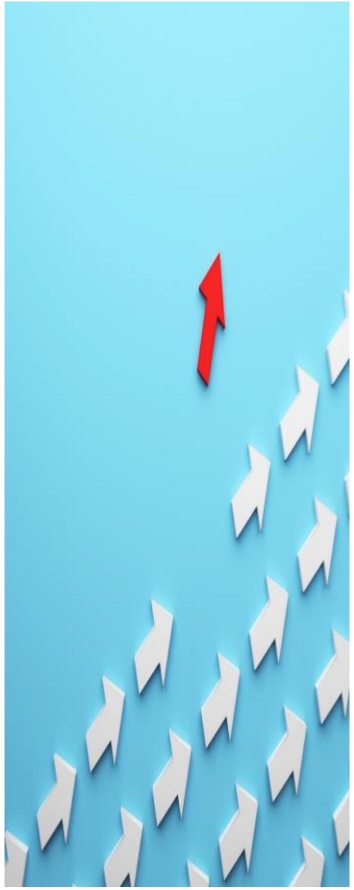
Hymans said it expects more than three-quarter (77%) of funds to be able meet the annual level of investment returns by 2040.

"This is a very positive funding position for the LGPS, Considering that, not so long ago, the Scheme Advisory Board had set up a 'deficit working group' and the significant market events that the LGPS has had to navigate in recent years."

"Being in such a strong position is a testament to the diligent and hard work of administering authorities over the last decade."

Read the full report here

LGPS_2022_Valuation_-_the_big_picture.pdf (hymans.co.uk)



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Sustainability reporting in the public sector - CIPFA

CIPFA said, 'Sustainability reporting in the public sector is in its infancy, and there is an evolutionary journey to be embarked upon – sooner rather than later.'

Sustainability reporting is the recording and disclosure of an organisation's environmental impact caused by its activities. It has been widely adopted in the private sector, but in the public sector it is not the same story.

Having a clear understanding of the overall carbon footprint of the public sector is vital if we are to tackle climate change, find solutions and encourage sustainable development, said CIPFA.

CIPFA report states, 'the answers and positive steps to addressing the most pressing challenges around public sector sustainability questions. The current patchwork of public sector sustainability reporting frameworks are inconsistent and confusing. The report draws on already existing standards and frameworks that are relevant and useful to the public sector, rather than trying to reinvent the wheel.'

Alignment to financial reporting

The report recommends an approach that aligns sustainability reporting with the wider practice of financial reporting. The four key areas in this approach are governance, the management approach, performance and targets, and strategy. 'Public sector sustainability reporting: time to step it up' provides public finance professionals with a good understanding of what information needs to be disclosed and the process in producing a high quality report.

Read the full report from CIPFA here

Sustainability Reporting (cipfa.org)

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Audit Committee 19th March 2024

Title	Spelthorne response to the consultation on external audit arrangements
Purpose of the report	To note
Report Author	Terry Collier, Deputy Chief Executive
Ward(s) Affected	All Wards
Exempt	No
Exemption Reason	N/A
Corporate Priority	All
Recommendations	To note the Government consultation on 1) reset 2) recovery of national arrangements for external audit of local government ans 3) longer term reform of external audit recommendations
Reason for Recommendation	As a Council we have a legal responsibility to comply with the Audit Regulations, and we want to receive external audit assurance

1. Summary of the report

What is the situation	Why we want to do something
• Nationally more than 900 local authority Statements of Accounts are overdue external audit sign off • Government is proposing to “reset” by setting deadline of 30th September 2024 for Auditors to issue opinions or disclaimers on overdue audits • Due to the length of time the previous external auditors took to sign off Spelthorne’s backlog Spelthorne has 5 sets of draft accounts awaiting audit review	Good effective financial management and ownership therefore of underpins everything the Council is seeking to deliver

•	
This is what we want to do about it	**These are the next steps**
• Submit our own response to the Consultation • Encourage existing and incoming auditors to work with us	• Note the response, which has been discussed with Chair and Vice Chair of Audit Committee, submitted to the consultation process • Prepare to receive in September Audit opinions/disclaimers on the audits for accounts for the period 2018-19 to 2022-23 • Prepare to receive in September a single aggregated Value for Money opinion from the external auditors covering the period 2018-19 to 2022-23

1.1 Local audit is both a vital and independent source of assurance and a key element of the checks and balances within the local accountability framework. A significant number of local audits in England are outstanding. The government, working with the Financial Reporting Council (FRC) and other system partners, is taking steps to clear the backlog and put the system on a sustainable footing moving forward.

1.2 On 8th February, the Local Government Minister Simon Hoare MP issued a letter to local authorities and published with a Joint Statement (Appendix A) agreed with The Statement included commitments by the Department for Levelling Up, Housing and Communities (DLUHC), the Financial Reporting Council (FRC), the National Audit Office (NAO), the Chartered Institute of Public Finance and Accountancy (CIPFA), the Institute of Chartered Accountants in England and Wales (ICAEW) and Public Sector Audit Appointments (PSAA). The Joint Statement proposes that there will be 3 stages to tackling the national external audit issues. The 3 elements are:

- **Phase 1: Reset** involving clearing the backlog of historical audit opinions up to and including financial year 2022/23 by 30 September 2024

- **Phase 2: Recovery** from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles

- **Phase 3: Reform** involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit

2. Key issues

2.1 Phase 1: Reset

2.2 There was to be a consultation by the National Audit Office (NAO) on the clearing backlog proposals running from 8 February 2024 to 7 March 2024. Covers both clearing backlog upto 22-23 and recovery period for Financial Years 2023/2024 - 2027/2028. As part of the consultation a number of webinars and workshops were being run with the Chief Finance Officer and colleagues attending these sessions. These sessions then, along with comments from the Chair, Vice Chair and Independent member informed the response to the consultation- see Appendix B.

2.3 The Consultation confirms that the intention is that nationally across England that clearance deadline for all audited accounts upto and including 20222-23 will be 30th September 2024. Auditors will be required to issue their opinions by this date. Opinions will include modified opinions or disclaimers. See Appendix C – Explainer – Modified Opinions.

2.4 The NAO's consultation proposes that the Code of Audit Practice would introduce exemptions from the proposed statutory deadline for auditors in certain circumstances. These would include, for example, if the auditor is unable to issue their opinion where there are outstanding objections to the accounts that could be material to that opinion.

2.5 Under these proposals, the published, audited accounts must also be approved in accordance with regulation 9(2) and therefore the approval must be given before the backstop date (Committee Services we will need to look to ensure that we have an Audit Committee in late September

2.6 Regulation 20 of the 2015 Regulations places a duty on Category 1 authorities to consider and then publish any audit letter received from the auditor "following completion of an audit."The NAO's Code of Audit Practice currently specifies that an auditor's annual report meets the definition of an 'audit letter' in the 2015 Regulations. The 2020 Code of Audit Practice states that an auditor's annual report brings together all of the auditor's work over the year. This should be presented at an appropriate forum at the body (e.g. Audit Committee or Full Council) and be made available on the authority's website.

Value for Money Opinion

2.7 A core element of the auditor's annual report is a commentary on the organisation's arrangements to secure value for money through the economic, efficient and effective use of its resources. The commentary should be clear, readily understandable and highlight any issues that the auditor wishes to draw to the attention of the body or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

Phase 2: 'Backstop' proposals for the recovery period, financial years 2023/2024 to 2027/28

2.8 The proposed changes to the 2015 Regulations would require (subject to consideration of potential exceptions) authorities to publish audited accounts by the following dates for financial years 2023/2024 to 2027/2028:

- 2023/24: 31 May 2025 – this will therefore be the deadline for Grant Thornton's first audit

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

2.9 Taking from above that once we reach the end of the recovery period the ongoing position will be for audited accounts to be published by end of November ie returning to the deadlines we used to have before they were brought forward. The recent backlog issues have, resulted in both delays (as Spelthorne experienced with KPMG) to this public reporting and much less predictability in terms of when the auditors' letters would be published.

2.10 Under the proposed changes to the NAO's Code of Audit Practice, aimed at helping with clearing the backlog of local audit opinions and restoring more timely reporting of auditors' work on arrangements to secure value for money, the NAO plans to consult on a fixed annual deadline of 30 November for production and subsequent publication of the auditor's annual report.

2.11 A fixed cycle may mean that, due to the proposed deadlines for publication of audited accounts for financial years 2023/2024 to 2027/2028, the auditor would issue their annual report before they have completed all of their work. However, it is hoped that these changes will enable the auditor to report the outcome of the majority of their work on financial sustainability and governance in a more timely and predictable way.

Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit

2.12 Further, longer term work is required to address the systemic challenges that have led to the current local audit backlog and ensure that backlogs do not in future start to build up again. All parties to the Cross-System Statement have stated that they are committed to continue work to ensure that financial reporting, auditing and regulatory requirements are proportionate and based on a common understanding of the purposes of local audit and reporting.

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

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

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

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

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

3. Options analysis and proposal

3.1 To note the report, the Council's response to the consultation which reflects comments from members of the Committee and agree an approach to working with the current external auditors. The deadline for responses to the consultation was 7th March so it was not possible to discuss responses at this Committee meeting.

4. Financial management comments

4.1 Addressing the national backlog issues are fundamental to providing assurance to stakeholders, including councillors and residents, as to the soundness of local authority financial management arrangements.

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5. Risk management comments

5.1 As touched on in the consultation response, there is a risk of reputational damage if disclaimers are issued because external auditors have not had time to do audit work on opinions ahead of the backlog cut off. It is for this reason that it will be important that clear guidance is issued nationally to auditors to explain the reasons why disclaimers have been issued.

6. Procurement comments

7.1 None

7. Legal comments

8.1 As a council we have a statutory responsibility to comply with the Audit Regulations.

8. Other considerations

8.1 Need to be mindful of the resourcing impact over the next twelve months on finance team and other teams of interacting with BDO on multi-year Value for

Money Audit opinion and liaising during the same period with Grant Thornton as they audit the draft 2023-24 Statement of Accounts.

9. Equality and Diversity

9.1 There are no equality and diversity implications.

10. Sustainability/Climate Change Implications

10.1

11. Timetable for implementation

11.1 Ongoing

12. Contact

Terry Collier , Deputy Chief Executive

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Background papers: There are none.

Appendices:
Appendix A – Minister's Letter
Appendix B – Response to the NAO Consultation
Appendix C – Local Audit Modified Opinions

Department for Levelling Up, Housing & Communities

Simon Hoare MP
Minister for Local Government
2 Marsham Street
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SW1P 4DF

To All Chief Executives, Chief Financial Officers, Local Authority Leaders and Local Audit Firm Partners

8 February 2024

Dear Colleagues,

Local Audit Consultation

I am delighted that today the Government is launching a consultation and Joint Statement, progressing the commitments made by the previous Minister for Local Government to work with the Financial Reporting Council (FRC), and other organisations in the local audit system on cross-system proposals to clear the backlog and put the local audit system on a sustainable footing.

Local audit is both a vital and independent source of assurance and a key element of the checks and balances within the local accountability framework. A significant number of local audits in England are outstanding. The issues facing local audit are widely recognised as multi-faceted and complex. Delays are to an extent affecting Scotland and Wales as well as England. They also impact different sectors, not just local government. It is widely recognised that many organisations in the local audit system have contributed to the delays experienced since 2017/2018 and that audits have become more challenging, with firms responding to a changing regulatory environment. In addition, pressures on the system were compounded during the COVID-19 pandemic and by an aging workforce.

The consultation seeks views on proposed legislative changes to the Accounts and Audit Regulations 2015 (the 2015 Regulations). We have published a draft statutory instrument alongside the consultation which covers the core elements of the proposed amendments. These, along with the Joint Statement are available at www.gov.uk/government/consultations/addressing-the-local-audit-backlog-in-england-consultation.

These cross-system proposals have been developed and agreed by the Department for Levelling-Up Housing and Communities (DLUHC), the FRC, the National Audit Office (NAO), the Chartered Institute of Public Finance and Accountancy (CIPFA), the Institute of Chartered Accountants in England and Wales (ICAEW), and Public Sector Audit Appointments (PSAA).

These are not proposals we take lightly, but these are exceptional times. Key organisations across the local audit system, including the Government, share the conviction that bold steps are necessary to reset the system.

The Joint Statement provides vital context, and explains the package of measures and how the various elements are intended to interact and explains that the wider package of measures consists of three stages:

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

The consultation itself covers questions on:

- Phase 1: 'Backstop' Proposals for Financial Years 2015/2016 to 2022/2023 and
- Phase 2: 'Backstop' Proposals for the Recovery Period, Financial Years 2023/2024 - 2027/2028

This consultation will run for four weeks from 8 February 2024 to 7 March 2024. This is an open consultation, and we welcome the views of any individual or entity interested in the proposals, including all Category 1 authorities and their Section 151 officers, audit firms, and other organisations which form part of the local audit framework. You can respond to this call for evidence through our online consultation platform Citizen Space: https://consult.levellingup.gov.uk/local-audit-and-conduct/addressing-the-local-audit-backlog-in-england .

The NAO is also consulting in parallel to this consultation, on related changes to the Code of Audit Practice. A link to the NAO consultation can be found here: www.nao.org.uk/code-of-audit-practice-consultation. Further detail on the NAO's proposals can also be found in the Joint Statement. The CIPFA LASAAC Board will be consulting shortly on related changes to the Code of Practice for Local Authority Accounting.

While I recognise the challenges there have been I would like to encourage you to continue undertaking existing work to produce and audit local authority financial statements while the consultations take place. Any slowdown in activity would lead to further issues in the future and, ahead of the first proposed backstop date. Please do continue to work together to ensure that as many audits can be completed in full as possible.

These proposals are an important step in restoring timely and high-quality financial reporting and audit for local bodies and I am grateful for the hard work and collaboration of system organisations in developing these measures. Please let us know your views so that we can work closely together to refine and implement measures to clear the backlog of local audit opinions, and develop the long-term reforms required to prevent a backlog recurring.

I look forward to seeing your responses.

With all my best wishes,
Yours,
Simon

SIMON HOARE MP
Minister for Local Government

Consultation – Response by Spelthorne Borough Council

Questions

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

Do you have any comments on this issue?

Yes agree we need to cut through the backlog but we have concerns as a council with a backlog of audits where our auditors have not done any work that we will have a set of disclaimers and not full assurance until 2023-24 accounts audit is signed off (ie our incoming auditors for 2023-24 if they have no assurance from the outgoing auditors with respect to the opening balances would have to qualify the 2023-24 Accounts) . It will be really important to have a coordinated approach nationally to explaining the backlog context and what disclaimers and modified opinions mean. It would be really helpful if clear guidance is issued to auditors on the narrative they issue when disclaimers are issued due to the 30th September backlog cut off date rather than to any underlying audit issues. For a Council such as Spelthorne which has had a high profile this is particularly important as there is a risk others may read into disclaimers interpretations which are not justified.

Under normal circumstances Statements of Accounts would be signed off by Audit Committees after hearing from the auditors that they had completed their work and were ready to issue their opinions. the Audit Committees will needs to consider to what extent the proposals will mean that the Councillors and officers will need to make and sign off on statements in relation to the accounts which will not have been subject to the same scrutiny as previous accounts. So we need to ensure that the statements are adapted if necessary and any supporting procedures are in place to support such statements (in the absence of a full audit).

Will there be any national text templates issued to guide auditors as to how to explain disclaimers arising from the backlog cut off?

We would very much welcome additional guidance, being given to councils, chief finance officers, Audit Committee chairs and Audit Committee members to explain what disclaimers mean.

What will be the form and wording of any sign off required by officers and councillors of accounts which effectively have not had any audit work on them and for which disclaimers are being issued?

What influence can PSAA/FRC and councils exert on current auditors to undertake work ahead of 30th September to at least provide some assurance on accounts? We welcome FRC and NAO comments that auditors should continue to make reasonable steps to complete outstanding audits.

We very much welcome the clear comment in paragraph 36 of the Joint Statement that the fees actually paid will be driven by the amount of audit work done. Therefore where an audit firm has substantially done no audit work on 2022-23 other than on VFM and issued a disclaimer, we would expect to pay minimal fees other than for the work relating to the VFM opinion.

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

Do you have any comments on this issue?

Yes

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

Please explain your response.

Yes

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

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

No

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

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

Phase 2: ‘Backstop’ proposals for the recovery period, financial years 2023/2024 to 2027/2028

The proposed changes to the 2015 Regulations would require (subject to consideration of potential exceptions – see below) Category 1 authorities to publish audited accounts by the following dates for financial years 2023/2024 to 2027/2028:

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

As per the Phase 1 backstop proposals, the NAO is proposing that the Code of Audit Practice would require auditors (unless specific circumstances apply) to issue their opinion in time for the authority to publish its accounts by the specified dates.

As per the Phase 1 backstop proposals, we propose to disapply regulation 10(2), which requires authorities to publish a delay notice if the audit of accounts has not been concluded before the date specified.

Also to maintain consistency with the proposals for phase 1, the NAO's consultation proposes that the Code of Audit Practice would introduce exemptions from the proposed statutory deadlines for auditors in certain circumstances. These would include, for example, if the auditor is unable to issue their opinion where there are outstanding objections to the accounts that could be material to that opinion.

Where there is an outstanding objection of this nature, we consider it may be desirable to create an equivalent exemption for Category 1 authorities. This consultation also seeks views on other exceptional circumstances in which Category 1 authorities might be exempted from the backstop dates for this period.

Our intention is to publish a list of local bodies and audit firms which meet statutory deadlines for the publication of audited accounts and those which do not, making it clear any instances where unaudited accounts had also not been published by the required date.

Questions 10 and 11 below seek views on whether, in light of the proposed deadlines for the publication of audited accounts, the existing 31 May deadline for the publication of unaudited accounts (see regulation 15(1)(a)) remains appropriate for financial years 2024/2025 to 2027/2028. (Note that the deadline of 31 May 2024 for the publication of unaudited accounts for the current financial year is not under consideration.)

Under these proposals, the existing requirements in the 2015 regulations relating to public inspection periods would continue to apply in their current form (see 'Part 5' of the Regulations).

Under these proposals, the published, audited accounts must also be approved in accordance with regulation 9(2) and therefore the approval must be given before the backstop date.

Further context on these aspects of the proposals can be found in the Joint Statement (especially paragraphs 15 to 46), as well as the draft regulations (PDF, 179 KB).

Questions

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

- 2023/24: 31 May 2025
- 2024/25: 31 March 2026
- 2025/26: 31 January 2027

- 2026/27: 30 November 2027
- 2027/28: 30 November 2028

Do you have any comments on these dates?

Comfortable with these date from a local authority accounting perspective, but will the audit firms have the resourcing and capacity to meet these dates?

One practical comment with respect to the first backstop of 31 May- this will also be the same date for the publication of the draft 2024-25 Statement of Accounts, this could create pressures for finance teams if they are trying to finalise the 2024-25 draft accounts at the same time as liaising with external auditors' final queries on 23-24 audit opinions. This would suggest audit firms and finance teams will need to work together to aim to get the 2023-24 opinions agreed earlier by say January 2025.

For this catching up period to work, the sector in parallel need to address the systemic issues around the complexity of the accounts, and the supply of fresh professionals to the audit and local government finance professions.

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

Please explain your response.

Yes

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

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

No

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

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

No

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

Please explain your response.

No, would setting a deadline of 30th June initially for 2024-25 and 2025-26 and then moving to 31st May. A number of authorities (not us) in recent years have ceased to deliver draft accounts by 31st May and it will take time to get back to a position where all authorities are able to do

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

Please explain your response.

As above would suggest 30th June 2025

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

As the question highlights the first deadline in the reset period could be particularly challenging for councils and audit firms where the audit firm has inherited a disclaimer for 2022-23 and possibly earlier years, as the audit firm will then need to more work on the prior year balances etc for 2023-24 which will also put pressure on the council finance team resources. Would therefore suggest extending slightly the deadline for audit opinion for 2024-25

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Appendix C

Restoring timely, high-quality financial reporting and audit of local bodies

FRC

Q.

What is being proposed in the Joint Statement?

To clear the backlog of historic accounts, the Department for Levelling Up, Housing and Communities is consulting on proposals to legislate for a statutory backstop date of 30 September 2024 for local bodies to publish outstanding audited accounts. There will also be a series of dates covering the financial years 2023/24 to 2027/28 as part of a process of rebuilding assurance over time, reducing the risk of a new backlog being created.

The duty for local bodies to publish a delay notice where the audit has not been concluded by the existing deadline will also be withdrawn.

The National Audit Office is also consulting on changes to the Code of Audit Practice which will require auditors of local bodies to comply with these statutory backstop dates by giving their opinions in time for audited accounts to be published.

A.

Q.

How will this impact local bodies' financial reports?

Introducing statutory backstop dates may lead to auditors providing a modified or disclaimed opinion on a local body's financial reports if they do not have enough time to complete all audit work before that date.

A.

Q.

What is a modified or disclaimed audit opinion?

Under International Standards on Auditing (UK), auditors have the objectives of obtaining reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and issuing a report that includes their opinion.

Where auditors are able to obtain this assurance, through obtaining sufficient, appropriate audit evidence during the audit, they would issue an unmodified 'clean' audit opinion.

Where auditors are unable to obtain this assurance, under International Standards on Auditing (UK) they must 'modify' or 'disclaim' their audit opinion.

A.

Q. Why is this important to local bodies?

Timely, high-quality financial reporting and audit of local bodies is a vital part of our democratic system. The backlog in the publication of audited accounts – alongside the issuing of Section 114 notices by a small number of local authorities in recent years – has increased interest in the financial reporting of these bodies.

The FRC and other system partners recognises the risk that a local body being issued with a modified or disclaimed audit opinion could be interpreted as a sign of significant financial or management issues without taking into account the extraordinary circumstances facing the sector and the nature of the measures being proposed.

The Joint Statement underlined the importance of local bodies, residents and other stakeholders such as commentators being able to distinguish between modified and disclaimed audit opinions caused by the introduction of backstop dates and those that indicate significant financial reporting or financial management issues.

A.

Q. Will it be clear where the backstop dates affect an audit opinion?

The FRC will be working with system partners to issue guidance reminding auditors of their responsibility under International Standards on Auditing (UK) to clearly communicate the reason for the opinion they provide. This includes indicating in their report where they had insufficient time to gain appropriate audit evidence owing to the requirement to meet the statutory backstop date introduced by the Government, rather than any other pervasive concerns about the local body's financial statements.

A.

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Audit Committee 19th March 2024

SPELTHORNE BOROUGH COUNCIL

Title	Updated Review of Self Assessment against Chartered Institute of Public Finance and Accountancy (CIPFA) Financial Management Code and assessment against Best Value indicators for Use of Resources
Purpose of the report	To note
Report Author	Terry Collier, Deputy Chief Executive
Ward(s) Affected	All Wards
Exempt	No
Exemption Reason	N/A
Corporate Priority	All
Recommendations	To note the refreshed self-assessment against the CIPFA Financial Management Code To note the self-assessment against the DLUHC Best Value Theme for Use of Resources
Reason for Recommendation	Good effective financial management and use of resources and ownership therefore of underpins everything the Council is seeking to deliver

1. Summary of the report

What is the situation	Why we want to do something
• CIPFA issued the Financial Management Code in 2019 and it came into effect in 2022-23 • Committee last reviewed the Self-Assessment against the Code in November 2021. • Department for Levelling Up, Housing and Communities issued new Best Value guidance in July 2023	Good effective financial management and use of resources and ownership therefore of underpins everything the Council is seeking to deliver

This is what we want to do about it	These are the next steps
• Review the refreshed Self-Assessment against the FM Code • Review the new Self-Assessment against the Best Value Use of Resources Theme	• Committee to critically review the Self-Assessment and make comments and suggestions as to any areas of amendment or further focus.

1.1 An initial Self-Assessment against the Code was reported to the Audit Committee in November 2020, a subsequent refreshed assessment was considered in November 2021.

1.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) as part of a number of measures it put in place in response to concerns (even before COVID-19) around financial resilience of Councils introduced a new Financial Management Code (FM Code), see Appendix 1. The FM Code came into effect from April 2020, in recognition of the pressures facing local authorities, full implementation was delayed until 2022-23. This allowed authorities a shadow year to work towards full implementation

1.3 On the eve of COVID-19 lockdown in February 2020 officers and Cabinet members invited CIPFA to the Council Officers to do a workshop on the requirements of the new code.

1.4 The Code focuses on Value for Money, Governance and financial management styles, financial resilience and financial sustainability. The Code identifies the risks to financial sustainability and introduces an over arching framework of assurance which builds on existing financial management good practice. The Code is a principles based approach, rather than prescriptive setting out six principles

- Leadership
- Accountability
- Transparency
- Standards
- Assurance
- Sustainability

Each of these principles is supported by a set of guidance standards against which Councils should be assessed.

1..11 In turn the Code is structured around 7 areas of focus:

- The Responsibilities of the Chief finance officer and Leadership Team – by "Leadership Team" CIPFA mean both senior managers and senior councillors
- Governance and Financial Management Style
- Long to Medium Term Financial Management
- The Annual Budget
- Stakeholder Engagement and Business Plans

- Monitoring Financial Performance
- External Financial Reporting

Each of these areas are supported by standards against which councils should be assessed.

1.5 Appendix 1 is an updated Self-Assessment against the principles set out by the Financial Management Code.

1.6 In July 2023 the Department for Levelling Up Housing and Communities (DLUHC) issued a refreshed set of Best Value Guidance including a set of 7 themes, one of which is on Use of Resources (Theme 5), see Appendix 3. From speaking to colleagues across the sector, we feel it would help improve our focus and insights. Therefore we have completed an initial self-assessment which is attached as Appendix 4.

2. Key issues

2.1 Given that it is a while since we reviewed the Self-Assessment, and given the challenges and pressures we are facing, it is timely to refresh the Self-Assessment.

3. Options analysis and proposal

3.1 Option 1 to accept the two self-assessments as set out.

3.2 Option 2 Committee to make suggestions as to areas for further focus.

4. Financial management comments

4.1 The Financial Management code is designed to encourage and support more effectively financial management across organisations.Similarly the Use of Resources Best Value guidance is designed to ensure effective use of resources including financial resources.

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5. Risk management comments

5.1 A key aspect of good financial management and use of resources is effective risk management. This is addressed in the two assessments.

6. Procurement comments

7.1 None

7. Legal comments

8. Other considerations

8.1 When the Council first implemented the FM Code, following a workshop session with CIPFA we then used a Financial Peer Challenge review as an opportunity to obtain an independent external assessment to obtain some reassurance. Whilst we are not due a Financial Peer Challenge review we will explore options for collaborating with other parties to obtain external feedback. One option we will discuss with Mole Valley and our external auditors is an exercise Grant Thorntons did for Mole Valley on the FM Code.

9. Equality and Diversity

9.1 There are no equality and diversity implications.

10. Sustainability/Climate Change Implications

10.1 None

11. Timetable for implementation

11.1 Ongoing

12. Contact

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Background papers: There are none*.*

Appendices:
Appendix A – CIPFA Financial Management Code
Appendix B – Self Assessment
Appendix C- Best Value Standards and Intervention – Guidance
Appendix D - Assessment against Use of Resources Best Value Theme
Appendix E - Assessment against Use of Resources Best Value Theme – Risk of Failure

The Chartered Institute of
Public Finance & Accountancy

financial management code

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Published by:

CIPFA \ THE CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY

77 Mansell Street, London E1 8AN

020 7543 5600 \ customerservices@cipfa.org \ www.cipfa.org

© October 2019 CIPFA

ISBN 978 1 84508 524 7

Printed by Rapidity, London.

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Executive summary

The tightening fiscal landscape has placed the finances of local authorities under intense pressure. Where finance in local government works well there is often a common understanding and ownership of issues supported by good financial management.

While organisations have done much to transform services, shape delivery and streamline costs, for these approaches to be successful it is crucial to have good financial management embedded as part of the organisation. Good financial management is an essential element of good governance and longer-term service planning, which are critical in ensuring that local service provision is sustainable.

The Financial Management Code (FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. For the first time the FM Code sets out the standards of financial management for local authorities.

Local government finance in the UK is governed by primary legislation, regulation and professional standards as supported by statutory provision. The general financial management of a local authority, however, has not until now been supported by a professional code. The FM Code has been introduced because the exceptional financial circumstances faced by local authorities have revealed concerns about fundamental weaknesses in financial management, particularly in relation to organisations that may be unable to maintain services in the future. There is much good practice across the sector, but the failures of a small number threatens stakeholders' confidence in local government as a whole. Most importantly, the financial failure of just one local authority is one too many because it brings with it a risk to the services on which local people rely.

This publication has several components. The first is an introduction explaining how the FM Code applies a principles-based approach and how it relates to other statutory and good practice guidance on the subject. This is a good starting point for those new to the FM Code.

This introduction is followed by the CIPFA Statement of Principles of Good Financial Management. These six principles have been developed by CIPFA in collaboration with senior leaders and practitioners who work within or have a stake in good local authority financial management. These principles are the benchmarks against which all financial management should be judged. CIPFA's view is that all financial management practices should comply with these principles.

To enable authorities to test their conformity with the CIPFA Statement of Principles of Good Financial Management, the FM Code translates these principles into financial management standards. These financial management standards will have different practical applications according to the different circumstances of each authority and their use should therefore reflect this. The principle of proportionality is embedded within this code and reflects a non-prescriptive approach.

The purpose of the FM Code itself is to establish the principles in a format that matches the financial management cycle and supports governance in local authorities. A series of financial management standards set out the professional standards needed if a local authority is to meet the minimal standards of financial management acceptable to meet fiduciary duties to taxpayers, customers and lenders. Since these are minimum standards, CIPFA's judgement is that compliance with them is obligatory if a local authority is to meet its statutory responsibility for sound financial administration. Beyond that, CIPFA members must comply with it as one of their professional obligations.

While the statutory local authority budget setting process continues to be on an annual basis, a longer-term perspective is essential if local authorities are to demonstrate their financial sustainability. Short-termism runs counter to both sound financial management and sound governance.

Reflecting on the importance of longer term financial planning, one of the objectives of the FM Code is to support organisations to demonstrate that they have the leadership, capacity and knowledge to be able to plan effectively. This must be balanced against retaining the integrity of the annual budget preparation process when the need to make difficult decisions may threaten its integrity.

CIPFA recognises that local authorities may need additional practical guidance on some aspects of the FM Code. Such 'hands on' guidance will be produced by CIPFA to meet practitioner demand.

Contents

Introduction

The Financial Management Code (FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The FM Code therefore for the first time sets the standards of financial management for local authorities.

One of the strengths of UK local government is its diversity, with authorities having a different organisational culture – even those of the same size and type. It is this that allows a close relationship between local authorities and the communities that they serve. Its style of financial management should reflect, for example, its reliance on local tax income or scope to utilise additional grant or generate trading income. This code is therefore not prescriptive.

The FM Code is based on a series of principles supported by specific standards which are considered necessary to provide the strong foundation to:

- financially manage the short, medium and long-term finances of a local authority
- manage financial resilience to meet unforeseen demands on services
- manage unexpected shocks in their financial circumstances.

The FM Code is consistent with other established CIPFA codes and statements in being based on principles rather than prescription. This code incorporates their existing requirements on local government so as to provide a comprehensive picture of financial management in the authority.

Each local authority (and those bodies designated to apply the FM Code) must demonstrate that the requirements of the code are being satisfied. Demonstrating this compliance with the FM Code is a collective responsibility of elected members, the chief finance officer (CFO) and their professional colleagues in the leadership team. It is for all the senior management team to work with elected members in ensuring compliance with the FM Code and so demonstrate the standard of financial management to be expected of a local authority. In doing this the statutory role of the section 151 officer will not just be recognised but also supported to achieve the combination of leadership roles essential for good financial management.

While CIPFA has provided leadership, the development of the FM Code reflects a recognition that self-regulation by the sector must be the preferred response to the financial management failures that have the potential to damage the reputation of the sector as a whole. The FM Code has sought therefore to rely on the local exercise of professional judgement backed by appropriate reporting. To ensure that self-regulation is successful, compliance with the FM Code cannot rest with the CFO acting alone.

Significantly, the FM Code builds on established CIPFA Prudential and Treasury Management Codes which require local authorities to demonstrate the long-term financial sustainability of their capital expenditure, associated borrowing and investments. The introduction of the Prudential Framework based on the CIPFA codes enabled local authorities to make their own capital finance decisions on matters that had hitherto been subject to central government control. The FM Code should not be considered in isolation and accompanying tools, including the use of objective quantitative measures of financial resilience, should form part of the suite of evidence to demonstrate sound decision making.

The CIPFA Statement of Principles of Good Financial Management

The FM Code applies a principle-based approach. It does not prescribe the financial management processes that local authorities should adopt. Instead, this code requires that a local authority demonstrates that its processes satisfy the principles of good financial management for an authority of its size, responsibilities and circumstances. Good financial management is proportionate to the risks to the authority's financial sustainability posed by the twin pressures of scarce resources and the rising demands on services. The FM Code identifies these risks to financial sustainability and introduces an overarching framework of assurance which builds on existing best practice but for the first time sets explicit standards of financial management. These are minimum standards, which for many in the sector are self-evident. Recent experience in some local authorities suggests, however, that they are by no means universally achieved.

The underlying principles that inform the FM Code have been developed in consultation with senior practitioners from local authorities and associated stakeholders. The principles have been designed to focus on an approach that will assist in determining whether, in applying standards of financial management, a local authority is financially sustainable.

- Organisational **leadership** – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
- **Accountability** – based on medium-term financial planning that drives the annual budget process supported by effective risk management, quality supporting data and whole life costs.
- Financial management is undertaken with **transparency** at its core using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making.
- Adherence to professional **standards** is promoted by the leadership team and is evidenced.
- Sources of **assurance** are recognised as an effective tool mainstreamed into financial management, including political scrutiny and the results of external audit, internal audit and inspection.
- The long-term **sustainability** of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources.

The FM Code has been developed and tested in partnership with a range of different types of local authorities. However, given the diversity of UK local government, it is not possible (or desirable) for the FM Code to anticipate all eventualities. If any doubt arises as to whether or how the FM Code should be applied, then reference should be made to these Principles of Good Financial Management to establish whether the proposed financial management practice is acceptable. A financial management practice that conflicts with one or more of these principles will not be acceptable if not explicitly ruled out by the financial management standards contained in the FM Code.

The applicability and structure of the Financial Management Code

CIPFA's intention is that the Financial Management Code (FM Code) will have the same scope as the *Prudential Code for Capital Finance in Local Authorities* (CIPFA, 2017), which promotes the financial sustainability of local authority capital expenditure and associated borrowing. So, although the FM Code does not have legislative backing, it applies to all local authorities, including police, fire, combined and other authorities, which:

- in England and Wales are defined in legislation for the purposes of Part 1 of the Local Government Act 2003
- in Scotland are defined in legislation for the purposes of Part 7 of the Local Government in Scotland Act 2003, or to the larger bodies (such as integration joint boards) to which Section 10 of this Act applies
- in Northern Ireland are defined in legislation for the purposes of Part 1 of the Local Government Finance Act (Northern Ireland) 2011.

While the FM Code applies to all local authorities, it recognises that some have different structures and legislative frameworks. Where compliance with this code is not possible, adherence to the principles is still considered appropriate.

In addition to its alignment with the *Prudential Code for Capital Finance in Local Authorities* (CIPFA, 2017), the FM Code also has links to the *Treasury Management in the Public Sector Code of Practice and Cross Sectoral Guidance Note* (CIPFA, 2017) and the annual *Code of Practice on Local Authority Accounting in the United Kingdom*. In this way the FM Code supports authorities by re-iterating in one place the key elements of these statutory requirements.

Although it may be expressed differently across the different jurisdictions of the UK, the FM Code is also further supported by statutory requirement, or all local authorities to have sound financial management.

Section 151 of the Local Government Act 1972 requires that every local authority in England and Wales should "... make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs."

Section 95 of the Local Government (Scotland) Act 1973 substantially repeats these words for Scottish authorities.

In Northern Ireland, Section 54 of the Local Government Act (Northern Ireland) 1972 requires that "a council shall make safe and efficient arrangements for the receipt of money paid to it and the issue of money payable by it and those arrangements shall be carried out under the supervision of such officer of the council as the council designates as its chief finance officer."

CIPFA's judgement is that compliance with the FM Code will assist local authorities to demonstrate that they are meeting these important legislative requirements.

In addition to the requirements of primary legislation and associated CIPFA Codes, an authority's prudent and proper financial management is informed by a framework of professional codes of practice and guidance, including:

- the CIPFA *Statements of Professional Practice (SOPP) (including ethics)*
- the CIPFA *Statement of the Role of the Chief Financial Officer*
- the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government*
- the CIFFA *Statement on the Role of the Chief Finance Officer of the Police and Crime Commissioner and the Chief Finance Officer of the Chief Constable*.

CIPFA considers the application of the FM Code to be a professional responsibility of all its members, regardless of their role in the financial management process. More specifically, the FM Code clarifies CIPFA's understanding of how CFOs should satisfy their statutory responsibility for good financial administration. The responsibilities of the CFO are both statutory and professional. Notwithstanding these specific expectations of CIPFA members, the primary purpose of the FM Code is to establish how the CFO – regardless of whether or not they are a CIPFA member – should demonstrate that they are meeting their statutory responsibility for sound financial administration.

The code has clear links to a number of value for money characteristics such as sound governance at a strategic, financial and operational level, sound management of resources and use of review and options appraisal. Where an overriding duty of value for money exists, this serves to give indirect statutory support to important elements of this code.

The manner in which compliance with the FM Code is demonstrated will be proportionate to the circumstances of each local authority. Importantly, however, contextualising the FM Code cannot be done according only to the size of the authority but also according to the complexity and risks in its financial arrangements and service delivery arrangements.

CIPFA considers application of the FM Code to be a collective responsibility of each authority's organisational leadership team.

CIPFA believes that this FM Code merits the type of statutory backing given to some other CIPFA codes and furthermore there is support for this approach within local government and its stakeholders. Equally, however, CIPFA recognises that such backing demands enabling primary legislation that at present has not been identified. CIPFA will continue to work with the jurisdictions of the different parts of the UK to provide statutory backing to the FM Code. At present it is difficult to envisage circumstances in which the absence of statutory backing for the FM Code would provide a reason for non-compliance.

APPLICATION DATE

Local authorities are required to apply the requirements of the FM Code with effect from 1 April 2020. This means that the 2020/21 budget process provides an opportunity for assessment of elements of the FM Code before April 2020 and to provide a platform for good financial management to be demonstrable throughout 2020/21. Local authorities will need to ensure that their governance and financial management style are fit in advance for this purpose. CIPFA has also considered the ambition within this code, the timescale and of course the wider resource challenges facing local authorities. Consequently CIPFA considers that the implementation date of April 2020 should indicate the commencement of a shadow year and that by 31 March 2021, local authorities should be able to demonstrate that they are working towards full implementation of the code. The first full year of compliance with the FM Code will therefore be 2021/22. Earlier adoption is of course encouraged.

It is the duty of each local authority to adhere to the principles of financial management. To enable authorities to test their conformity with the CIPFA Principles of Good Financial Management, the FM Code translates these principles into financial management standards. These financial management standards will have different practical applications according to the different circumstances of each authority.

The structure of the FM Code

The CIPFA financial management standards are presented and explained in Sections 1 to 7 of the FM Code.

Sections 1 and 2 address important contextual factors which need to be addressed in the first instance if sound financial management is to be possible. The first deals with the responsibilities of the CFO and leadership team, the second with the authority's governance and financial management style. From a professional perspective, these factors are the most challenging to codify as they largely concern 'soft skills' and behaviours. Nonetheless, it will be seen that even for these factors, there are recognised standards of best practice that authorities must adopt if their organisational culture is to be favourable for sound financial management. A 'tick box' compliance with these standards alone, however, will not be sufficient if they do not promote the behaviours necessary for good financial management.

The remaining Sections 3 to 7 address the requirements of the financial management cycle, with Section 3 stating the need for a long-term approach to the evaluation of financial sustainability. To make well informed decisions all these elements of the cycle need to be fit for purpose. The development of a high-quality long-term financial strategy will not itself promote financial sustainability if, for example, the authority's annual budget setting process (Section 4), stakeholder engagement and business cases (Section 5) and performance monitoring arrangements (Section 6) are inadequate. The cycle is completed by Section 7, which shows how high-quality financial reporting supports the financial management cycle by ensuring that it rests on sound financial information.

CIPFA's expectation is that authorities will have to comply with all the financial management standards if they are to demonstrate compliance with the FM Code. It is again most important that practitioners recognise that, while compliance with the CIPFA financial management standards is obligatory, the FM Code is not prescriptive about how this is achieved.

In the accompanying guidance notes CIPFA sets out practices that local authorities can adopt to ensure compliance with the FM Code. These practices are not prescribed by the FM Code, but rather offered as a starting point for local authorities needing to raise their approach to financial management to the minimum standard set out in the FM Code. CIPFA may issue support and clarify application of the FM Code. Authorities can develop their own good practice and are encouraged to do so.

As high-level statements, the overarching CIPFA financial management standards apply to the police service. CIPFA recognises, however, that this type of organisation has in some respects different practices from other local authorities. In addition, the creation of bespoke combined authorities means that some flexibility is required in the application of the FM Code for their circumstances. This may be achieved by applying some standards to each of the component bodies and others directly to the combined authority itself. In all cases, when an authority has unique governance arrangements the CIPFA Principles of Financial Management should be used to resolve any doubt about the application of articular financial management standards.

Financial management standards are to be guided by proportionality. It is appropriate for different financial management approaches to apply to high-value/high-risk items that alone may determine the financial sustainability of the organisation as distinct from low-value/low-risk items. In satisfying the demands of the financial management standards it may be appropriate to apply different standard practices according to the scale and risks of each category of income or expenditure. The intention is that authorities demonstrate a rigorous approach to the assessment and mitigation of risk so that financial management expertise is deployed effectively given the circumstances faced by the authority.

Nonetheless, in acknowledging the need for proportionality in applying some aspects of the FM Code, an authority still needs to recognise that when aggregated, a failure to manage individual low-value/low-risk items may still threaten financial sustainability. The FM Code seeks to promote the good financial management of the standard, typical or familiar local authority activities just as much as it promotes the good financial management of the unusual, exceptional and unfamiliar. Essentially, the FM Code recognises that getting the routine business right is crucial for good financial management.

The CIPFA financial management standards

Summary table of CIPFA financial management standards

FM standard reference	CIPFA financial management standards
	Section 1: The responsibilities of the chief finance officer and leadership team
A	The leadership team is able to demonstrate that the services provided by the authority provide value for money.
B	The authority complies with the CIPFA *Statement on the Role of the Chief Finance Officer in Local Government.*
	Section 2: Governance and financial management style
C	The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.
D	The authority applies the CIPFA/SOLACE *Delivering Good Governance in Local Government: Framework* (2016).
E	The financial management style of the authority supports financial sustainability.
	Section 3: Long to medium-term financial management
F	The authority has carried out a credible and transparent financial resilience assessment.
G	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.
H	The authority complies with the CIPFA *Prudential Code for Capital Finance in Local Authorities.*
I	The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.
	Section 4: The annual budget
J	The authority complies with its statutory obligations in respect of the budget setting process.
K	The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.
	Section 5: Stakeholder engagement and business plans
L	The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.
M	The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.
	Section 6: Monitoring financial performance
N	The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.
O	The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.
	Section 7: External financial reporting
P	The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the *Code of Practice on Local Authority Accounting in the United Kingdom.*
Q	The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.

FM Code

Leadership

A. The leadership team is able to demonstrate that the services provided by the authority provide value for money.

B. The authority complies with the CIPFA *Statement on the Role of the Chief Finance Officer in Local Government*.

O. The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.

Accountability

D. The authority applies the CIPFA/SOLACE *Delivering Good Governance in Local Government: Framework* (2016).

P. The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the Code.

Q. The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.

Transparency

L. The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.

M. The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.

Standards

H. The authority complies with the CIPFA *Prudential Code for Capital Finance in Local Authorities*.

J. The authority complies with its statutory obligations in respect of the budget setting process.

K. The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.

Assurance

C. The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.

F. The authority has carried out a credible and transparent financial resilience assessment.

N. The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.

Sustainability

E. The financial management style of the authority supports financial sustainability.

G. The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.

I. The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.

SECTION 1

The responsibilities of the chief finance officer and leadership team

Local authorities in the UK use different democratic models. While the committee and the cabinet system are the most common there are also a number of direct elected mayors in England. Regardless of the model, responsibility for corporate financial sustainability rests with those responsible for making executive decisions with the support of their professional advisors. Elected members need to work effectively with officers and other stakeholders to make difficult decisions and to identify and deliver savings when required.

While the legislative context differs across the different jurisdictions of the UK, all local authorities must deliver value for money. This is an overarching requirement that informs the application of the other financial management standards in the FM Code.

Financial Management Standard A

The leadership team is able to demonstrate that the services provided by the authority provide value for money.

The role of the leadership team

The delivery of value for money will ultimately be dependent on decisions made by elected members. It is for the leadership team to ensure that the authority's governance arrangements and style of financial management promote financial sustainability. It is the elected members who are held to account by local people when a local authority fails, but an important element of collective decision making is to understand the risks and appreciate the different statutory responsibilities of those involved. Good financial management is the responsibility of the whole leadership including the relevant elected members. It is the responsibility of the senior officers within the management team to enact this.

The FM Code follows the practice of the CIPFA *Statement of the Role of the Chief Financial Officer in Local Government* in referring to this collective group of elected member and officers with this collective financial responsibility as the leadership team. In local authorities, therefore, the concept of the 'leadership team' will include executive committees, elected mayors, portfolio holders with delegated powers and other key committees of the authority and senior officers.

In the police service this leadership is provided by police and crime commissioners and chief constables, which operate jointly according to the policing protocol, which requires the maintenance of an efficient force.

The role of the chief finance officer

The statutory of the role of the chief finance officer (CFO) is a distinctive feature of local government in the UK (except in Northern Ireland). This role cannot be performed in isolation and requires the support of the other members of the leadership team.

The leadership team must recognise that while statutory responsibility for the financial management of the authority rests with the CFO, the CFO is reliant on the actions of the leadership team, both collectively and individually as elected members and senior officers. A situation in which the CFO is forced to act in isolation is characteristic of authorities in which financial management has failed and financial sustainability is threatened.

Equally, the CFO must ensure that they fulfil their personal legal and professional responsibilities in the public interest and in recognition of the other statutory service responsibilities of the authority. In the leadership team the CFO must provide timely, relevant and reliable financial advice, in accordance with the law and professional standards.

It is important to appreciate that while the section 151 or similar legislative provisions require the authority to appoint a suitably qualified officer responsible for the proper administration of its affairs, responsibility for proper financial administration still rests ultimately with elected members. The local authority itself has a statutory responsibility for maintaining a system of internal control including the management of risk, an effective internal audit and preparing annual accounts.

CIPFA has issued its *Statement on the Role of the Chief Financial Officer in Local Government*. This statement sets out CIPFA's understanding of the role to support both the CFO and local authorities.

Financial Management Standard B

The authority complies with the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government*.

For the purposes of the FM Code, the CIPFA *Statement on the Role of the Chief Finance Officer of the Police and Crime Commissioner* and the *Chief Finance Officer of the Chief Constable* (2012) should be substituted for references to the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government.*

CIPFA's *Statement on the Role of the Chief Financial Officer in Local Government* describes the roles and responsibilities of the CFO. It sets out how the requirements of legislation and professional standards should be fulfilled by the CFO as they carry out their duties. The statement is designed to assist those carrying out the role to meet its specific responsibilities while at the same time reiterating CIPFA's *Statement of Professional Practice* with which all CIPFA members are required to comply. The statement also requires that if different organisational arrangements are adopted the reasons should be explained publicly in the authority's annual governance statement, together with how they deliver the same impact.

SECTION 2

Governance and financial management style

Without good governance a local authority cannot make the changes necessary for it to remain financially sustainable. As such, financial sustainability must be underpinned by the robust stewardship and accountability to be expected of public bodies. Good governance gains the trust of taxpayers and other funders by giving them confidence that money is being properly spent. Good governance ensures better informed and longer-term decision making and therefore is essential for good financial management.

Good governance

Responsibility for good governance also rests with the leadership team. The team must ensure that there are proper arrangements in place for governance and financial management, including a proper scheme of delegation that ensures that frontline responsibility for internal and financial control starts with those who have management roles. This delegation ensures that those responsible for the delivery of services are also explicitly held responsible for the financial management of the associated expenditure and income. Nonetheless, it is for the leadership team to demonstrate that the authority always meets exacting standards of probity, accountability and demonstrable efficiency in the use of public resources.

The CFO is not the only officer with specific statutory responsibilities for good governance. The head of paid service (in practice the chief executive) is responsible for the proper recruitment and organisation of a local authority's staff. The monitoring officer has the specific duty to ensure that the council, its officers and its elected members maintain the highest standards of conduct in all they do (the legal basis of the head of paid service's role is found in Section 4 of the Local Government and Housing Act 1989 and that of the monitoring officer in Section 5 of the same act).

All parts of the governance structure of an organisation play an important role, but the audit committee is a key component, providing independent assurance over governance, risk and internal control arrangements. It provides a focus on financial management, financial reporting, audit and assurance that supports the leadership team and those with governance responsibilities.

Good governance is evidenced by actions and behaviours as well as formal documentation and processes. The tone and action at the top are critical in this respect, and rest with the leadership team – both senior officers and elected members, as well as the CFO. A successful leadership team has a culture of constructive challenge that excludes an optimism bias in favour of a realism bias and is built on a rigorous examination of goals, underlying assumptions and implementation plans.

The Committee on Standards in Public Life has set out *Seven Principles of Public Life* which it believes should apply to all in the public services (often referred to as the Nolan Principles). The last of the Nolan Principles – that holders of public office should promote and support these principles by leadership and example – is especially relevant to the leadership team.

Financial Management Standard C

The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.

By international standards, local government in the UK is distinguished by high standards of governance. Citizens expect financial accountability, press and parliamentary scrutiny, integrity and the absence of corruption. These expectations are largely met, but local authorities should guard against complacency.

The CIPFA/IFAC *International Framework: Good Governance in the Public Sector* (Annex A to this FM Code) is intended to encourage sustainable service delivery and improved accountability by establishing a benchmark for aspects of good governance in the sector. The application of this international framework in the context of UK local government is reinforced by specific regulatory requirements and sector specific guidance. The CIPFA/SOLACE *Delivering Good Governance in Local Government: Framework* (2016 edition) supports local authorities in developing and maintaining their own codes of governance and to discharge their accountability for the proper conduct of business.

Financial Management Standard D

The authority applies the CIPFA/SOLACE *Delivering Good Governance in Local Government: Framework* (2016).

This CIPFA/SOLACE framework recommends that the review of the effectiveness of the system of internal control that local authorities in England, Wales, Scotland and Northern Ireland are required to undertake by their respective accounts and audit regulations should be reported in an annual governance statement.

Financial management style

The financial management challenges faced by many local authorities are unprecedented in recent history and show no signs of easing. This is significant because it means that different styles of financial management are necessary. Financial sustainability will not be achieved by continuing with the behaviours of the past since these do not meet the demands of the present – or the future, which may be even more challenging. To remain financially sustainable authorities need to develop their financial management capabilities.

Financial Management Standard E

The financial management style of the authority supports financial sustainability.

CIPFA believes that the strength of financial management within an organisation can be assessed by a hierarchy of three 'financial management (FM) styles':

- delivering accountability
- supporting performance
- enabling transformation.

These different styles are used in the CIPFA Financial Management Model to describe the different standards of financial management which may be found in local authorities. They represent a hierarchy in which enabling transformation is only achieved by a financial management style that supports performance and which in turn delivers accountability. Once these basic foundations have been soundly established, authorities need to move up through a hierarchy of financial management styles in response to increasing risk. This is especially important as risks have increased for many local authorities; on the one hand reduced expenditure leaves less margin for error while on the other hand, in seeking to generate new income, local authorities take on unfamiliar risks.

This hierarchy of financial management styles loosely maps onto the now deeply embedded recognition of the necessity for economy, efficiency and effectiveness to achieve value for money. In delivering accountability the finance team ensures that their authorities spend less and so achieve economy. In supporting performance, the finance team works with the authority to spend well by maximising the output from goods or services and so achieves efficiency. Finally, in enabling transformation the finance team supports the effective use of public money.

CIPFA recognises that while the highest standards of financial management should be the expectation, in practice some local authorities are at different stages of development. In these circumstances, compliance with the FM Code may initially be achieved by credible proposals to raise financial standards beyond the basic delivery of accountability.

The first two sections of this code have addressed the pre-conditions that must be satisfied for sound financial management. The following sections turn to the practical operation of the successive stages of the financial management cycle.

SECTION 3

Medium to long-term financial management

While the statutory local authority budget setting process continues to be on an annual basis (see Section 4) a longer-term perspective is essential if local authorities are to demonstrate their financial sustainability. Short-termism runs counter to both sound financial management and sound governance.

CIPFA does not believe however that the time horizon of local authority financial planning is determined by the time horizon of the financial support from central government. The greater the uncertainty about future central government policy then the greater the need to demonstrate the long-term financial resilience of the authority given the risks attached to its core funding.

An authority must ensure that while the formal publication of the medium-term financial plan (MTFP) may only reflect government settlements, it is the responsibility of the leadership of the organisation, including elected members, senior management and the section 151, to have a long-term financial view acknowledging financial pressures.

Authorities with a high level of capital investment and associated external borrowing should adopt a correspondingly long-term approach. The Prudential Code requires that a local authority capital strategy sets out the long-term context in which capital expenditure and investment decisions are made. For example all authorities with PFI, service contracts and other similar contractual arrangements will need to demonstrate their ability to finance these arrangements over the whole period of the contracts. Housing Revenue Account (HRA) business plans in England and Wales are already based on a 30-year time horizon.

Financial resilience and long-term financial strategy

If an authority has not tested and demonstrated its long-term financial resilience then its financial sustainability remains an open question. Authorities must critically evaluate their financial resilience. It is possible that the existing strategy is financially sustainable, but this must still have been tested and demonstrated in a financial resilience assessment.

In this financial resilience assessment the authority must test the sensitivity of its financial sustainability given alternative plausible scenarios for the key drivers of costs, service demands and resources. It will require an analysis of future demand for key services and consideration of alternative options for matching demand to resources. Testing will focus on the key longer-term revenues and expenses and the key risks to which the authority will be exposed.

With an awareness that risks will vary, consideration should be given to tools such as the Financial Resilience Index that may help organisations identify these pressure points. Without such stress testing an authority cannot be regarded as financially sustainable and will be deemed to have failed that test.

Financial Management Standard F

The authority has carried out a credible and transparent financial resilience assessment.

Having carried out the finance resilience assessment, the authority will need to demonstrate how the risks identified have informed a long-term financial strategy. A local authority needs an over-arching strategic vision of how it intends to deliver outputs and achieve outcomes for which it is responsible. This should include a statement that sets out both the vision and the underlying strategy, together with the mix of interventions that the organisation will adopt in delivering services to achieve the intended outcomes. In many cases a basis for this will already exist in a corporate plan.

A key part of the strategy should be a visioning exercise to understand the potential shape of services in the future. It will need to be sufficiently comprehensive to offer a convincing demonstration that the authority has identified a way of achieving financial sustainability. At the same time it needs to provide a relatively fixed point of reference which is subject to periodic review and to revision and fundamental change only when it is no longer fit for purpose.

Financial Management Standard G

The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.

CIPFA is not at present being prescriptive about the time period of this long-term financial strategy. Different authorities will face different levels of political and financial stability which may have become embedded in different management cultures. However, CIPFA would promote ambition and stress the need for a financial strategy that matches the requirement for a strategic approach to service planning. The underlying key demand cost drivers, especially those linked to the age profile of the community, can be foreseen at least in broad terms for a decade and more ahead.

The Prudential Code for Capital Finance in Local Authorities

The statutory requirements of the Prudential Code underpins elements of the long and medium-term financial management considered in this section of the FM Code. While the minimum requirement is for three-year rolling capital and investment plans, *The Prudential Code for Capital Finance in Local Authorities* (2017 edition) stresses that a longer-term approach is necessary to ensure that capital strategy and asset management plans are sustainable.

Financial Management Standard H

The authority complies with the CIPFA *Prudential Code for Capital Finance in Local Authorities.*

One of the requirements of the Prudential Code is a capital strategy. This capital strategy is a fundamental component of good financial management. It should set out how the organisation is currently managing its assets and more importantly its future plans linked to available resources. Balance sheet management in local authorities is about the better management of assets and liabilities to support service delivery and capital strategy. A long-term vision is needed for the configuration of service delivery and investment properties because timely asset disposals and/or investments will be dependent on complex interdependencies.

A long-term vision should also be reflected in any commercial investment activity undertaken by the organisation. Guided by the Prudential Code and relevant guidance on borrowing for acquisitions of commercial properties, a local authority should not put public money and services at risk.

Practical medium-term financial planning

CIPFA does not anticipate that a long-term financial strategy would provide sufficient detail to shape the annual budget setting process. Local authorities will need to translate their long-term financial strategies into a medium-term financial plan (MTFP) for budget setting.

The MTFP is the mechanism or framework by which the annual budget process relates directly to the long-term strategy establishing the financial sustainability of the authority. While not prescriptive about time frame, the MTFP should support financially sustainable decision making.

Importantly, performance against the plan will enable recent success and/or failures in delivering financial objectives to be taken into account in the annual budget process. A symptom of financial stress is the emergence of unanticipated overspends in recent years from the MTFP. While the long-term strategy needs to be a stable point of reference, the MTFP needs to be rolled forward annually to ensure that it reflects the latest detailed information. By taking this approach to medium-term financial planning the annual budget is aligned to longer-term goals.

The MTFP should enable the leadership team to have confidence in its long-term strategy for its financial sustainability. Importantly, financial and operational plans must be demonstratively aligned to the strategy at all levels. Without clear service plans it is impossible to place the forecast within the context of currently agreed policies and their implications for future demand and resources.

Financial Management Standard I

The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.

SECTION 4

The annual budget

One of the objectives of this FM Code is to end the practice by which the annual budget process has often become the focal point if not the limit of local authority financial planning. However the annual budget preparation process needs to be protected at a time when the need to make difficult decisions may threaten its integrity.

Local authorities need to ensure that they are familiar with the legislative requirements of the budget setting process. In times of routine business compliance this is relatively straightforward, but in times of financial stress there may be pressures for delay or obfuscation in budget setting. These difficulties can be acute when council tax setting is reliant on decisions by independent precepting bodies. In these circumstances it is likely that the CFO will need to work closely with the chief executive, monitoring officer and the leadership team to ensure statutory processes and a timetable necessary to set a legal budget are understood. The monitoring officer is the custodian of the constitution, which acts as a safeguard to prevent councillors and officers from getting into legal difficulties in the exercise of their role and uphold and ensure fairness in decision making.

Financial Management Standard J

The authority complies with its statutory obligations in respect of the budget setting process.

The annual report setting out the proposed budget for the coming year is a key document for the authority. It will also demonstrate compliance with CIPFA's Prudential Code (Financial Management Standard H). The best budget plans are those owned and articulated by the whole leadership team and senior managers, not simply the CFO.

Reserves are acknowledged in statute. Local authorities are directed to have regard to the level of reserves when considering their budget requirement. Consequently, reserves are a recognised and intrinsic part of financial planning and budget setting. The assessment of 'adequate' and 'necessary' levels of reserves is a matter for local authorities to determine. It is the responsibility (with statutory backing in England and Wales) of the CFO to advise the local authority on the appropriate level of reserves and the robustness of the estimates.

Financial Management Standard K

The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.

The budget report should include details of the earmarked reserves held, and explain the purpose of each reserve, together with the estimated opening balances for the year, details of planned additions/withdrawals and the estimated closing balances.

A well-managed authority, with a prudent approach to budgeting, should be able to operate with a level of general reserves appropriate for the risks (both internal and external) to which it is exposed. Compliance with the FM Code will give important reassurance that the authority's financial management processes and procedures are able to manage those risks. These should be maintained at a level appropriate for the profile of the authority's cash flow and the prospect of having to meet unexpected events from within its own resources. Even where, as part of their wider role, auditors have to report on an authority's financial position, it is not their responsibility to prescribe the optimum or minimum level of reserves for individual authorities or authorities in general.

The successful execution of the annual budget will depend on both the good governance and internal controls already codified in Section 2 as well as financial monitoring addressed in Section 6.

SECTION 5

Stakeholder engagement and business cases

Financial sustainability requires citizens to understand that resources are not limitless and that decisions have to be made about both the relative priority of different services and the balance between service provision and taxation levels. The leadership team collectively has an important role in reviewing priorities to enable resources to be redirected from areas of lesser priority; it is not possible to rely principally on pro rata cuts to generate the savings necessary for financial sustainability in an era of austerity.

The leadership team needs to challenge not only how services are delivered, but also what is delivered. These decisions must be made with a clear understanding of the statutory requirements and of wider legal implications of any decisions.

Stakeholder engagement

Stakeholder consultation can help to set priorities and reduce the possibility of legal or political challenge late in the change process. Stakeholder consultation helps to encourage community involvement not just in the design of services but in their ongoing delivery. This is especially the case when a local authority adopts an enabling approach to public service delivery which, along with the active involvement of the third sector, may facilitate future reductions in service costs.

Financial Management Standard L

The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.

Business cases

Financial sustainability will be dependent upon difficult and often complex decisions being made. The authority's decisions must be informed by clear business cases based on the application of appropriation option appraisal techniques. Professional accountants can be expected to comply with the IFAC/PAIB Project and Investment Appraisal for Sustainable Value Creation reproduced in Annex B to this FM Code.

Financial Management Standard M

The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.

It is the responsibility of the CFO to ensure that all material decisions are supported by an option appraisal which in its rigour and sophistication is appropriate for the decision being made. It is likely that the authority's documented option appraisal methodology will include a relatively simplistic approach for decisions of low value and/or low risk.

SECTION 6

Performance monitoring

To remain financially sustainable an authority must have timely information on its financial and operational performance so that policy objectives are delivered within budget. Early information about emerging risks to its financial sustainability will allow it to make a carefully considered and therefore effective response.

Financial Management Standard N

The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.

Significant unplanned overspends and/or carrying forward undelivered savings into the following year might be a sign that an authority is not translating its policy decisions into actions. It also creates the conditions for further financial pressures and possible service reductions in subsequent years. However, the warning signs could also be in other non-financial performance measures, such as backlogs and other indications that current resources are not matching the expectations of service users. These trends should inform the decisions taken on the medium and long-term financial planning addressed by Section 3 of this code.

It is a requirement of this code that authorities should more closely monitor the material elements of their balance sheet that may give indications of a departure from financial plans. This is especially important for local authorities with significant commercial asset portfolios. Legislation requires local authorities to maintain adequate accounting records of their assets and liabilities. Regulations also require that the appropriate (chief finance) officer certifies or confirms that the statements of accounts provide a true and fair view of the financial position (ie the amounts in the balance sheet) of the authority at 31 March in the year of account.

Financial Management Standard O

The leadership team monitors the elements of its balance sheet which pose a significant risk to its financial sustainability.

Contingencies and commitments are monitored to identify any items where a balance sheet provision may have crystallised. Key drivers of provisions (eg asset decommissioning decisions, legal claims, reorganisation activities) should be monitored to identify whether an actual or constructive obligation has arisen. Finally, cash flow is managed through application of *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes* (CIPFA, 2017).

SECTION 7

External financial reporting

Taxpayers and citizens have a legitimate stake in understanding how public money has been used in providing the functions and services of the authority. The audited statements of account, which present the authority's financial position and financial performance, play an integral part in demonstrating this to them. The statutory accounts provide a secure base for financial management. They support accountability and thus good financial management by allowing the users of the financial statements and other stakeholders to do the following:

- Discover how much is spent in a year on services and whether this has increased or decreased from previous years.
- Consider the indebtedness of an organisation and how that might impact on future taxpayers.
- Recognise the value and therefore usefulness of the assets that the organisations hold.
- Assess what the future commitments and liabilities are, for example, for pensions or leases, and again how these are likely to impact on future generations and taxpayers.

CIPFA's *Statement on the Role of the Chief Finance Officer in Local Government* sets out the chief finance officer's statutory responsibilities for producing the accounts and maintaining the financial records for those accounts. The CIPFA Statement requires that the statements of account are published on a timely basis to communicate the authority's activities and achievements, its financial position and performance. It also requires certification of the accounts by the chief finance officer. The confirmation that the accounts present a 'true and fair' view is one of the fundamental roles of the statutory chief finance officer. Across the UK the *Code of Practice on Local Authority Accounting in the United Kingdom* produced by the CIPFA/LASAAC Local Authority Code Board establishes proper (accounting) practices under which that 'true and fair' view will need to be confirmed/certified.

Financial Management Standard P

The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the *Code of Practice on Local Authority Accounting in the United Kingdom.*

The statutory and professional frameworks for the production and publication of the accounts underpin their importance and demonstrate that they have a key part to play in accountability to taxpayers and other stakeholders in showing how public money is used. Financial reporting therefore should not take place in a vacuum. The financial statements provide the accountability link between planned performance, resources used and the outcomes – financial and more – that are achieved. The authority, its management and the CFO both in its financial statements and the narrative reports that accompany them must provide the user with the links between the consumption of resources and the value that has been created.

It is key to ensure that the authority and its leadership understand how effectively its resources have been utilised during the year, including a process which explains how material variances from initial and revised budgets to the outturn reported in the financial statements have arisen and been managed. The success of these arrangements will be demonstrated by the ability of the leadership team to make decisions from them. In some circumstances this will lead to a reappraisal of the achievability of the long-term financial strategy and the financial resilience of the authority (see Section 3).

Financial Management Standard Q

The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.

Annex A

IFAC/CIPFA GUIDANCE ON IMPLEMENTING THE PRINCIPLES FOR GOOD GOVERNANCE IN THE PUBLIC SECTOR (EXTRACT)

Principles for good governance in the public sector

Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.

The fundamental function of good governance in the public sector is to ensure that entities achieve their intended outcomes while acting in the public interest at all times.

Acting in the public interest requires:

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.

B. Ensuring openness and comprehensive stakeholder engagement.

In addition to the overarching requirements for acting in the public interest in principles A and B, achieving good governance in the public sector also requires effective arrangements for:

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

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

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

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

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

Annex B

IFAC/PAIB PROJECT AND INVESTMENT APPRAISAL FOR SUSTAINABLE VALUE CREATION

Extract from IFAC website.

Principles in project and investment appraisal

The key principles underlying widely accepted good practice are:

A. When appraising multi-period investments, where expected benefits and costs and related cash inflows and outflows arise over time, the time value of money should be taken into account in the respective period.

B. The time value of money should be represented by the opportunity cost of capital.

C. The discount rate used to calculate the NPV [net present value] in a DCF [discounted cash flow] analysis, should properly reflect the systematic risk of cash flows attributable to the project being appraised, and not the systematic risk of the organisation undertaking the project.

D. A good decision relies on an understanding of the business and should be considered and interpreted in relation to an organisation's strategy and its economic, social, environmental, and competitive position as well as market dynamics.

E. Project cash flows should be estimated incrementally, so that a DCF analysis should only consider expected cash flows that could change if the proposed investment is implemented. The value of an investment depends on all the additional and relevant changes to potential cash inflows and outflows that follow from accepting an investment.

F. All assumptions used in undertaking DCF analysis, and in evaluating proposed investment projects, should be supported by reasoned judgment, particularly where factors are difficult to predict and estimate. Using techniques such as sensitivity analysis to identify key variables and risks helps to reflect worst, most likely and best case scenarios, and therefore can support a reasoned judgment.

G. A post-completion review or audit of an investment decision should include an assessment of the decision making process and the results, benefits, and outcomes of the decision.

H. Capital and revenue reports need to be closely linked so there is an understanding of how each capital scheme is financed, and in particular which require revenue contributions.

Borrowing costs need to be spelt out. Low interest rates are not in themselves a compelling reason to borrow. Capital budgets should be clear about how individual schemes are financed and which ones add pressure to revenue.

Glossary

Accounting standards	Rules set by the International Accounting Standards Boards that set out how transactions are to be shown in an organisation's accounts.
Annual statement of accounts	The statement of accounts presents the authority's transactions on an annual basis as of 31 March of the relevant year of account. The complete set of financial statements in the annual accounts for local authorities comprises: ■ comprehensive income and expenditure statement for the period ■ movement in reserves statement for the period ■ balance sheet as at the end of the period ■ cash flow statement for the period, and ■ notes, comprising significant accounting policies and other explanatory information.
Asset management plan	Asset management plans align the asset portfolio with the needs of the organisation.
Audit committee	A special committee of the council that reviews the financial management and accounts of the council.
Balance sheet	A financial statement presenting a summary of the authority's financial position as of 31 March each year. In its top half it contains the assets and liabilities held or accrued. As local authorities do not have equity shares, the bottom half is comprised of reserves that show the location of the authority's net worth between its usable and unusable reserves.
Capital budget	The money a council plans to spend on investing in new buildings, infrastructure and other equipment.
Capital financing charges	The amount a council has to pay to support its borrowing to pay for the purchase of major assets.
Capital receipt	The money a council receives for selling assets that can only be used to repay debt or for new capital expenditure.
Chief financial officer	The most senior finance person in a council responsible for ensuring the proper financial management of the council.
CIPFA FM Model	The CIPFA FM Model is the tool that helps public service organisations apply their financial resources to achieve their goals.
Code of Practice on Local Authority Accounting in the United Kingdom	A code produced by the CIPFA/LASAAC Local Authority Code Board. It specifies the principles and practices of accounting required to give a 'true and fair' view of the financial position, financial performance and cash flows of a local authority, including the group accounts where a local authority has material interests in subsidiaries, associates or joint ventures. The Local Authority Accounting Code is established as a proper practice by the four relevant administrations across the UK.
Earmarked reserve	Money set aside for future use on a specific area of expenditure. It remains a part of the general reserves of the authority.

Financial management	Financial management encompasses all the activities within an organisation that are concerned with the use of resources and that have a financial impact. CIPFA has defined financial management for public bodies as "the system by which the financial aspects of a public body's business are directed and controlled to support the delivery of the organisation's goals".
General fund balance (also council fund or police fund)	The general fund is the statutory fund into which all the receipts of an authority are required to be paid and out of which all liabilities of the authority are to be met, except to the extent that statutory rules might provide otherwise. The general fund balance therefore summarises the resources that the authority is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the council is required to recover) at the end of the financial year.
Governance	The framework by which a council can gain assurance that it is setting and achieving its objectives and ensuring value for money in the proper way.
Housing Revenue Account (HRA)	An account used to record the income and expenditure related to council housing.
IFAC (International Federation of Accountants)	IFAC is the global organisation for the accountancy profession dedicated to serving the public interest by strengthening the profession and contributing to the development of strong international economies. CIPFA is a member.
Internal audit	An internal review of the organisation's systems to give assurance that they are appropriate and being complied with.
Leadership team	Executive committees, elected mayors, portfolio holders with delegated powers and other key committees of the authority. In the police service this leadership is provided by police and crime commissioners and chief constables.
Non-domestic rates	A tax paid by local businesses to their council.
Public Sector Internal Audit Standards	These standards, which are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF), are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.
Provision	A provision is a present liability whose timing or amount of settlement is uncertain. For example, it may be a charge for liabilities that are known to exist, but have to be estimated.
Prudential Code	A code produced by CIPFA that councils are required to follow when deciding upon their programme for capital expenditure.
Revenue budget	The amount that a council spends on its day-to-day running of services through the financial year.
Ringfencing	A term for the earmarking of money (eg a grant or fund) for one particular purpose, so as to restrict its use to that purpose.
Society of Local Authority Chief Executives (SOLACE)	SOLACE's purpose is to develop the highest standards of leadership in local government and the wider public sector.
Treasury management	CIPFA has adopted the following as its definition of treasury management activities: ■ the management of the organisation's borrowing, investments and cash flows ■ its banking ■ money market and capital market transactions ■ the effective control of the risks associated with those activities ■ the pursuit of optimum performance consistent with those risks.

Treasury Management Code	A professional and statutory code produced by CIPFA that councils are required to follow in managing their treasury management activity.
Treasury management strategy	An annual document approved by full council that sets out how a council will manage its cash and borrowings.

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CIPFA registered with the Charity Commissioners of England and Wales No 231060

Spelthorne Self-Assessment Against FM Code- Review as at March 2024

Financial Management Standard A

The leadership team is able to demonstrate that the services provided by the authority provide value for money.

The Council has invested in a Root and Branch team to work with services to improve the efficiency and effectiveness of services, and particularly to look at how the customer experience can be improved. We have also looked for external support and challenge from IESE to ensure that what we are doing can maximise the effective delivery of services. In February 2020, our Root and Branch team received a national award from IESE.

Just prior to COVID-19 restrictions, the Council was about to commence a transformation programme using digital technologies to create new — or modify existing — business processes, culture, and customer experiences to meet changing business requirements. As part of the medium term financial strategy of ensuring that the Council continues to be financially sustainable, particularly in the context of the expected Fair Funding Review in 2026-27 which is expected to reduce funding the Council receives from Government; the Council is putting renewed focus on transformation, and delivering cashable savings.

The Council has a digital transformation programme underway

Moving forwards, as part of the regular quarterly budget monitoring, councillors will receive reports on progress against delivery of cashable savings targets.

In order to ensure that the Council is maximising value for money from its use of assets, the Council, with some independent support and input, has completed a major refresh of its Asset Management Plan and its Investment Assets Strategy which has been approved by Corporate Policy and Resources Committee and Development Sub-Committee.

Spelthorne has delivered below inflation council tax increases for the past 6 years; the increase for 2024-35 is 2.9%,compared to an inflation rate of 4% as measured by the Consumer Prices Index... Taking into account that some districts and boroughs have parishes, Spelthorne at the borough/parish level has the ??? lowest council tax level in Surrey. Move forward however, the Council will need to protect its council taxbase.

Financial Management Standard B

The authority complies with the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government*.

The S151 officer is a member of the Corporate Management Team, which includes the Chief Executive, Deputy CEs, and Group Heads of services. The post of s151 officer as a member of the senior management team as set out in the Council's Constitution, has access to members and has active involvement in strategic decision-making.

Financial Management Standard C

The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.

Both Corporate Management Team (MAT) and Corporate Policy Resources Committee receive regular monitoring reports (monthly salaries, income and treasury management for MAT; quarterly revenue and capital monitoring for MAT), and on issues relating to the Corporate Risk Register. The Corporate Risk Register is reported to every Audit Committee meeting. These are reviewed by MAT and reported to Corporate Policy and Resources three times per year, and are used to help target resources. Additionally each service committee receives at each meeting a revenue and capital monitoring report for the services within that committee's remit. A Corporate Debt Group meets regularly to review debt collection performance. and has recently refreshed the Corporate Debt Policy which was approved by Corporate Policy and Resources Committee. MAT and members of Corporate Policy and Resources Committee participate in 3 Budget Briefings per year at which budget issues and strategy are discussed. MAT supports the role of Internal Audit, which was strengthened by being moved to Corporate Governance, providing the team with more support from the Group Head. More recently following on from external reviews, and from the departure of a member of the Audit team, the Audit Committee and Council has approved outsourcing the internal audit team to Southern Internal Audit Partnership. This is in order to improve resilience of the internal audit function and give it access to a wider range of specialist skills. MAT critically reviews monitoring reports, seeking clarification from and challenging services (via managers and the finance team), and pursuing actions to mitigate performance issues that arise. MAT seeks to ensure that any new initiatives clearly identify any associated financial implications.

The leadership team seeks to continuously improve the usefulness and effectiveness of financial reporting and monitoring. The Corporate Risk Register has been regularly refined and presented in a more digestible format in response to feedback from Audit Committee. We brought in external support specifically to providing direction in updating the Register in line with modern best practice, with particular focus on those strategic risks limited to no more than ten risk categories) having greatest impact on the delivery of corporate objectives, and to help refresh the Corporate Risk Management Policy. Establishing a Risk Appetite Framework (RAF) is a work in progress and represents an important stage in the Council's risk maturity. .It has been agreed with the Leader that when Finance upgrades from Integra to Centros we will make use of the improved reporting functionality to improve reporting including provision of dashboard report. In parallel, officers, the Chairman of Overview and Scrutiny and the Finance Portfolio holder discussed how we can improve the usefulness of reports going to Overview and Scrutiny Committee. The November 2020 Capital Monitoring reports were expanded to report on multi year schemes cumulative spend and variance, as well as the spend and variance in year. Since Paul Taylor's arrival as Chief Accountant he has refreshed the approach to monitoring and ensured that on capital we are capturing multi-year projects full cumulative costs.

During the COVID-19 crisis, MAT and senior officers have provided weekly virtual meetings to all councillors on the impacts, including financial matters, of COVID-19, and on how the Council has been responding. This has continued beyond the Pandemic with fortnightly briefings on Monday open to all councillors which is then followed up with a written newsletter to councillors MAT has also communicated key issues to management and all staff through regular interactive meetings and briefings during this time.

During the pandemic and initially afterwards a Covid-19 Risk Assessment was periodically monitored and reported to MAT and the Audit Committee, capturing emerging and evolving risk considerations, with more recent focus on the impact of the pandemic and wider issues on the recovery phase. More recently Audit Committee agreed to incorporate these externalities into a single Corporate Risk Register Report.

Financial Management Standard D

The authority applies the CIPFA/SOLACE *Delivering Good Governance in Local Government: Framework* (2016).

As part of the annual process of producing the Annual Governance Statement, officers review our compliance with the Framework, together with the Local Code of Corporate Governance, the role of Audit Committee; and compliance with regulations. The Internal Audit role and function is covered in the AGS including the annual audit opinion of the internal control environment and adequacy of risk management and governance arrangements. Significant issues are set out in the AGS and monitored.

Financial Management Standard E

The financial management style of the authority supports financial sustainability.

The Council invests resources in providing regular financial, risk and audit training for councillors. We provide three Budget Briefings per annum which are open to all councillors and are designed to given an informal opportunity for councillors to be briefed on financial issues and to understand the budget challenges and proposals. Treasury Management training for Councillors was provided by our advisers Arlingclose on 17th January 2024. A local government finance training session was provided for all councillors on 25th January 2024. The Council has provided regular training for members of the Audit Committee to assist them in scrutinising the Council's financial arrangements. This has includes sessions on the role of the Audit Committee, risk management and understanding local authority financial accounts. Ahead of the statutory cut off for outstanding audited Statement of Accounts the Council will arrange a further session on understanding statements of accounts. The Council has put 50 FAQs with respect to its commercial acquisitions on its website these have recently been updated. These explain further the Council's strategy to ensure financial sustainability.

The Council provides regular revenue and budget monitoring reports to Corporate Policy and Resources Committee of the overall Budget and Capital Programme position and to Management Team and individual monitoring reports for the service Committees. The Council has listened to feedback from councillors about the need to make financial reports easier to understand, this was also raised by the LGA Corporate Peer Review, and set up a Members Financial Reporting Working Group. This Group recommended the implementation of a "four square" report summary methodology which has been actioned. We are seeking to make reports more visual. As part of the three year Centros upgrade we are moving towards implementing dashboard reporting for both budget managers and councillors. All councillors receive monthly workflows which enable them to review spend against budget.

We are asking service managers to take more responsibility for their budgets to ensure greater ownership. This includes monthly review meetings between service managers and accountancy, regular review of income, variances and better forecasting by the services. One practical step being implemented currently, on the back of the upgrade of the financial system from Integra to Centros, is rolling out budget monitoring which enables budget managers to directly review, comment and amend projections on the financial system.

The budget setting process involves members at every stage. SBC has a balanced budget for the coming financial year 2024-25 and continues to monitor income and expenditure against it. Moving from a Cabinet and Strong Leader model to a Committee Governance model has required a major rethink of the Budget process. Paul Taylor has brought forward the Budget production process to ensure sufficient time is available for service committees to consider impact of growth and savings relating to their areas. Officers will be working with Committee Chairs as members of Corporate Policy and Resources to have a corporate perspective focusing on how we balance the overall budget as well as supporting the services under their individual committees.

The Budget process has been made more transparent than ever, with detailed budgets provided to each service committee before Christmas. This year we have also provided a "Below the line" budget report with a detailed breakdown of the corporate below the line budgets.

There have been challenges around helping councillors understand the potential impact on the Council's financial sustainability arising from councillors decisions on progressing residential development schemes potentially increasing pressures on the Council's Revenue Budget. This led to the Council in October 2023 making the strategic decision to step back from directly seeking to fund and deliver housing and regeneration schemes on its sites and move to a place shaping/joint venture strategy.

The unanticipated COVID-19 impact has had major impacts on the Council's financial position and is necessitating a change of approach to balancing the budget as a result of the reduction in sales, fees and charges income and increased inflationary pressures. MAT are working with the political leadership to ensure a clear focus on robustly prioritising and justifying any growth bids and to focus on identifying saving bids. Officers are looking to engage with councillors on strategic steers for the options to be pursued to close the Budget gaps over the Outline Budget period.

Managers are encouraged to take ownership of their budget and to be innovative in looking at how they can ensure the financial sustainability of their services. As part of the process of closing the budget gaps over the medium term we are looking to undertake a zero based budgeting exercise across all services as part of the 2024-25 Budget process.

The Independent Living team is working in partnership with Mole Valley District Council continues to explore the use of smart technology and working with health sector partners to lever in additional funding.

The increase in income generation from investment assets supported service delivery and staffing provision rather than the service cuts experienced in previous years and by other councils. However as a result of the impacts of the pandemic we again need to have a strong focus on how we can do things more efficiently and make savings. Additional resource, funded from a slice of the commercial income, had been invested in support services, including the finance team, to ensure that the right skills and aptitudes are in place to help support the organisation in focusing on and delivering financial sustainability and resilience. The finance function was strengthened with new posts in the accountancy and operations teams, along with a new treasury management system.

The Finance team recognises the need to improve further the usefulness of the financial monitoring reports provided to Committees and the interim Chief Accountant is doing some useful work looking to improve monitoring reports.

As the Council has looked through its housing delivery company to provide more affordable and key worker housing for its residents increased focus has been applied on ensuring robust viability analysis of both KGE as a whole and of individual residential developments, with the 50 year viability model covering profit and loss, balance sheet and cashflow being revamped

Financial Management Standard F

The authority has carried out a credible and transparent financial resilience assessment.

The Council invited the LGA in November 2020 to undertake an independent Corporate Finance Peer Review. In November 2022 the Council invited the LGA to undertake a Corporate Peer Challenge review.

The Council is a member of the LGA Improve Benchmarking club which provides regular benchmarking of our reserves and capital health against other authorities. This analysis identified that as at 31 March 2023, as a result of the

Council's building up its sinking funds reserves (balance at that point £37.8m) the Council had the highest ratio of revenue reserves to net revenue Budget of any district or borough council in England.

Across a number of service areas managers have been asked effectively to zero-base budget. For 2023-24 budget zero based budgeting will be applied across the board

As highlighted above a very considerable amount of additional work has been done to improve the viability analysis of KGE and individual residential schemes with a clear focus now on the rental viability. This is to ensure that KGE does not get into a similar position as happened with the Croydon housing delivery company.

We have periodically invited external consultants to undertake critical reviews of our approach to managing risk with respect to our commercial assets. Most recently we commissioned JLL to undertake a critical review which was reported to Development Sub-Committee in February and is referenced in the Corporate Risk Register Report on the Audit Committee March 2024 agenda. Under the Committee system the Council has set up the Development Sub-Committee to consider any viability assessment for developments or acquisitions (including the housing part funded by Local Authority Housing Fund. We have also formalised the Assets Portfolio Working Group which has representatives from Corporate Policy and Resources Committee and Development Sub-Committee which meet fortnightly to review collection performance for rental for commercial and retail assets

Financial Management Standard G

The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.

The Council produces a 4 Year Outline Budget or Medium Term Financial Strategy which is reported to Corporate Policy and Resources Committee every year. For the 2024-25 Budget process, in the context of the risks of funding reductions in 2026-227, with Fair Funding, Business Rates retention/rebasing etc, the Council has sought to take a medium term approach in balancing its budget and in February 2024 (The Council is aware that as a result of the broader impacts of the COVID-19 pandemic, the Cost of Living Crisis, inflationary pressures, and particularly the housing crisis it,like other councils is facing a much more challenging budget position and that it needs to put in place a range of both short and medium term measures to close the gaps and ensure financial sustainability.

For its commercial asset acquisitions, the Council models at least 50 years into the future (the Elmsleigh acquisition modelled on 70 years) in order to identify future needs in capital expenditure to periodically refurbish the assets and to bear the risk of rent free and void periods. The Council's sinking funds methodology is designed to build up funds to cover future liabilities. As at the end of 2023-24, the balance in sinking funds was approximately £38m. The total cash backed reserves as at end of 23-24 were £72m. However during period 2023-24 to 2025-26 the Council is aware that it needs to use a significant amount of the sinking fund reserves to cover dips in the rental income

Financial Management Standard H

The authority complies with the CIPFA *Prudential Code for Capital Finance in Local Authorities.*

The Council works closely with its Treasury Management advisers Arlingclose to ensure that it complies. At key stages in past the Council has obtained Counsel's Advice on interpretation. The Council has all the strategies/policies in place as required. Regular reporting to members on capital expenditure takes place.

Considerable time was invested by the Council in producing a detailed and easy to follow Capital Strategy supplemented by an Executive Summary and additional graphical analysis and colour coding. The Council reports on performance against its prudential indicators in both the half year and outturn treasury management reports.

The Council last made a debt for yield acquisition in 2018 and is now focused on managing effectively its existing investment asset portfolio in line with the Prudential Code and investing in housing delivery, service delivery (particularly the new leisure centre) and regeneration across the Borough

Financial Management Standard I

The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.

See response to Standard G above. There is a close link between the Corporate Plan and the Medium Term Financial Strategy. The Council has reinforced the link between service planning and budget planning, with service plans considered by Committees as the first step in the Budget process

Financial Management Standard J

The authority complies with its statutory obligations in respect of the budget setting process.

The Council sets a balanced budget. The S151 officer has expanded his s25 and s26 sections in the Budget report. The Council consults representatives of the business community on its budget proposals The Council sets a council tax increase within the council tax referendum limits and a properly recorded vote takes place at Council meetings.

Financial Management Standard K

The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.

See Standard J above. This part of the Budget report was significantly expanded for the 2020-21 Budget process. In the context of COVID-19 was expanded further for 2021-22, and has been continually refined since. The Council continues to monitor very carefully the adequacy of its sinking fund reserves. Benchmarking suggested Spelthorne had the highest ratio of unallocated revenue reserves to net Budget of any district or borough council in the country. This has arisen as a result of the strategy of building up our sinking fund reserves (currently £38m)

Financial Management Standard L

The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.

Officers engage with and work closely with councillors on the long term financial strategy, plan and budget. Officers have brought forward proposals in the past for budget consultation with residents. Under the Committee governance model officers work with the Chairs (who are appointed on a party proportional basis) to ensure all groups and all committees understand the financial position.

For the 2024-25 Budget process, additional time is being built into the budget, to allow for the individual service committees to scrutinise their growth and savings proposals

Financial Management Standard M

The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.

The Council has a developed project management methodology designed to ensure that projects achieve deliverables on time and within budget. The Council has a thorough evaluation methodology for evaluation of asset acquisitions and this includes evaluation of financial robustness of tenants. The methodology for asset development projects has been strengthened by the creation of the Development Sub-Committee which reviews and signs off gateway stages. Asset projects now commence with a term sheet to make clear the key assumptions and anticipated deliverables.

The Council receives regular benchmarking information on its investment performance from its Treasury Management advisers.

The Council refreshed its Procurement Strategy. It has identified that in terms of spend the biggest area of spending is now its ambitious housing delivery and regeneration programme. In order to ensure that it maximises value for money in this area of spend it has developed and implemented framework contracts for professional construction related services and construction services.

Similarly robust business cases are prepared with appropriate professional advice for new ventures such as KGE or trade waste. This was the case for the new Leisure Centre proposals.

Financial Management Standard N

The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.

As commented above MAT and the Corporate Policy and Resources Committee receive regular revenue, capital monitoring reports and Treasury management reports which flag emerging variances. Individual services also receive their own revenue and capital monitoring reports. There is also the monthly monitoring with Group Heads. Variances are probed and concerns are followed up and tracked using actions tracking. Budget monitoring has been expanded to focus particularly on the impacts of externalities.

The MAT and senior officers meet weekly for a Development and Investment Group (DIG) to review performance in its commercial and residential assets and the progress of its residential development and regeneration schemes. The focus is on reporting by exception and identifying issues to be addressed and agreeing actions to be taken to address risks.

Financial Management Standard O

The leadership team monitors the elements of its balance sheet which pose a significant risk to its financial sustainability.

We are focused on some aspects such as value of assets, level of borrowing and level of reserves. A number of new KPIs have been introduced as part of the refreshed AMP which will help. The Corporate Debt Group is putting place improved monitoring of debtors. Officer also monitor other things that could be on the horizon eg changes in legislation, climate change, new burdens grants for anything. New sources of income are also considered.

The Council has updated its Corporate Debt Policy and has a corporate Debt Group which meets regularly to ensure a holistic and joined up approach is taken to debt recovery. The Council makes good use of additional investigatory resource and expertise that Reigate and Banstead Council has in counterfraud, This has been particularly beneficial with respect to housing housing and a data matching initiative to target social housing fraud (subletting and illegal tenancy succession) has been approved (subject to funding).

Financial Management Standard P

The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the *Code of Practice on Local Authority Accounting in the United Kingdom.*

The s151 officer assumes these responsibilities in accordance with the Constitution, the scheme of delegation, and has responsibility for audit and internal control.

Financial Management Standard Q

The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.

See above comments.

The monthly monitoring by finance, MAT and the Corporate Policy and Resources Committee ensure continuous monitoring before the final outturn figures are produced. In addition to the formal reports, the combined Leadership team (ie MAT and Corporate Policy and Resources consisting of the service committee Chairs and Vice Chairs) meet informally at least three times a year in Budget Briefing to discuss budget implications of outturns, and issues relating to the budget process.

Department for Levelling Up, Housing & Communities

Best Value Standards and Intervention

A statutory guide for best value authorities

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July 2023
Department for Levelling Up, Housing and Communities

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July 2023

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Ministerial foreword

Local councils are the frontline of democracy. They play a vital role in our communities and are critical partners as we level up the nation. We need our councils to support everyone, including the most vulnerable. They must be able to make our towns, cities, villages and communities great places to live where every citizen, no matter their circumstances, can thrive. That means providing the effective and efficient local services – from schools, social care and waste collection – that people want and deserve. To do that, they must make the most of every penny they receive from taxpayers to achieve better results for the communities they serve.

Councils in this country tend to have a robust record of transparency, probity, scrutiny and accountability – a reputation worth protecting. Most councils are also committed to continuous improvement and transformation, and strive to achieve value for money when carrying out their functions. Yet as well as celebrating the best of local government, we must also act when the high standards we expect are not met. The cause of devolution and decentralisation is set back by the glaring failures of some councils. It is right that the Government intervenes in these circumstances using powers under the Local Government Act 1999. The Government recognises the importance of councils' independence and accountability to communities, and does not use these powers lightly. At the same time, we will take all necessary steps to protect residents and uphold the good name of local government.

Under the 1999 Act, local authorities must legally deliver what is termed 'Best Value' – a council must be able to show that it has arrangements to secure continuous improvement in how it carries out its work. This guidance provides more clarity on the use of powers under the Act where this Best Value Duty is not, or is at risk of not, being met. And where these standards are not upheld, it sets out the models of statutory and non-statutory intervention available, with stages of escalation.

This guidance has been developed for local authorities, including combined authorities and combined county authorities, in England, but I encourage all best value authorities to bear its principles in mind. Prompt intervention to identify and address challenges is always the better approach. When we collectively put appropriate support in place before failure takes root, we can protect citizens and taxpayers from more severe consequences.

It is also the case that in tackling weaknesses earlier, we can expect to see more inspections and locally instigated reviews. This transparency and challenge should be welcomed by all councils that seek continuous improvement – the core aim of the Best Value Duty.

Already, residents fortunate to live in the very best, flagship authorities benefit from a culture relentlessly focused on achieving best value across all public services, even where current performance is good. This guidance will help all authorities in their efforts to reach the same high bar.

The Rt Hon Michael Gove MP
Secretary of State for Levelling Up, Housing and Communities

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1. Introduction

1. Local authorities are democratically elected bodies that exercise a range of statutory and discretionary functions for the benefit of local communities, and which operate in accordance with a range of statutory requirements. Local authorities are responsible for ensuring proper democratic accountability, transparency, public scrutiny and audit of their activities, and are subject to external scrutiny from their external auditor and a number of government bodies including Ofsted and the Care Quality Commission. The department, the local government sector and others are responsible for oversight of different aspects of local government accountability and assurance. The department's Accounting Officer is responsible for ensuring a sector-wide local accountability system is in place and that it remains robust. The department's Accounting Officer and officials provide the Secretary of State with advice and analysis on the sector's risk and instances where central government intervention is necessary.

2. The Best Value Duty relates to the statutory requirement for local authorities and other public bodies defined as best value authorities in Part 1 of the Local Government Act 1999 ("the 1999 Act") to "make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness". In practice, this covers issues such as how authorities exercise their functions to deliver a balanced budget (Part 1 of the Local Government Finance Act 1992), provide statutory services, including adult social care and children's services, and secure value for money in all spending decisions.

3. Best value authorities must demonstrate good governance, including a positive organisational culture, across all their functions and effective risk management. They are also required, pursuant to section 3 of the 1999 Act, to consult on the purpose of deciding how to fulfil the Best Value Duty. The annual process of setting the authority's budget, the corporate plan and the medium-term financial plan provides a key opportunity to conduct such consultation. This is the stage at which consultation will best assist the authority in deciding how to make arrangements to secure continuous improvement.

4. Failure to deliver best value can occur within any aspect of governance, the delivery of services or financial management. To help local authorities to achieve best value, government funds a programme of improvement support, primarily via the Local Government Association, that includes a wide range of sector-led support activities, including peer challenges, mentoring and the dissemination of best practice. Government expects local authorities to participate in the sector-led improvement initiatives available to them, to take up any offers of sector support or seek their own bespoke support if they require, and to be open to challenge. Government also expects all local authorities to have a corporate or finance peer challenge at least every five years, to publish the outcomes and deliver on the recommendations of that review, and to complete a progress review within a year. Improvement support is also provided for specific service areas such as in social care, public health, planning and transport. For example, the Sector Led

Improvement Partners Programme for Children's Social Care, where local authorities can request support from high-performing peers to help them improve.

5. Where, over a period of time, continuous improvement is not demonstrated sufficiently, the 1999 Act grants the Secretary of State powers to intervene to ensure compliance with the Best Value Duty. These powers include taking action to protect the public purse and ensure significant or long-term failings are corrected and performance is raised to an acceptable and sustainable level.

6. This statutory guidance on the Best Value Duty is issued to local authorities in England under section 26 of the Local Government Act 1999 and they are required to have regard to this guidance under the 1999 Act. Local authorities include county and district councils, London borough councils, combined and county combined authorities, the Common Council of the City of London, the Greater London Authority so far as it exercises its functions through the Mayor and the Council of the Isles of Scilly.

7. However, all best value authorities should be mindful of the principles set out in this document in order to ensure they deliver the Best Value Duty, defined in Part 1 of the 1999 Act. In exceptional cases, and recognising the existence of other inspection and intervention regimes across Government, the Secretary of State may intervene in these authorities as listed below where there is clear and significant failure:

    - National Park authorities (for National Parks in England),
    - The Common Council of the City of London in its capacity as a police authority,
    - Fire and rescue authorities,
    - London Fire Commissioner,
    - Waste disposal authorities,
    - Integrated transport authorities,
    - Combined authorities and economic prosperity boards,
    - Sub-national transport bodies,
    - Transport for London.

8. This guidance provides greater clarity to the local government sector on how to fulfil the Best Value Duty by describing what constitutes best value, the standards expected by the department and the models of intervention at the Secretary of State's disposal in the event of failure to uphold these standards. It supplements statutory guidance issued setting out reasonable expectations of the way authorities should work with voluntary and community groups, and small businesses[1] on the making and disclosure of Special Severance Payments[2] and non-statutory guidance on digital infrastructure[3]. This guide should not be taken

[1] Revised Best Value Guidance (March 2015)
[2] Statutory guidance on the making and disclosure of Special Severance Payments by local authorities in England
[3] Guidance on access agreements

as a definitive guide to the interpretation of the legislation, which is reserved for HM Courts.

2. Office for Local Government

9. This guidance is published as the Office for Local Government (Oflog) is being established.

10. Oflog will provide an authoritative and accessible source of information about the performance and health of the local government sector. The department's best value analysis to inform judgements to inspect or intervene will be improved through Oflog's objective to increase transparency of performance in the sector.

11. Both Oflog and the department are committed to high standards, which are frequently met by authorities, and to identify early indications of failure. To support this, alongside the publication of this guidance the department is consulting on what indicators should be prioritised in informing engagement with authorities to ascertain compliance with the Best Value Duty and what quantifiable metrics would be appropriate to consider.

12. The standards and models for interventions set out in this guidance belong to the department. This guidance may be updated as Oflog's role continues to develop.

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3. Best value powers

13. The Secretary of State has powers under section 10 of the 1999 Act to appoint a person to carry out an inspection into an authority's compliance with the Best Value Duty. This power may be exercised to provide evidence for the Secretary of State to make a judgement on whether to intervene, but an inspection is not formally required prior to statutory intervention (see section 8 of this guide for the various models of statutory intervention).

14. Where the Secretary of State is satisfied that an authority is failing to carry out its functions in compliance with the Best Value Duty, section 15 of the 1999 Act provides powers for the Secretary of State to intervene on a statutory basis in that authority. These powers include the ability to:
    - direct a local inquiry to be held into the exercise by the authority of specified functions,
    - direct the authority to carry out a review of its exercise of specified functions,
    - direct the authority to take any action which the Secretary of State considers necessary or expedient to secure its compliance with the requirements of the Best Value Duty, and
    - direct that a specified function or functions of the authority be exercised by the Secretary of State or a person nominated by them (referred to as "commissioners" in previous interventions) for a specified period.

15. The Secretary of State's decision to intervene, when, and what form that intervention should take relies on the analysis of a complex set of data and circumstances, set out in section 5 of this guide. Weighing up the degree and impact of failure on local residents requires an element of judgement and consideration of the confidence in a local authority's capacity, capability and commitment to lead its own improvement.

4. Principles

16. Government's approach to ensuring all authorities carry out their functions in compliance with the Best Value Duty is based on the following principles:

Local accountability

17. Accountability should primarily be to local residents and businesses. Statutory intervention will only be used when there are significant and extensive indications of failure and authorities are not delivering to the high standards which their local communities have a right to expect. As far as possible, Government will look to existing local checks and balances in the system to mitigate risks of failure. Where there are indications that the local authority is not complying with these checks and balances, Government may seek additional assurances or intervene to secure compliance with the Best Value Duty.

Continuous improvement

18. Every best value authority must make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. The reference to "making arrangements" makes it clear that the Best Value Duty is concerned more with intentions, namely securing improvement in the way in which an authority performs its functions, than outcome. This means that authorities are not expected to be perfect, but rather that they should prioritise learning and development throughout the organisation and always strive to learn from past mistakes, address under-performance, and avoid continuing in a direction where failure is evident. Errors and poor performance should be clearly isolated and exceptional rather than repeated or systematic, and should not be significant in value, governance, or have wider implications. Persistent mistakes and poor performance should be promptly addressed, and steps taken to remedy clearly documented.

Openness to challenge and support

19. Best value authorities are responsible for their own performance. Government expects these authorities to make their own arrangements to secure continuous improvement in the way in which their functions are exercised. This includes being open to external challenge and scrutiny, including in the form of regular peer challenges and participating in the broad range of formal and informal improvement initiatives available to authorities. It also means being responsive to challenge from the press, public and local communities more generally. Authorities should be transparent in their Annual Governance Statements about how they are delivering improvements over time against any recommendations made by external parties. Authorities are also expected to have a sense of collective responsibility for the performance of the sector as a whole and engage in sector-led support to other councils and benchmarking.

Expectations

20. Government should be clear in its expectations of an authority to demonstrate it is securing best value in key areas such as governance, culture, finances and statutory services (see section 5 of this guide on the department's best value themes). These expectations, clarified in this guidance, should be shared with the sector and reflect what most local authorities already do or are striving to achieve. Authorities need to demonstrate that they are making arrangements to secure continuous improvement in all these areas on an ongoing basis and at the necessary pace. An inability or reticence to acknowledge clear failings and/or resistance to external challenge or scrutiny is indicative of failure to secure best value. However, it is the Secretary of State's decision to ascertain whether the Best Value Duty is being met and judgements will be made based on the circumstances of each case.

Prevention

21. Government will engage early with authorities showing signs of not complying with the Best Value Duty and will encourage local authorities to come forward and ask for targeted support, to prevent challenges from escalating. It will act swiftly to investigate significant indications of failure and determine the appropriate support or model from a range of statutory and non-statutory options. Local authorities should take responsibility for identifying early warning signs and act appropriately to address potential failures at the earliest opportunity by participating in the sector-led improvement initiatives available to them. This guidance highlights relevant indicators and signals of potential failure, but this should not be taken as an exhaustive list as each local authority and the context it operates in is different.

Meeting the cost of failure

22. Whilst most authorities want to do the right thing, if Government was to reward failure by funding necessary improvement where there is best value failure, this could risk introducing a financial motive to fail. Leaders, both official and elected, should take responsibility for their actions rather than being bailed out by Government. While local leaders are held to account for the impact of their decisions at the ballot box, authorities should apply performance management procedures in line with their usual policies where there is failure. Local authorities are responsible for taking all reasonable steps to meet the financial cost of failure locally.

Default commissioner powers and de-escalation

23. Lessons learned from past interventions have shown that when failure in a local authority has been more widespread than first thought, the requirement to expand commissioner powers has delayed improvement. In cases where there have been significant failure in a particular functional area or areas and where commissioners have been appointed, the department will make a default presumption that failure

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may be more pervasive. In such cases, commensurate powers relating to governance and senior appointments will be automatically provided to commissioners on appointment, unless there is good reason not to provide the default powers. Such powers may not need to be used but will empower commissioners to accelerate the discovery phase of an intervention to ensure potential failure in any function is quickly identified, and to promptly address any additional issues that may arise in order to accelerate improvement. This ultimately should support the intervention ending within the fastest possible timeframe. A statutory intervention should de-escalate over time and finish in accordance with the anticipated end date, extendable if necessary. This should be based on an agreed exit strategy, with clear indicators of success, which should be developed by the commissioners and the authority together as early as possible in the intervention, but which should be sufficiently flexible to reflect the journey that the local authority is making.

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5. Defining best value

24. The Best Value Duty is concerned with making arrangements to secure continuous improvement. To provide greater clarity to the sector on how to fulfil the Best Value Duty, this statutory guidance sets out seven overlapping themes of good practice for running an authority that meets and delivers best value. These seven best value themes build on the lessons learned from past interventions, including those which the department published in June 2020, and reflect what most local authorities already do or are striving to achieve. While these themes are all interdependent, strong governance, culture, and leadership underpin effective partnerships and community engagement, service delivery, and the use of resources. Continuous improvement is the outcome of all the themes working well together.

Diagram 1: Seven best value themes

25. There is no single version of ‘good’ – different aspects might look different in different areas – but these seven themes represent the key areas where authorities should be able to demonstrate they are making effective arrangements to secure continuous improvement in the way in which its functions are exercised. Inspection and intervention, described in later sections, are contingencies for the Secretary of State to use in the event that they consider these themes of good practice are not, or are at risk of not, being met.

26. Local authorities are not expected to perform perfectly, given the complex set of legal responsibilities and inherent levels of risk authorities must manage, but should strive for excellence and be able to demonstrate they are making effective arrangements to secure continuous improvement in each of these areas.

27. A detailed description of these themes, including characteristics of a well-functioning local authority and indicators used to identify challenges that could indicate failure, is set out below. This is an illustrative list of indicators including both qualitative and quantitative data and no single metric automatically leads to inspection or intervention. Decisions to intervene pursuant to the 1999 Act are based on a holistic judgement of all available information and considered engagement with authorities to understand the environment they are operating within and their capacity, capability and commitment to lead their own improvement.

28. There is significant variation in the functions of individual combined authorities, as well as those local authorities which have agreed individual devolution deals, which will need to be considered when assessing their performance. In addition, combined authorities typically have fewer services to deliver and have more of a focus on strategic delivery and developing partnerships and community engagement, as well as local assurance frameworks, which will be considered when assessing the different themes, although all still apply. For constituent councils of combined authorities, working with their devolution partners will be of particular note when considering Partnerships and Community Engagement.

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1. Continuous improvement

Description	Characteristics of a well-functioning authority	Indicators of potential failure
Making arrangements to secure continuous improvement in performance and outcomes is a core requirement for achieving best value. Any organisation with a duty of best value needs to make effective arrangements to secure continuous improvement in the way in which all its functions are exercised on an ongoing basis and at pace. These arrangements will include inviting independent external challenge and scrutiny, in the form of regular service specific as well as corporate or finance peer challenges, engaging with sector support initiatives on offer and informal experience sharing among peers. Local authorities should also have a sense of collective responsibility for the performance of the sector and help other authorities to improve. The Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authority Chief Executives (SOLACE) Delivering Good Governance in Local Government Framework, along with the Centre for Governance and Scrutiny and Localis Governance Risk and Resilience Framework can help authorities to identify, understand, and act on risks to good governance.	• There is an organisational-wide approach to continuous improvement, with frequent monitoring, performance reporting and updating of the corporate and improvement plans. • There is some form of established transformation function or programme. • The authority arranges a corporate or finance peer challenge at least every five years, acts promptly on any recommendations given, and publishes the report of that review and progress updates. • The authority is willing to work with the external auditor to proactively identify areas for improvement and responds promptly and effectively to recommendations. • Professional development and appraisal at all staff levels is built into day-to-day work, with poor performance identified, monitored and effectively addressed, and good performance recognised. • The Annual Governance Statement, prepared in accordance with the CIPFA/ SOLACE Good Governance Framework, is the culmination of a meaningful review designed to stress-test both the governance framework and the health of the control environment. • Innovation is encouraged and supported within the context of a mature approach to risk management. • The authority shares a sense of collective responsibility for the performance of the sector and supports other authorities to improve.	• A culture of denial and lack of openness to constructive advice and challenge. • A lack of awareness and reluctance to acknowledge weaknesses and engage with the sector support on offer (such as no corporate peer challenge in the past five years or alternative external assessment). • Evidence that attempts at improvement have not been effective over a sustained period of time. • The Annual Governance Statement is not used as an improvement document, is developed by officers without member oversight, is not kept up to date and/or is generic in tone and content. • Lack of engagement with and/or poor quality or non-existent member and officer training and development offer.

2. Leadership

Description	Characteristics of a well-functioning authority	Indicators of potential failure
Effective political and administrative leaders who have a clear vision and set of priorities for their area, are key to building local economic growth, social cohesion and a healthy local democracy. When they model positive and effective leadership behaviours at all levels, this can be beneficial to a local authority's overall culture and governance. It is essential that all officers with statutory responsibility, including the Section 151 and Monitoring Officers, uphold their duties, both individually and collectively and, in accordance with good practice, report directly to the Chief Executive and, as necessary, to full Council. Statutory officers must work effectively together and all must have a voice for key decisions. An authority that either fails to recruit to its statutory officer posts on a permanent basis over an extended period of time or has a high turnover in these roles indicates instability and potential wider cultural concerns. When this is compounded by many senior positions being appointed to on an interim basis over an extended period, this can signal a problem.	• Members provide quality leadership by setting a clearly articulated, achievable and prioritised vision for officers to follow that puts place and local people at its heart. Senior officers have the capacity and capability to provide the authority with effective strategic direction. • The authority's corporate plan is evidence based, current, realistic and enables the whole organisation's performance to be measured and held to account. Strategic priorities are aligned with the authority's financial strategy and delivery arrangements, and respond appropriately to local need, including the plans of partners and stakeholders. • Members and officers, particularly those with statutory responsibility, including the Section 151 and Monitoring Officers, uphold their duties and speak truth to power. • Strong financial management and reporting runs throughout the whole organisation. • Robust systems are in place and "owned" by members for identifying, reporting, mitigating and regularly reviewing risk. • Effective succession planning, with the recruitment and nurturing of officers with the necessary skills, ensures organisational resilience. • Members and senior officers maintain constructive relationships and engage effectively with external stakeholders and the wider local community. • A demonstrable commitment to leadership development. • The authority has moved from multiple to all-out elections within the four-year cycle, which has enhanced stability and reduced ongoing campaigning that can hinder improvement.	• A lack of corporate capacity or capability, resulting in a lack of strategic direction, oversight and sense of accountability. • Leadership losing sight of the authority's role and function as a leader of place and provider or enabler of services to local residents and businesses. • A lack of understanding of public sector standards, the Nolan Principles and appropriate behaviour. • Corporate plan is out of date, unrealistic and unaffordable and/or has too many priorities. • Poor ownership and accountability by the Section 151 Officer, leading to poor quality financial management. • Section 151 and Monitoring Officers do not report directly to the Chief Executive or are not involved in key decisions. • Risk management ownership and discussion is limited to the Audit Committee rather than across the organisation. • A lack of political and/or organisational stability, with high leadership turnover, key posts remaining vacant or an overreliance on interim officers, creating a lack of continuity and/or decisions in the long-term interests of the authority. • Leadership at both political and managerial levels is distracted and involved to an unhealthy extent on internal battles. • The absence of both a fit for purpose and regularly reviewed people plan, procurement strategy and IT strategy. • A loss of stakeholder and public confidence. • A sense of insularity, a failure to tolerate internal or external challenge, and to recognise the need for improvement.

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3. Governance

Description	Characteristics of a well-functioning authority	Indicators of potential failure
A well-run council will have clear and robust governance and scrutiny arrangements in place that are fit for purpose, appropriate to the governance arrangements adopted locally (executive/committee system), understood by politicians and staff alike and reviewed regularly. Decision-making processes, within clear schemes of delegation, should be transparent, regularly reviewed, clearly followed and understood, enabling decision-makers to be held to account effectively. There should also be evidence of the decisions following good public law decision making principles (reasonableness, proportionality, fairness, etc.). Codes of conduct and HR processes should be to sector standard and ensure effective support for whistle-blowers.	• Effective procedures are in place and followed to ensure members and officers at all levels comply with the Nolan Principles and relevant codes of conduct and policies. This includes adequate protections and support for whistle-blowers. • The authority's scrutiny function is challenging, robust and contributes to the efficient delivery of public services. • Risk awareness and management informs every decision. • Full Council alongside the Audit Committee takes an effective overview of the systems of control, audit and governance. • Appropriate financial, commercial and legal expertise is obtained, including from external sources, and due diligence completed on any key or novel decision. • Committees and individuals charged with governance have the appropriate experience, skills and expertise to perform their role. • There is proper member oversight (as shareholders) of companies and partnership bodies, in accordance with the Local Authority Company Review Guidance and their existence is regularly and independently reviewed. • Performance management information measures actual outcomes effectively and is frequently interrogated. • Lessons are learned from complaints.	• Significant weaknesses identified in annual audit reports, and/or statutory recommendations or a public interest report issued. • Credible allegations of corruption or maladministration. • Political or ideological activity by council officers visible. • Key decisions are made in informal meetings and are not effectively recorded, leading to a lack of clarity on who is responsible for them. • Decisions made without seeking appropriate advice. • Political indecision, with key decisions not being fully implemented and/or decisions being frequently reversed. • Scrutiny functions are undermined and there is a lack of pre-decision scrutiny. • Internal audit does not meet PSIA standards and fails to consider identified high risks. • Audit Committee's brief is too wide, meets infrequently, and its effectiveness is undermined. • There are no meaningful risk registers at a corporate level and risks are not owned by senior leaders. Risk registers appear to downplay some risks and lack action to mitigate risk. • Performance management information is not consistently used, does not measure outcomes where relevant and underperformance is not effectively addressed. • No independent oversight or members of relevant committees in accordance with good practice. • Excessive secrecy and failure to accept councillors' right to know. • Member/officer codes of conduct and arrangements for reviewing standards complaints, are not regularly reviewed.

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4. Culture

Description	Characteristics of a well-functioning authority	Indicators of potential failure
The culture of a local authority is determined by its shared values, ethics and beliefs, how decisions are made, as well as how elected members and officers behave, interact and carry out their roles. Political and administrative leaders that model strong and effective leadership are beneficial to a local authority's overall culture. An agreed set of shared corporate values which are effectively implemented and modelled across the authority are also essential to maintaining positive organisational culture. The existence of an outward facing, transparent and open culture, where challenge is welcome and acted upon are indicators of a modern authority and is also essential for ensuring continuous improvement runs throughout the organisation.	• Members and officers promote and demonstrate the highest ethical standards and appropriate working behaviours through established shared values and ways of working. • A culture of cooperation, respect and trust between and within members and officers exists, along with a commitment to transparent decision-making. • Civil working relationships (and communication) between Group Leaders despite political disagreements. • A commitment to promoting transparency and sharing information with the public. • Respect for a councillor's right to know and enquire. • The existence of a proactive and welcoming attitude to external challenge and scrutiny. • Appropriate processes are in place to address issues such as harassment and bullying. • An accessible whistleblowing policy, of which there is wide awareness and confidence that it will work. • Demonstrable steps to engage openly and honestly with staff.	• A widespread failure to follow due process, the constitution and codes of conduct. • Risks are covered up rather than identified to protect reputations. • Credible allegations of corruption or maladministration. • The respective roles of members and officers, and the interface between them, are rejected or misunderstood, and over-involvement of members in operational decisions or of officers in setting strategic political vision. • A culture of bullying, distrust and broken relationships exists. • The organisation is paralysed by a large number of procedural issues. • Under- or non-engagement of the standards regime, with doubt cast on its credibility and legitimacy. • Disciplinary and complaints systems are not deployed, leading to a sense that certain individuals can act improperly with impunity. • High numbers of staff grievances and staff turnover due to morale issues. • High numbers of standards complaints by members against members are upheld. • Poor outcomes identified from staff surveys. • A culture of secrecy and overuse of urgency arrangements, confidential or delegated action reports and a failure for such reports to be reported in a form which allows scrutiny. • Members and officers have limited understanding of declarations of interest and of gift and hospitality registers, which are not monitored or regularly updated. • A website that is difficult to navigate, where key documents are either missing or drafted in a way that information is inaccessible to the public.

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5. Use of resources

Description	Characteristics of a well-functioning authority	Indicators of potential failure
An authority must have in place and properly deploy an effective internal control environment to safeguard the use of resources, and clear and effective processes to secure value for money. It must have appropriate financial management, reporting and regulation arrangements in place, in accordance with CIPFA's Financial Management Code, to govern the strategic and operational management of its investments, funding, assets and companies. This includes ensuring it has the appropriate skills and capacity in place, commensurate with the complexity of its finances, using specialist expertise when needed. Authorities must appropriately comply with the Prudential Framework in making investment and borrowing decisions and not take on excessive risk. They should have effective systems for identifying, reporting, addressing and reviewing financial risk and have consideration of CIPFA's Financial Resilience Index. Investment decisions must have a commensurate level of scrutiny, transparency and approval to make sure that officers and members fully understand the risks. Financial management and reporting should be supported by robust financial systems, record keeping and quality assurance, with appropriate use of specialist expertise when needed. Authorities should respond to audit recommendations and address issues identified in a timely way. Capacity constraints should be identified and recruitment to fill key posts prioritised. Succession planning needs should be considered, with a longer-term view as to when there might be a gap in senior, experienced officers.	• The financial strategy and budgets are clearly aligned with strategic priorities and there is a robust process for reviewing and setting the budget. • Human resources and fixed assets are managed efficiently and effectively. • A robust system of financial controls and reporting exists, which provide clear accountability and ensure compliance with statutory requirements and accounting standards. • Compliance with the Prudential Framework, a clearly presented Investment Strategy, Capital Strategy and Minimum Revenue Provision (MRP) policy exists. • A clear strategy exists to maintain adequate reserves. • There is collective accountability for the budget and medium-term financial plan, rather than a siloed approach to management. • There are regular financial reports to Cabinet and training for all members on finance. • Robust systems are in place to identify, report, address and regularly review financial risk. • Sustainable, competitive corporate functions including procurement and IT which deliver value for money. • The Audit Committee has the knowledge, skills and independent expertise to provide robust challenge and ensures effective controls are in place and issues addressed. • The purposes of companies are carefully considered and regularly reviewed, with effective governance and oversight arrangements in place. • Effective project management of projects to enhance governance and effective use of resources.	• Absence of a deliverable and clear medium-term financial plan, approved by the authority's Cabinet or finance committee (as appropriate) and full council. • Consistent overspends, frequent use of virements, and no credible plan to reduce unaffordable debt and maintain sustainable finances, and recurrent non-delivery of savings plans. • Avoidance of/failure to implement difficult budget decisions. • No evidence of transformation to create efficiency savings. • Inadequate reserves, savings not achieved and poor benefits realisation. • Consistent reliance on reserves to balance an outturn position. • Unlawful or excessively risky borrowing and investment practices with no adequate risk management strategy in place for financial losses. • Failure to manage the risks associated with companies. • An authority that has issued a Section 114 Notice. • Significant weaknesses identified in the annual audit report for financial sustainability, and/or statutory recommendations or a public interest report is issued. • High dependency on high-risk commercial income for service delivery and balancing budgets. • Non-compliance with accounting requirements regarding MRP. • A finance function that is not fit for purpose owing to capacity or capability issues. • Underinvestment in back-office services, which affects capacity and succession planning. • Inefficient or uncompetitive procurement arrangements that do not deliver value for money. • IT that is not capable of doing the job for which it is designed.

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6. Service delivery

Description	Characteristics of a well-functioning authority	Indicators of potential failure
Poor individual services can often be an indication of broader governance and financial weaknesses within an authority. Equally, corporate governance failure almost certainly will at some point negatively impact how services are delivered locally, in terms of missed opportunities or silo working and a failure to make strategic connections. Local authority data, the assessments of other government departments and service regulators, such as Oflog, Ofsted, the Care Quality Commission, Planning Inspectorate and the Local Government and Social Care Ombudsman, identify whether services are being delivered efficiently and effectively, and whether authorities are responsive to customer complaints. Authorities should provide services at a comparable level to other authorities of a similar size and location when benchmarked.	• Service plans are clearly linked to a local authority's priorities and strategic plans – a golden thread that runs through to individual objectives and accountability. • Service delivery is evidence-based, customer and citizen focused, and meet the needs of different groups within the community. • The authority has an effective and accessible complaints process and provides appropriate redress. • There are clear and effective mechanisms for scrutinising performance across all service areas. Performance is regularly reported to the public to ensure that citizens are informed of the quality of services being delivered. • Procurement processes are economic, efficient and ensure the outcomes of efficient contract procurement and management. • The authority achieves the best balance of cost and quality, considering the resources available, in delivering services, having regard to economy, efficiency and effectiveness. • The local authority takes an innovative approach when considering how services will be designed and delivered in the future.	• Significant weaknesses identified in the annual audit report for economy, efficiency and effectiveness, and/or statutory recommendations or a public interest report issued. • Critical reports from regulator, inspectorate and/or ombudsman show failings which may have resulted in intervention by other government departments. • Intervention from other government departments is not delivering results. • A high level of complaints made to the Local Government and Social Care Ombudsman and/or an annual letter to the authority requesting action to improve with no associated action plan. • Transformation is in name only. Opportunities for efficiency savings and improvements have not assessed in a meaningful way. Exotic or novel solutions are pursued that lack rigor or adequate risk appraisal. • The approach to contracting and contract management is weak, resulting in poor quality public services that do not represent value for money. • Excessive use of contract Standing Order waivers. • Poor tracking of benefits realisation on service improvement. • Services data suggests poor performance and outcomes compared to similar local authorities, e.g. adult social care quality of life score, planning applications completed to time.

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7. Partnerships and community engagement

Description	Characteristics	Indicators of potential failure
Driving local economic growth, promoting social cohesion and pride in place is increasingly dependent on the effectiveness of partnerships and collaborative working arrangements with a range of local stakeholders and service users. Authorities should have a clear understanding of and focus on the benefits that can be gained by effective collaborative working with local partners and community engagement in order to achieve its strategic objectives and key outcomes for local people. Appropriate governance structures should also be in place to oversee these arrangements, and the process of consultation and engagement should be inclusive, open and fair. An inclusive approach that accepts challenge is an indicator of a confident organisation.	• The authority provides effective leadership of place through its elected members, officers and constructive relationships with external stakeholders. • An organisational culture exists that recognises the value of working with local partners to achieve more efficient and effective policy development, local economic growth and investment, better services, and customer-focused outcomes. • There is early and meaningful engagement and effective collaboration with communities to identify and understand local needs, and in decisions that affect the planning and delivery of services. In some cases, this involves co-design of services. • Evidence of joint planning, funding, investment and use of resources to demonstrate effective service delivery, but transparent and subject to rigorous oversight. • Partners and local residents are involved in developing indicators and targets, and monitoring and managing lack of performance. The authority may be beginning to experiment with more participative forms of decision-making. • The authority drives social and environmental value in their place through mechanisms like procurement and employment.	• Lack of appropriate governance in partnership arrangements. • The authority shows weak ambition (or is overly ambitious) and fails to seize opportunities for building prosperity and opportunity for local people and businesses, promote social cohesion and pride in place. • The authority does not seek and consider feedback from citizens and service users on performance when developing improvement plans. • Poor outcomes identified from resident or partner surveys. • Poor or non-existent communication with partners on issues impacting on their business. • Consultation is perfunctory with a focus on complying with statutory minimums.

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6. Assurance and early engagement

29. The department and the local government sector, with others, are responsible for the local government accountability system, with the department's Accounting Officer being responsible for ensuring this system remains robust. A key element of this is ensuring that the public is protected from instances of local authority failure.

30. The department's local government stewardship function continually reviews the health of local authorities' governance, financial management processes, including commercial operations and the sustainability of authorities' medium-term financial outlooks, and delivery of corporate and key services. The information reviewed combines the use of:

    - national data metrics,
    - published documents from local authorities (annual governance statement, committee papers, statement of accounts, and locally commissioned reviews),
    - auditors' annual reports and other reporting,
    - reports from inspectorates such as Ofsted and the Care Quality Commission,
    - reports from the Local Government and Social Care Ombudsmen,
    - LGA corporate peer challenge reports and any follow-up reports, and
    - residents' and MPs' letters where they raise concerns under the Best Value Duty.

31. To be assured of local authorities' compliance with the Best Value Duty, the department engages with other government departments who maintain responsibility for their services areas, such as the Department for Education (DfE), the Department of Health and Social Care (DHSC) and the Home Office. It also engages with a range of other non-departmental organisations working with the local government sector. In certain circumstances, the department will also engage with local authority auditors.

32. The department is committed to working in partnership with other government departments to share intelligence on common challenges and ensure a co-ordinated and collaborative approach across Government. Government departments set and monitor performance against their own standards and failure to meet these standards should be first managed by the relevant department directly. However, in these circumstances if concerns continue for two or more years despite local attempts to improve and there is evidence available, the Department for Levelling Up, Housing and Communities will consider whether the lack of improvement constitutes failure to meet the Best Value duty.

33. Close engagement with government departments is particularly important when an authority of concern is already subject to statutory intervention. The Secretary of State for Levelling Up, Housing and Communities will consult with other Secretaries of States prior to using best value powers to start an intervention where another department already has inspection or intervention frameworks to

assess and further understand any wider context. This does not compromise the Secretary of State's independent legal authority to exercise best value powers under the Local Government Act 1999.

34. Collating the information outlined in the paragraphs above enables the department to gain a deeper understanding of those authorities that may be facing challenges and showing some of the indicators of potential best value failure set out in section 5 of this guide. This could mean that those authorities may not be properly complying with the Best Value Duty. In some circumstances, evidence of past failure and conduct concerns may also be taken into account by the Secretary of State in deciding whether to exercise his or her statutory powers.

35. Where the department becomes aware of quantitative or qualitative indicators of potential failure being met, officials from the department may look to engage constructively with the local authority to provide an opportunity to understand their organisational challenges in relation to governance, finances and service delivery, including local partner and market delivery, and to gain assurance of how they are being managed. The purpose of this form of early engagement is to prevent any challenges experienced by the local authority from escalating by seeing how the authority is engaging with, or plans to engage with, sector support and identifying what form of additional support (if any) is needed. Local authorities demonstrating early indications of failure may also be invited to discuss their arrangements for securing continuous improvement with the minister responsible for local government. Where sufficient assurance is not provided, the department may write formally to obtain assurance that the authority is taking steps to manage its challenges. This may include the formal issuance of a Best Value Notice, the models for which are set out below.

(Non-statutory) Best Value Notice

A senior civil servant writes formally to an authority to state the department's concerns on the available evidence and to set out the department's expectations of the authority in providing assurance of progress. The Notice will request that the authority engages directly with the department to provide assurance of improvement. This engagement could include requesting that the authority provides a timebound improvement plan containing details of the arrangements the authority has made and proposals to secure the improvement needed. Where an improvement plan is already in place, officials may specify the need for further information, ongoing engagement, or greater assurance of that plan. The Notice may also request that the authority reports back to the department at specified junctures.

Officials may challenge an authority's improvement plan if it is considered insufficiently robust, feasible or timely. Officials will also determine progress against the authority's improvement plan, based on the evidence provided by the authority and may draw on sector peer support to do so. Further action may be needed if the requested information is not provided to the department by a specified date or if progress is not satisfactory.

The Notice will normally remain in place for 12 months, after which time, should the department deem it necessary to continue to seek assurance of the authority's improvement progress, it will be reissued. The Notice may be withdrawn or escalated at any point based on the available evidence.

To ensure the authority's improvement work is transparent and open to external scrutiny, the department will publish Best Value Notices on gov.uk and will expect the authority to publish all related documents on its website.

Best Value Notices provide an opportunity for early engagement with an authority that is exhibiting indicators of potential best value failure and where there is confidence that the authority may have the capability and capacity to make its own arrangements to secure continuous improvement. Best Value Notices may also be used to obtain assurance from an authority that has previously been subject to intervention that they will continue to meet their Best Value Duty, or as a form of longer term non-statutory intervention where there is no evidence of best value failure.

Example: Best Value Notices were issued to Cambridgeshire and Peterborough Combined Authority and Middlesbrough Council in January 2023, setting out the department's concerns and the importance of pace and rigor in delivery of their locally led improvement frameworks.

Best Value Notice issued under section 230 of the Local Government Act 1972

A Best Value Notice (as described above) is issued on a statutory basis, under the general power in section 230 of the Local Government Act 1972, stating the department's concerns on the available evidence and requiring that the authority engages directly with the department to provide assurance of improvement.

Section 230 of the 1972 Act requires local authorities (including combined authorities) to send the Secretary of State any information with respect to their functions that the Secretary of State may require or may be required by either House of Parliament.

As with non-statutory Best Value Notices, the Notice will remain in place for 12 months, after which time, should the department deem it necessary to continue to seek assurance of the authority's improvement progress, it will be reissued. The Notice may be withdrawn or escalated at any point based on the available evidence.

Failure to properly engage with the department in response to a statutory Best Value Notice could indicate a failure of the authority to make arrangements to secure continuous improvement and may lead to further action.

Statutory requests for improvement information provide an opportunity for the department to engage on a statutory basis with an authority that is exhibiting early indicators of potential best value failure and where there is limited confidence in

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the authority's willingness to make arrangements to secure continuous improvement and/or to engage constructively and promptly comply with requests for information from the department.

Example: This power has yet to be used.

Exceptional financial support

36. Since 2020 the government has given considerable support to the local government sector to respond to the Covid-19 pandemic. However, as a result of particular local circumstances, a small number of local authorities approached the department for exceptional financial support to help them address financial pressures that they considered unmanageable.

37. The government has agreed to provide additional financial support to these authorities on an exceptional basis and on the condition that each authority is subject to an external assurance review focused on, at a minimum, their financial position and their ability to meet any or all of the identified budget gap without additional borrowing. Authorities are expected to respond effectively to the challenges and recommendations highlighted in their external assurance reviews and provide regular updates to the department on progress.

38. It is a principle of the exceptional financial support process that authorities meet the costs of support over time, as far as possible. The department will work with a relevant authority, and commissioners if appointed, to consider all available options for managing costs locally, including additional cost reductions. Where exceptional financial support is granted, it is usually provided in the form of a capitalisation direction from the Secretary of State. This provides an authority with the temporary flexibility to fund revenue expenditure with capital resources, normally achieved through taking out additional borrowing, or the generation of capital receipts through asset sales. Using capital resource for revenue purposes is outside the normal rules of local authority accounting and, as such, ministers will only consider agreeing to this in exceptional circumstances.

39. The department continues to keep the financial position of local authorities under close review and any authority concerned about its financial position should engage with the department on a confidential basis. The department is clear, however, that any financial support agreed will be provided openly and transparently and any decisions to provide such support will be published on gov.uk.

Capital risk assurance

40. The Levelling Up and Regeneration Bill will introduce measures to provide a flexible range of interventions for the department to investigate and remediate extreme risk in relation to a local authority's investment and borrowing. Intervention in a local authority will be considered when a trigger point is

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breached with respect to certain risk metrics, which fall into the following categories:

- Proportionality of debt (e.g., total debt compared to Core Spending Power),
- Proportion of commercial investments,
- Types of debt (e.g., novel credit arrangements and loans), and
- Under-provision of Minimum Revenue Provision (a statutory duty to make sufficient provision to repay debt).

41. The department engages with local authorities who are outliers within these categories of risk so that they can reduce their risk. These discussions are held on a confidential basis, to allow for open and productive discussions on their financial risks and strategies for managing them.

42. The appropriate management of capital risk is a necessary part of adhering to the Best Value Duty, in particular the responsible use of resources (Chapter 4 ‘Defining Best Value’, theme 5 ‘Use of resources’).

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7. Evidencing failure

43. The Secretary of State must be satisfied that an authority is failing to carry out its functions in compliance with the Best Value Duty before intervening on a statutory basis under section 15 of the 1999 Act. If an authority is exhibiting some characteristics that may indicate best value failure, but there is insufficient evidence available for the Secretary of State to make an informed judgement, the Secretary of State may commission an inspection to determine whether best value failure has occurred.

44. Failure, or the risk of future failure, can also be evidenced in other types of expert independent assessments. These include reports commissioned by local authorities, those from other recognised independent bodies, for example external auditors or inspectorates, or government commissioned reviews, such as an external assurance review of a local authority's financial management and resilience, and/or governance, since financial failure is often a presenting symptom of broader failure. These external assurance reviews have in the past been commissioned by the department following a local authority's request to the department for support via the exceptional financial support framework (see section 6 of this guide). They provide a valuable source of evidence to determine the underlying drivers of the authority's request for financial support and what remedial actions are required by the local authority to achieve financial sustainability. The assessments may also identify whether there is cause for concern in other areas of the local authority which may necessitate further investigation, for example in relation to leadership, governance and service delivery.

45. **Annex A** sets out the process for statutory inspection in more detail.

Best Value Inspections

Best Value Inspections are statutory reviews which provide the Secretary of State with updated information on how an authority is performing the Best Value Duty.

The powers relating to a statutory Best Value Inspection are contained in sections 10-13 of the Local Government Act 1999. They cover the appointment of an inspector and (if required) an assistant inspector, the powers and duties of an inspector particularly around access to documents, the requirement of the authority being inspected to pay reasonable fees, the submission of the inspector's report to the Secretary of State and its subsequent publication.

An inspector is appointed by the Secretary of State to lead an inspection, based on specific experience and expertise. The scope of the inspection is published, which will focus on specific functions of an authority in relation to its governance, financial management, service delivery or a combination.

Inspections may be appropriate when an authority is exhibiting some characteristics that may indicate best value failure, including taking no steps to acknowledge or address ongoing challenges, but where there is insufficient evidence available for the Secretary of State to make a judgement. However, this is not an exhaustive description of scenarios where an inspection may be appropriate.

Example: Following a series of police investigations into corruption and misconduct in public office, a Best Value Inspection of Liverpool City Council was conducted from December 2020 to March 2021. The matters covered by the inspection were the authority's planning, highways, regeneration and property management functions and the strength of associated audit and governance arrangements.

Independent reports

There are a range of independent expert assessments which may satisfy the Secretary of State's standards with regards to scope, independence and quality. These assessments may also provide evidence of best value failure or risk of failure, and the extent of that failure. They include government commissioned reports such as external assurance reviews, reports commissioned by local authorities, or those from other recognised independent bodies, for example auditors and inspectorates. The progress reports of local improvement boards or commissioners working with authorities already under intervention are also very useful sources of independent evidence. The Secretary of State may decide to intervene in an authority based on the evidence contained in these independent reports.

An independent report may be used when an authority is exhibiting some characteristics that may indicate best value failure. The findings of an independent expert analysis can help determine the steps required by an authority to address the concerns or issues identified in that report, either on their own or with the support of external intervention. However, this is not an exhaustive description of scenarios where an independent report may be appropriate.

Example: Slough Borough Council requested exceptional financial support in 2020/21 and a condition of that support was an external assurance review of the Council's financial position and wider governance arrangements. The review, which was similar to a Best Value Inspection in terms of scale, scope and quality, identified a range of concerns, including evidence of best value failure, and included recommendations for improvement. Based on this evidence of best value failure, the Secretary of State took the decision to appoint commissioners to Slough.

8. Models of intervention

Non-statutory measures

46. Non-statutory measures aimed at ensuring compliance with the Best Value Duty do not involve the Secretary of State using the powers in the 1999 Act. They are usually appropriate for addressing failure or risk of future failure that does not appear to be systemic in an authority and where that authority has the willingness, capability and capacity to improve. Authorities that can demonstrate how they are addressing failure, and where the department is confident that continuous improvement can be sustained without statutory intervention, are most likely to be subject to non-statutory measures. The Secretary of State retains the option to move to statutory intervention if an authority's improvement progress is not satisfactory.

Improvement boards

The establishment of an improvement board, panel or taskforce made up of individuals with relevant experience and skills, who will provide support, advice and challenge to an authority. As the board does not have any statutory powers, its members are involved in an advisory capacity.

Membership of the board and its terms of reference are usually determined by the authority but can also be proposed by the department (in agreement with the authority), depending on the level of assurance required by the Secretary of State. The department will need to be confident the authority will make sensible appointments and set sufficiently robust terms of reference. Where it does not have that confidence, the department may make its own appointments and direct the authority to follow the advice of the improvement board, triggering it to move to a statutory footing (under section 15(5) of the Local Government Act 1999).

Improvement boards may be used when an authority demonstrates failures or risk of future failure which is not systemic and there is confidence that the authority has the willingness, capability and capacity to sustain continuous improvement, but external expertise and challenge would result in more efficient recovery. However, this is not an exhaustive description of scenarios where an improvement board may be appropriate.

Example: A condition of Wirral Metropolitan Borough Council's request to the department for exceptional financial support in 2020/21 was completion of an external assurance review. This Review identified a range of concerns, including poor financial governance and management and the need to strengthen oversight and scrutiny. The Council agreed to implement the Review's recommendations and established a locally led improvement panel to provide oversight of its improvements and report regularly to the Council and Secretary of State.

Sector-led intervention

An authority of concern, identified through a non-statutory Best Value Notice, may be partnered with another authority with a track record of delivering good governance and effective service delivery in the area(s) of concern. This arrangement does not change local lines of accountability, with the host authority maintaining responsibility for the delivery of its functions. A supportive authority will be asked by the Secretary of State to assist, and the success of the local partnership and the authority's improvement is set and monitored by the Secretary of State. The option of alternative forms of intervention remains if progress is insufficient.

Sector-led intervention may be appropriate when an authority demonstrates failures or risk of future failure but is prepared to accept support from a willing and able local partner authority with the capacity to assist its improvement journey. It may be helpful if the two authorities share geography and strategic partners. However, this is not an exhaustive description of scenarios where a sector-led intervention may be appropriate.

Example: Evidence of service, governance and leadership failures at West Sussex County Council contributed to the suspension of the Chief Executive (who later left the council) and resignation of the Leader in early autumn 2019. The authority agreed with the Secretary of State to develop a local partnership approach to improvement and accepted a comprehensive support package from neighbouring East Sussex County Council and the Local Government Association. This involved establishing a strong executive leadership team which would report directly to the Secretary of State on progress and a programme of member-to-member support, which played a key role in the authority's improvement. East Sussex's Chief Executive formally became joint Chief Executive of both authorities in January 2020 and the Secretary of State monitored improvement progress until early 2021.

Statutory intervention

47. Statutory directions under section 15 of the Local Government Act 1999 can be made in relation to authorities where, from the available evidence, the Secretary of State is satisfied that the authority is failing to comply with the Best Value Duty. There are two main models of statutory intervention, and the Secretary of State will determine in each case what is the most appropriate option, based on the evidence of failure.

48. A statutory intervention – either with directions to the authority only or commissioner-led with directions to the authority – will usually be preceded by an announcement that the Secretary of State is 'minded to' intervene. This allows for a period of representations on the reasoning and evidence behind the proposed

intervention and on the proposed package itself. This process can however be bypassed in exceptional situations where there is sufficient urgency.

49. **Annex A** sets out the process for statutory intervention in more detail.

Directions to a best value authority

Under section 15(5) of the Local Government Act 1999, the Secretary of State may direct an authority to take any action which he or she considers necessary or expedient to secure its compliance with the Best Value Duty. This action may be anything the Secretary of State deems necessary. This might include, for example, the preparation of an improvement plan and the content of that plan, the requirement to report on the delivery of that plan, and the establishment of an improvement panel to provide external support and challenge. Directions can be issued on their own and without the simultaneous appointment of commissioners. They are time-limited and will automatically lapse unless further directions are issued.

The Secretary of State may also direct an authority to carry out a review of how it exercises specific functions (section 15(2) of the 1999 Act) or direct a local inquiry to be held into the exercise by the authority of specified functions (section 15(3) of the 1999 Act). These powers have not been exercised to date.

The decision to direct an authority to take certain actions is based on evidence from an inspection or another comparable source confirming that best value failure has occurred and there is limited confidence in the authority's ability to improve independently. In exceptional circumstances where the Secretary of State is satisfied that the need for action is sufficiently urgent, directions can be issued without a minded-to period.

Directions to a local authority may be appropriate where there is evidence of significant but not widespread best value failure in the authority, and that authority has some capacity but limited commitment to improve on its own. However, this is not an exhaustive description of scenarios where the use of Directions may be appropriate.

Example: To ensure the transformational work being undertaken by Nottingham City Council continued at sufficient pace, the Secretary of State issued Directions in September 2022 to amend its improvement plan, to report periodically to the Secretary of State on its delivery and to support the Improvement and Assurance Board, which had the effect of putting that Board on a statutory footing.

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Directions for a commissioner-led intervention

Under section 15(6) of the Local Government Act 1999, the Secretary of State may direct that some or all of the functions of an authority be exercised by the Secretary of State or his or her nominee (commissioners) for a specified period until that authority is in a sustainable position to comply with the Best Value Duty. This may include the appointment of a managing director commissioner to provide additional capacity at the senior level, and can be Head of Paid Service where necessary, to aid implementation of an improvement plan and to drive the cultural change required.

Commissioners receive powers to exercise functions to accelerate improvement, including default powers relating to governance and senior appointments. These powers have not been exercised frequently by commissioners as it is the role of commissioners, as far as possible, to guide members and officers to make the right decisions and be accountable locally for those decisions.

Commissioners are appointed by and directly accountable to the Secretary of State. Their fees are set by the Secretary of State and met by the council under intervention, and they must adhere to the Seven Principles of Public Life (the Nolan Principles).

The authority has a statutory requirement to comply with any instructions of the Secretary of State or their nominated commissioner in relation to the exercise of specified functions and provide such assistance as the Secretary of State or the commissioner may require for the purpose of exercising that function.

Commissioners will be expected to establish an exit strategy for returning functions to the authority (see section 9 of this guidance), to create their own governance and operational arrangements, and to set an example to the authority around transparency in decision-making by publishing key decisions and the minutes of any Boards they create. Commissioners provide regular reports to the Secretary of State on the progress made by the authority and any concerns at defined intervals and these reports, along with ministers' responses to them, are published on gov.uk. They receive a fee from the authority for their work and are supported by a Chief of Staff, who provides support from the department.

Concurrently, the authority is usually also directed to take any action which the Secretary of State considers necessary and expedient to secure its compliance with the Best Value Duty (see Directions to the best value authority intervention model above).

Commissioners will be expected to give their views to ministers on the scope of their powers, which may result in an extension in the scope of the directions mid-intervention. The Secretary of State may also direct the authority to take any action that the commissioners reasonably require to avoid incidents of poor

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governance or financial mismanagement that may give rise to the risk of further best value failure.

It is also possible for the Secretary of State to appoint an authority as an inspector or commissioner instead of a named individual.

Directions for a commissioner-led intervention may be appropriate where there is evidence of best value failure in an authority, and that authority has limited capacity and commitment to improve on its own. However, this is not an exhaustive description of scenarios where the appointment of commissioners may be appropriate.

Example: Following a Best Value Inspection of Northamptonshire County Council, which found evidence of poor financial management and a culture that discouraged challenge, the Secretary of State appointed commissioners in May 2018 to exercise all functions associated with the governance and scrutiny of the authority's strategic decision making, of strategic financial management, and of functions relating to the appointment and dismissal of statutory officers. The commissioners remained in place until March 2021 when the authority and neighbouring authorities were abolished and replaced with the two newly created unitary authorities of North Northamptonshire and West Northamptonshire.

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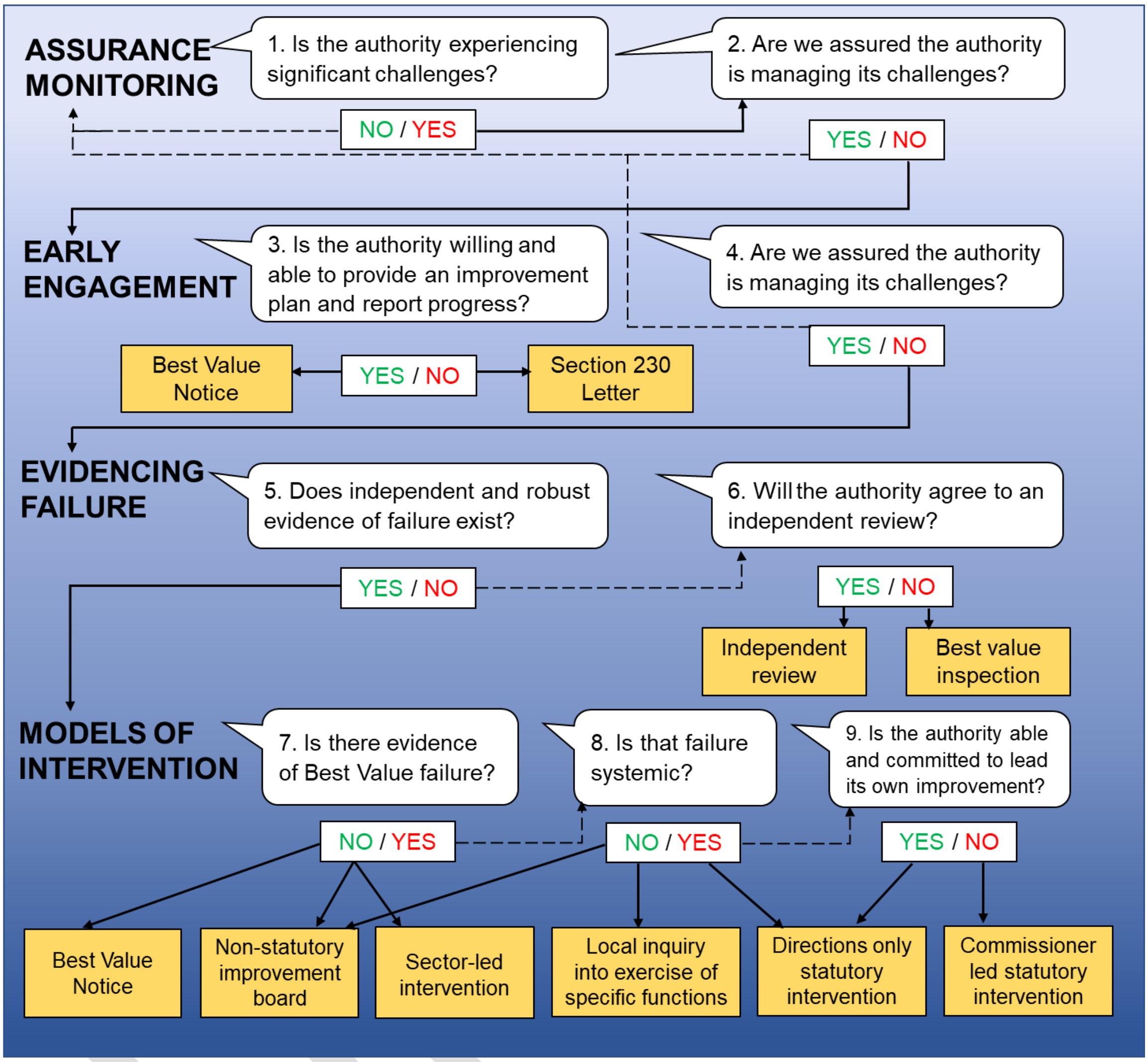
Diagram 2: Models of intervention by scenario



9. Exiting intervention

50. No local authority is perfect and in determining whether and when an intervention should end, it is important to ensure that reasonable standards are applied that clearly relate to the nature of failure identified in that particular local authority. Local authorities are not expected to be perfect before an intervention ends. The aim of all interventions is to resolve incidents of failure to the point where the authority can demonstrate that it now has the capacity and capability to sustain its own journey of continuous improvement without the need for further external involvement. Commissioners or, where appropriate, chairs of statutory improvement and assurance boards are responsible for assessing the levels of risk and confidence that the Secretary of State can rely on when determining whether or not to end an intervention.

51. It is essential that commissioners/board chairs and the authority work together from the outset to develop a clear road map which identifies what the intervention intends to achieve and the route the authority should take to exit intervention, noting that this may change over time. This will enable the authority to focus its efforts on improvement, to share a sense of achievement and confidence, and to maintain momentum with progress. The details of that exit strategy will be unique to each authority experiencing intervention; it will depend on the nature of local failings and be sufficiently flexible to reflect the journey that the local authority is making. It will identify measurable criteria – "proxies for success" – in relation to individual functions and service areas which are specific and capable of being evidenced. The characteristics of a well-run authority, included in section 5 of this guide, give an indication of how those criteria may look.

52. When sufficient improvement has been made and the authority can demonstrate it is able to sustain its own journey of continuous improvement, the Secretary of State will consider evidence from the commissioners/board chairs and any other relevant sources such as peer challenges before handing functions back to the authority. Conversely, a turnaround programme that takes too long is likely to result in increased intervention. Functions may be returned when the intervention is due to end or earlier, on a partial basis, depending on the level of progress made by the authority in specific areas. For example, a function may be returned to the authority but with continued commissioner oversight, or a certain function(s) may be returned whilst others are retained by the commissioners until further progress is made. An independent review may be required to give reassurance to the Secretary of State, as well as to the authority and local residents, on the progress made and to set the future improvement agenda for the authority to focus on. If appropriate, the Secretary of State may withdraw commissioners but require the authority to report on progress against an improvement plan for a fixed period before completely ending the intervention.

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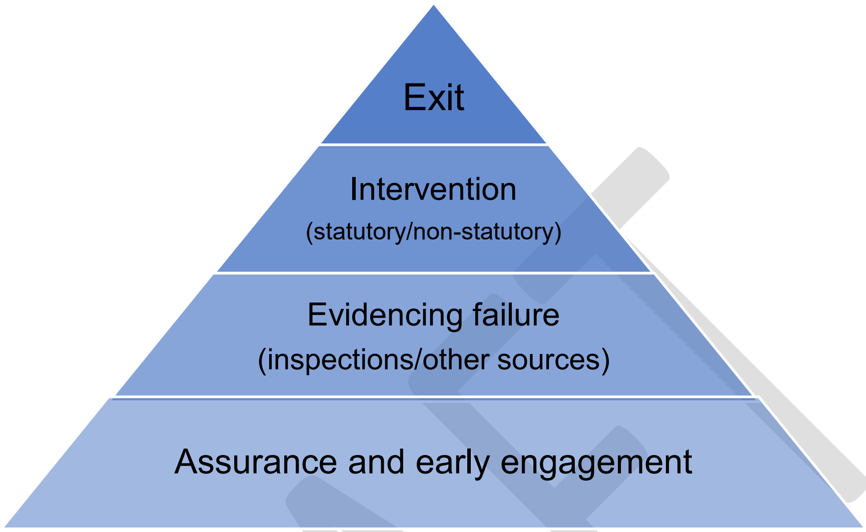
Annex A: The end-to-end process of interventions

Diagram 3: Strategic view of the intervention process



Assurance and early engagement	The department's local government stewardship function, working closely with other government departments and the Local Government Association, continually reviews the health of local authorities' governance, financial management and delivery of corporate and key services. The department engages with local authorities to understand their organisational challenges, gain assurance of how they are managing these challenges and help identify what form of support (if any) is needed. Where assurance is not provided, the department may write to an authority stating its concerns and request that they provide a timebound improvement plan, report back to the department on progress and publish all related documents. ↓ **Best Value Notice** ↓ **Statutory Best Value Notice**

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Evidencing failure	If an authority is exhibiting some characteristics that may indicate best value failure, including taking no steps to acknowledge or address ongoing challenges by engaging with sector-led improvement, but there is insufficient evidence available for the Secretary of State to make an informed judgement, the Secretary of State may commission an inspection to determine whether best value failure has occurred. Failure or the risk of future failure can be evidenced in other types of expert independent assessments, for example local authority-commissioned reports, auditor or inspectorate reports, or government commissioned reviews. **Best value inspection assessment** **Another independent**

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Best value inspection	Where there are concerns, the Secretary of State can use powers under section 10 of the Local Government Act 1999 to appoint an inspector to carry out an inspection of the authority's compliance with the Best Value Duty in relation to specified functions. Once an inspector has been identified by the Secretary of State, a formal letter of appointment will be sent to them, setting out the evidence leading to the inspection, the deadline for the Inspector's report and guidance on the areas the Inspector should focus on. The Inspector's letter of appointment will be sent to the Chief Executive of the authority under inspection with a covering letter setting out the reasons for the inspection, details of the appointment, the deadline for the Inspector's report and a description of the requirements placed on the authority (access to documents, IT and records, payment of fees and expenses, provision of office space and general cooperation). The Secretary of State will consider the findings and evidence set out in the inspector's report and decide appropriate next steps. This could be to: • Continue close monitoring of the local authority by the department and offer appropriate targeted support, if the inspection finds no evidence of Best Value failure. • Non-statutory intervention, if the inspection confirms limited best value failure and the authority has the willingness, capability and capacity to lead its own improvement. • Statutory intervention, where failure is systemic and the Secretary of State has limited confidence in the authority's ability to improve independently.
Non-statutory intervention	A form of non-statutory intervention may be appropriate if an authority demonstrates failures or risk of future failures that are not systemic and there is confidence that the authority has the willingness, capability and capacity to sustain continuous improvement, but external expertise and challenge would result in more efficient recovery. Membership of an improvement board, panel or taskforce and its terms of reference are usually determined by the authority but can also be proposed by the department (in agreement with the authority), depending on the level of assurance required by the Secretary of State. The department will need to be confident the authority will make sensible appointments and set sufficiently robust terms of reference. Where it does not have that confidence, the department may make its own appointments,

	triggering the improvement board to move to a statutory footing (under section 15(5) of the Local Government Act 1999). ⬇ **Improvement boards** ⬇ **Sector led intervention**
Statutory intervention	If an authority does not have the willingness, capability and capacity to improve without external support and, based on the evidence, the Secretary of State is satisfied that the authority is failing to comply with the Best Value Duty, the Secretary of State's decision to intervene pursuant to section 15 of the Local Government Act 1999 will be communicated formally to the authority through a "minded to" letter issued by officials (unless the directions are sufficiently urgent). The decision will also be announced by a Statement (written or oral) to both Houses in Parliament. The "minded to" letter will set out the reasons underlying the proposed intervention package and, if the Secretary of State proposes to appoint commissioners, the likely extent of their powers. The authority and other interested parties, for example, elected members and residents, will have the opportunity to make representations on the Secretary of State's proposals (generally 10 working days). If, after considering any representations received and all the relevant available evidence, the Secretary of State still considers that a statutory intervention is necessary, the Secretary of State will make Directions as set out in the minded to letter (subject to any amendments arising from representations received).

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Statutory intervention	The authority will be informed of the Secretary of State's decision by means of a letter from a senior departmental official to the Chief Executive which will also contain the final Directions and associated Explanatory Memorandum. The decision will also be announced by a Statement (written or oral) to both Houses in Parliament. Where appropriate, the Secretary of State will also appoint commissioners. During the intervention, regular reports on progress to the Secretary of State will be expected. There may also be some consideration of changes to the original Directions, either to extend the powers or duration, or to hand back functions to the authority. The statutory intervention will end when the authority can demonstrate that it now has the capacity and capability to sustain its own journey of continuous improvement without the need for further external involvement. The Secretary of State will consider evidence from the commissioners, where appropriate, and any other relevant sources before ending the intervention. An independent review may also be required to give assurance to the Secretary of State, as well as to the authority and local residents, on the progress made and to set the future improvement agenda for the authority to focus on. ⬇ **Directions only intervention, incl. local review or inquiry** ⬇ **Commissioner-led**

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Appendix D: Use of Resources Best Value Theme- Assessment against characteristics of a well performing authority

Description	Characteristics of a well-functioning authority	How we assess ourselves
An authority must have in place and properly deploy an effective internal control environment to safeguard the use of resources, and clear and effective processes to secure value for money. It must have appropriate financial management, reporting and regulation arrangements in place, in accordance with CIPFA's Financial Management Code, to govern the strategic and operational management of its investments, funding, assets and companies. This includes ensuring it has the appropriate skills and capacity in place, commensurate with the complexity of its finances, using specialist expertise when needed. Authorities must appropriately comply with the Prudential Framework in making investment and	(a)Annually the Chief Finance Officer requests that Group Heads and senior management complete an assurance statement, reinforcing the importance of internal control. Management is accountable for implementing and operating adequate systems of internal control in managing risk. (b) An effective internal audit service that produces a risk based audit plan (programme of work) approved by the Audit Committee, and provides independent assurance on the adequacy of systems of internal control, governance and risk	(a) Signed declarations from Managers (b)External Quality Assessment of Internal Audit's conformance to professional auditing standards at least once every 5 years. This is a key measure used in the internal audit sector to ascertain quality, professionalism and effectiveness of Internal Audit. The

borrowing decisions and not take on excessive risk. They should have effective systems for identifying, reporting, addressing and reviewing financial risk and have consideration of CIPFA's Financial Resilience Index. Investment decisions must have a commensurate level of scrutiny, transparency and approval to make sure that officers and members fully understand the risks. Financial management and reporting should be supported by robust financial systems, record keeping and quality assurance, with appropriate use of specialist expertise when needed. Authorities should respond to audit recommendations and address issues identified in a timely way. Capacity constraints should be identified and recruitment to fill key posts prioritised. Succession planning needs should be considered, with a longer-term view as to when there might be a gap in senior, experienced officers	management arrangements. Recommendations issued if deemed necessary, aimed to enhance internal controls. (c) Monitoring system to ascertain status of audit recommendations (implementation). (d)Strategic risk register maintained, monitored and regularly reported. This aims to focus on the most significant risks facing the authority that impact the effective achievement of the Council's corporate priorities.	Independent assessment undertaken in 2023 concluded an overall positive rating for Spelthorne's Internal Audit based on universal gradings. Annual review of Internal Audit Effectiveness also highlights any continuous improvement measures. (c) Internal Audit recommendations are periodically followed up and status reported to Management Team and Audit Committee. (d) Strategic risk register (Corporate Risk Register) maintained, monitored and regularly reported (3 times a year) to the senior executive management team, Audit Committee and wider Members. It takes into account the Council's risk exposure to wider externalities, including financial risk and the impact on delivery of corporate priorities.

	The financial strategy and budgets are clearly aligned with strategic priorities and there is a robust process for reviewing and setting the budget.	We have done a considerable amount of work to make Budget process more transparent and engage more with councillors and work through the Committees. In 2024-25 we have prioritised addressing housing pressures which is both a statutory pressure and is also in line with one of our corporate priorities
	Human resources and fixed assets are managed efficiently and effectively.	The Council commissioned an independent review of its establishment by SEE which reported in 2023 to Corporate Policy and Resources Committee. Human Resources recruitment and retention risks are highlighted on the Corporate Risk Register. The Council has significantly grown its Assets team by setting aside some of the income from investment assets to fund posts. A number of experienced professionals have been recruited from the private sector. The Assets team pro-actively manages the investment assets portfolio which is reflected with a consistent collection rental rate in excess of 99.8% throughout the pandemic and cost of living crisis and a current void rate of less than 9%. The Council continually reviews and refines

		governance arrangements for oversight of assets activity
	A robust system of financial controls and reporting exists, which provide clear accountability and ensure compliance with statutory requirements and accounting standards.	The Finance team has been strengthened over the last few years with the addition of new posts and creation of two apprentice posts to grow new talent. Internal audit resilience is being strengthened by outsourcing to Southern Internal Audit Partnership to give the Council to a greater range of internal audit expertise and resource
	Compliance with the Prudential Framework, a clearly presented Investment Strategy, Capital Strategy and Minimum Revenue Provision (MRP) policy exists.	We focus on complying with the Prudential Code, and have in place Investment Strategy, Capital Strategy which are approved on annual basis. The Capital Strategy particularly focused on risk management. We have a Minimum Revenue Policy (MRP)in Place and regularly liaise with our Treasury Management advisers to ensure that our approach is compliant. Our advisers provide periodic training for councillors with the last session being in January 2024
	A clear strategy exists to maintain adequate reserves.	Reserves Strategy is reviewed and approved on an annual basis by

		Corporate Policy and Resources. We have an approved strategy for sinking funds reserves
	There is collective accountability for the budget and medium-term financial plan, rather than a siloed approach to management.	Under the Committee governance system at a political level there is ownership for the budget and Medium Term Financial Plan across the Committees with Corporate Policy and Resources Committee taking the Strategic lead. At an officer level MATplus takes ownership. We review our self-assessment against the CIPFA Financial Management Code to ensure that there is collective ownership for financial management issues
	There are regular financial reports to Cabinet and training for all members on finance.	Regular monitoring reports go to all service committee and to Corporate Management. The financial system has been upgrade to enable managers to more easily monitor and revise budget projections and to encourage ownership. A Members Financial Reporting Group was set up to focus on how we can make financial reports easier to understand for councillors. This has led to the implementation of the “four square” summary methodology for reports. Moving forwards we are looking

		to implement dashboard reporting.
	Robust systems are in place to identify, report, address and regularly review financial risk.	The Council's Corporate Risk Management Policy was refreshed and approved by Audit Committee a few years ago. We have a section on risk in all reports going to committee. We are in the process of embedding a risk appetite methodology and have developed a framework for taking this forward, communicated with Senior Managers and Audit Committee. Service Plans are required to focus on risk mitigation. The Corporate Risk Register is reviewed quarterly by Corporate Management Team, Audit Committee and Policy and Resources Committee
	Sustainable, competitive corporate functions including procurement and IT which deliver value for money.	In recent years we have expanded the procurement function to 3 posts. ICT is a challenging area to recruit to and to retain staff because we do not offer salaries in line with neighbouring authorities or the private sector.
	The Audit Committee has the knowledge, skills and independent expertise to provide robust challenge and ensures effective	We have in place an independent member on the Audit Committee. Current such member has 30 plus years of audit experience, to help enhance the knowledge

	controls are in place and issues addressed.	and expertise of the Committee. Regular training has been provided to the Audit Committee on the role of audit committees, risk management and understanding local authority accounts. The Audit Committee has within its remit the authority to call Managers to account before the Committee.
	Effective project management of projects to enhance governance and effective use of resources.	The Council's Project methodology requires Project Initiation Documents to be completed. The Council's projects team tracks projects and reports on progress to councillors

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Appendix E – Self Assessment against Best Value Indicators of Potential Failure for Use of Resources

Description	Indicators of Potential Failure	How we assess ourselves
An authority must have in place and properly deploy an effective internal control environment to safeguard the use of resources, and clear and effective processes to secure value for money. It must have appropriate financial management, reporting and regulation arrangements in place, in accordance with CIPFA's Financial Management Code, to govern the strategic and operational management of its investments, funding, assets and companies. This includes ensuring it has the appropriate skills and capacity in	(A) A weak overall control environment goes beyond the more tangible systems of internal control – it encompasses the tone from the top and how this permeates attitudes, actions, behaviours and control consciousness of all across the Council. (B) Where Managers do not take responsibility for implementing and maintaining adequate systems of internal controls in managing risk, this may lead to poorly designed and functioning systems of internal control that may adversely impact delivery of services, objectives , and priorities. This may also lead to a higher risk of occurrences of erroneous transactions, reduced integrity of information and reporting, financial losses, fraud, impropriety, irregularity and/or weakened governance arrangements/governance failures. It may present in an increased level of adverse internal audit assurance opinions (limited or no assurance).	(A)- An Internal Audit review of workplace Culture has been undertaken previously. -Employee surveys and feedback / - HR may wish to comment (B)Overall assurance framework comprises 3 lines of defence standard industry model. Management represents the first line of defence so are responsible for managing their systems of internal control on an ongoing basis and highlighting/addressing any issues arising. Third line of defence comprises Internal Audit providing independent assurance. (B)Overall audit conclusion provided for internal audit assignment work undertaken (assurance opinion) which will form an important

place, commensurate with the complexity of its finances, using specialist expertise when needed. Authorities must appropriately comply with the Prudential Framework in making investment and borrowing decisions and not take on excessive risk. They should have effective systems for identifying, reporting, addressing and reviewing financial risk and have consideration of CIPFA's Financial Resilience Index. Investment decisions must have a commensurate level of scrutiny, transparency and approval to make sure that officers and members fully understand the risks. Financial management and reporting	(C) Significant delays in implementing agreed audit recommendation aimed to enhance and strengthen internal control in managing risk. This may present ongoing weaknesses in controls operating and therefore increased risk exposure. (D) Poor investment returns	consideration for the annual audit opinion (B)Regular review and reporting of the Council's Constitution and related policies, for example Counter Fraud, Bribery and Corruption Strategy and Whistleblowing Policy (Confidential Reporting Code). (C)Audit recommendations followed up regularly and status reported to Management team and Members. (D)Regular review and reporting of Treasury Management activity and performance reporting , as well as future strategy and application of professional standards. Financial considerations section in Committee reports to embed consideration of financial implications. Risk management section in Committee reports to embed consideration of risk

should be supported by robust financial systems, record keeping and quality assurance, with appropriate use of specialist expertise when needed. Authorities should respond to audit recommendations and address issues identified in a timely way. Capacity constraints should be identified and recruitment to fill key posts prioritised. Succession planning needs should be considered, with a longer-term view as to when there might be a gap in senior, experienced officers		
	Absence of a deliverable and clear medium-term financial plan, approved by the authority's Cabinet or finance committee (as appropriate) and full council.	Corporate Policy and Resources Committee considers and approve each year Outline Budget report, containing medium term projections and medium term financial strategy. Medium term projections are updated and reported as part of

		Detailed Budget approved by Council
	Consistent overspends, frequent use of virements, and no credible plan to reduce unaffordable debt and maintain sustainable finances, and recurrent non-delivery of savings plans	In most years, the Council has had underspends and is currently projected to have an underspend. Limited use made of virements. While the Council has significant debt incurred in period 2016-18, it as fixed rates of interest (average 2.3%) and is being paid down on an annual basis, and the income associated with the investment assets financed by the borrowing comfortably exceeds the financing costs
	Avoidance of/failure to implement difficult budget decisions.	Council in October 2023 made the decision to step back from financing the housing and regeneration programme and to seek to advance through a new place making and joint venture strategy. The Council will however need to make decisions which achieve viable outcomes on these sites.
	No evidence of transformation to create efficiency savings	Pre-pandemic Council reduced its use of office space by 42% to free up West Wing to convert into affordable housing accommodation. Council is advancing a Digital Transformation Programme and is progressing several

		service collaborations with other councils including the finance partnership with Mole Valley
	Inadequate reserves, savings not achieved and poor benefits realisation.	Over the last seven years the Council has steadily increased its reserves- cash backed reserves (excluding CIL and developer contributions) wer £62m at 31.3.23. LG Improve benchmarking has identified that as at March 2023 Spelthorne had the highest ratio of revenue reserves to net budgeted revenue expenditure of any district or borough council in England
	Consistent reliance on reserves to balance an outturn position.	In most years the Council has not had to use reserves to balance the budget. In 2024-25 due to the £907k housing growth pressures £703.6k of reserves is being used. However the intention is to replenish these reserves in 2025-26
	Unlawful or excessively risky borrowing and investment practices with no adequate risk management strategy in place for financial losses.	Council always seeks legal advice on significant or unusual transactions. Council is focused on effective risk mitigation strategies. We periodically bring external consultants to review our investment portfolio (most recently February 2024). The building up of the sinking funds reserves is a key part of the risk mitigation strategy

	Failure to manage the risks associated with companies.	The Council has studied the lessons from failures elsewhere such as Croydon, and has regard to CIPFA guidance on local authority companies, and Local Partnerships guidance. The Council has appointed two experienced Non-Executive Directors onto the Board of its Housing Management Company. Its Housing company is independently audited and reports annually to Corporate Policy and Resources Committee
	An authority that has issued a Section 114 Notice.	We have never issued a S114 notice
	Significant weaknesses identified in the annual audit report for financial sustainability, and/or statutory recommendations or a public interest report is issued.	Annual audit report for 2022-23 did not identify significant weakness. Key themes drawn out from internal audit activity and wider assurance work were referred to in the annual audit report and Annual Governance Statement External auditors did issue a public interest report for 2017-2018. Council has in response implemented an action plan
	High dependency on high-risk commercial income for service delivery and balancing budgets.	It is true that that equivalent to a third of the gross cost of total service expenditure is financed from commercial income. This is why there is a

		significant focus on managing and mitigating the associated risk
	Non-compliance with accounting requirements regarding MRP.	We fully comply with both the letter and spirit of MRP requirements
	A finance function that is not fit for purpose owing to capacity or capability issues.	Council had a positive LGA Finance Peer Review in 2021. The Council has invested in growing the Finance team and upgrading the financial software platform. We have created two CIPFA apprentice posts. Looking to further enhance resilience and capacity by the Finance partnership
	Underinvestment in back-office services, which affects capacity and succession planning	Investment in Finance as set out above. We are investing to enhance capacity and resilience in Internal Audit by joining the Southern Internal Audit Partnership
	Inefficient or uncompetitive procurement arrangements that do not deliver value for money	Considerable work has been undertaken to improve the procurement arrangements
	IT that is not capable of doing the job for which it is designed.	Equipment is kept up to date and refreshed regularly. Core infrastructure and end user devices are replaced on a 5 year cycle. Mobiles and tablets are replaced once they are no longer receiving security updates.

		All devices are managed centrally via InTune. The network is PSN accredited annually. The network is securely protected and high levels of logging and alerting are in place to protect against potential vulnerabilities. Microsoft E5 licensing is used for, amongst other things, delivery of security and compliance, emails, and telephony. All staff are equipped with suitable ICT equipment appropriate to their role. Virtual conferencing and communications technology is available to all staff. All staff are given mandatory cyber security training. The ICT team enabled the Council overnight to shift to working virtually during the pandemic. Modern virtual communications technology is used. Digital transformation for public facing interactions is underway. In-house development of forms is facilitating improvements such as report it portal for residents and councillors

Audit Committee

19th March 2024

Title	Corporate Risk Register (Corporate Risk Management)
Purpose of the report	To note
Report Author	Punita Talwar, Internal Audit Manager
Ward(s) Affected	All Wards
Exempt	No
Exemption Reason	N/A
Corporate Priority	The Corporate Risk Register outlines significant strategic risks impacting the effective delivery of all corporate priorities (CARES). Community Addressing housing needs Resilience Environment Services
Recommendations	**The Audit Committee is asked to:** **1.Consider the significant strategic risks and issues highlighted in this report and present these to the Corporate Policy and Resources Committee, ensuring continued wider reporting of the Corporate Risk Register and actions across other Committees.**
Reason for Recommendation	**The Corporate Risk Register continues to ensure that the Council's most significant risks in relation to achievement of corporate priorities and objectives are identified, managed, monitored, and reported.** **Continued visibility and ownership of the risks and issues raised in this report is recommended across the Council due to the significant and wide-reaching implications. This will support improved coordination in implementing risk management strategies.**

1. Summary of the report

What is the situation	Why we want to do something
The Corporate Risk Register continues to ensure that the Council's	Exposure to wider externalities and other unprecedented pressures are

most significant strategic level risks in relation to achievement of corporate priorities and objectives are regularly identified, managed, monitored, and reported. The current reporting frequency coincides with the Audit Committee cycle and work programme.	continuing to present competing levels of crises. The worsening financial and housing crisis across local government continues to have adverse and wide-reaching effects. Consequently, the Council continues to encounter some challenge in the context of delivering corporate priorities. The approaches being taken to proactively manage identified risks and mitigate impact are referred to in this report and related appendices.
This is what we want to do about it	**These are the next steps**
Continued relevance of the risks on the register is important, particularly during current times of accelerating levels of crises, often referred to as the poly-crises, and the rapid pace of change. The Corporate Risk Register and related process provides a mechanism for regular review of the register, ensuring it remains current.	The corporate management team and lead Committee hold collective ownership and accountability for ensuring these strategic corporate risks are effectively managed. In doing so they are supported by designated lead officers (at Group Head level) who are responsible for overseeing the day-to-day management of these risks and ensuring future risk management strategies are progressed/implemented.

1.1 This report seeks to highlight significant strategic risks in delivering the Council priorities (CARES) and objectives, current strategies to manage risks (these are defined as current controls and current mitigations) as well as any future strategies to manage associated risks.

1.2 Exposure to wider externalities and other pressures are continuing to present competing levels of crises. The worsening financial and housing crisis across the local government sector continues to have adverse effects, impacting communities. Consequently, the Council continues to encounter some challenge in the context of delivering corporate priorities. The approaches being taken to proactively manage identified risks and mitigate impact are referred to in related appendices to this report.

1.3 The format and presentation of the Corporate Risk Register has been refreshed further to implementation of an in-house system. This has modernised the look and feel of the register and promotes more focused reporting of risk management, reinforcing designated lead officers and risk owners against each broad risk category/risk subject area. It incorporates a Risk Dashboard for users of the system to filter risks by lead officer/risk category or subject area. It will also support future recording, collation and analysis of information in the register, and over time production of tailored reports can be explored.

2. Key issues

2.1 The corporate management team and lead Committee hold collective ownership and accountability for ensuring these strategic corporate risks are effectively managed. In doing so they are supported by designated lead officers (at Group Head level) who are responsible for overseeing the day-to-day management of these risks and ensuring future risk management strategies are progressed/implemented.

2.2 The format and presentation of the Corporate Risk Register has been refreshed following implementation of an in-house system and central record. This has modernised the look and feel of the register and promotes more focused reporting of risk management, incorporating a Corporate Risk Dashboard for system users. Each broader risk category heading in the register (of which there are nine) is broken down into a specific subject risk area. For example, under risk category 1a – Housing – Development and Targets, there are 4 subject risk areas comprising Alternative Development delivery options, Housing Development Programme, Timelines for Delivery and Local Plan. Guidance has been provided to Managers to support better differentiation between control and mitigation whilst recognising that these are both strategies to manage identified risks. It has also been a timely opportunity to remove surplus content in the register when articulating risk management strategies and therefore a data refresh has taken place.

2.3 The revised corporate risk register content is presented as appendices to this report and includes the following:

-Appendix A - Identified risks along with current and future risk management strategies set out in one document. (There is no longer a separate Risk Action Plan as future risk management strategies are reported in the same document highlighting next steps in managing the risks).

- Within Appendix A there is summary information (visually presented) in terms of the direction of travel for each subject risk area regarding any movement of either the RAG rating, risk score or indicative future risk score.

-Appendix B sets out the positioning and ranking of current assessed risks relating to each subject risk area, applying the corporate risk scoring matrix. (Risk owners and Lead Officers have had an opportunity to review the proposed positioning of the risks on the matrix).

2.4 The key headlines and updates to report across the broad risk categories on the register deemed to be emerging from the current review are set out below:

- Financial risk continues to present a common theme weaving through many of the risks on the register in view of ongoing funding challenges for local authorities, increased service demands (in particular the housing crisis is increasing the need to spend on temporary accommodation), managing accumulated capital costs of £10 to £15m arising from the suspension of direct delivery of the Housing Development programme as well as significant annual holding costs being incurred on development sites, amid inflationary pressures, the Cost of Living and Cost of Doing Business Crisis and the long term impact of increased cost of debt (borrowing).

- Risk Category 1a – Housing(Development and Targets). Subject risk areas include Development Delivery Options/Timelines for Delivery/Housing Development Programme (All Red RAG – Current risk score of 12)

  The earlier section draws out some significant financial risk implications relating to this risk category. In terms of taking forward alternative development delivery options in working towards addressing housing need and delivering housing outcomes across the sites currently owned by the Council, this will be subject to formal approval/implementation of a Member driven strategy.

- Risk Category 1a – Housing (Development and Targets) . Subject risk area - Local Plan . (Red RAG – Current risk score of 12)

  The delays in adoption of the Local Plan and wider risk implications have been previously reported and remain in the risk register. Further assessments are underway regarding Greenbelt sites and the strategic flood risk assessment, taking account of the River Thames scheme modelling. Any proposed modifications that may arise will be subject to decisions and communicated to the Planning Inspector.

- Risk Category 3a – Financial Resilience - Commercial Assets (Amber RAG - Current risk score of 9)

  The risks in this section have been reviewed for completeness and expanded to incorporate risk considerations around diversification of asset holdings and major lease expiry reviews. The corresponding risk management strategies have been included in the register.

  The specific risks and issues highlighted recently by an external advisor and the Council's responses are included as a separate (exempt) item on the agenda. (*Please note separate JLL report for inclusion as an Appendix along with a table drawing out the key risks arising from that review and management's response)*

- Risk Category 4 - Financial Resilience and supporting Communities.

  Subject Risk Area – Financial Pressures and increased costs (Amber RAG - Current risk score of 9) ;

  Subject Risk Area – Financial Pressures – Cost of Living Crisis and increased demand on Council Services(Red RAG – Current risk score of 12)

  Subject Risk Area – Financial Pressures – restricted Borrowing Levels (Amber RAG - Current risk score of 9)

  Some of the key financial pressures facing the authority have been highlighted earlier in this section of the report. Full Council have approved a balanced budget for 2024/25, and the additional budgetary challenges ahead particularly from 2026/27 are highlighted in the register. In managing and alleviating risks relating to financial pressures, a medium-term financial strategy is in place. Enhanced approaches to budget setting such as the introduction of Zero-Based Budgeting (ZBB) are planned for implementation as part of the 2025/26 budget process, and quarterly reporting on progress in achieving targets in delivering the cashable efficiency savings programme will be coming into effect from 2024/25. The Council's financial reserves strategy and forecast is subject to periodical review, benchmarking analysis and reporting. The Surrey wide Financial resilience review undertaken set out the position across the County which was reported as generally positive and in the context of the national picture for local authorities.

3. Options analysis and proposal

3.1 The revised register and related appendices are an accurate reflection of the high-level significant risks affecting the Authority, based on consultation with Managers and assessment of risk and controls in operation.

3.2 Option 1 - To consider the contents of the Corporate Risk Register including any new or expanded risk categories, residual risks highlighted, current risk management strategies (current control actions, current mitigating actions) and future risk management strategies. (preferred option); or

3.3 Option 2 - To recommend amendments to the Corporate Risk Register for consideration by the Corporate Risk Management Group.

4. Financial management comments

4.1 As previously reported, there are major financial implications arising from several corporate risk categories on the register. This is explained further at para 2.4 above including examples of risk management strategies currently in place or planned to take forward.

5. Risk management comments

5.1 The Council's corporate and strategic risks impacting the effective achievement of corporate priorities, represent the most significant risks facing the authority. The register contains nine broad strategic risk categories, comprising specific risk subject areas that align to the broader category. Risk descriptions and consequences are identified and articulated, as well as the current controls and current mitigation measures in place to manage these risks. Current controls are those actions intended to reduce the likelihood of occurrence of the risk event, whilst current mitigations are those actions intended to reduce the impact of a risk event should it occur. Taken together, current controls and current mitigating actions represent current risk management strategies. Future risk management strategies are also included in the register documentation.

6. Procurement comments

6.1 Any procurement considerations relating to the risk categories on the register should be identified by the respective Risk Owners and lead officers and are likely to form part of separate reporting/communications.

7. Legal comments

7.1 Some corporate risks facing the Council as identified on the register are driven or influenced by statutory requirements. For example, at risk category 8 - Equalities, Diversity and Inclusion refers to the Equality Act 2010.

8. Other considerations

Whilst not currently referred to as a specific risk category on the Corporate risk register, the challenges facing the external audit sector have continued to present risks across the local government sector in terms of significant ongoing delays and backlogs in external audit assurance provision relating to prior year accounts , and the subsequent limitations regarding audit coverage and opinions. The external audit review process relating to 2023/24 for Spelthorne has however commenced.

9. Equality and Diversity

The Corporate Risk Register incorporates Equality, Diversity and Inclusion as a specific strategic risk category and sets out current controls and current mitigation measures in place, as well as future risk management strategies. There are no further areas of progress to report as part of the March review of the risk register.

10. Sustainability/Climate Change Implications

10.1 There are none separate to those in the revised Corporate Risk Register, and some updates have been made under the broad risk category 6 as part of the March review of the register.

11. Timetable for implementation

11.1 Future risk management strategies show lead Council officers responsible for progressing actions, together with target timescales for implementation. The register content is reviewed and updated three times a year in consultation with the corporate management team, Group Heads and Managers. It is coordinated, analysed, and reported by the Internal Audit Manager which includes identifying new risk descriptions, high level review of relevance of control and mitigation actions being reported in context of risk area, and proposing new risk management strategies in consultation with Managers where deemed appropriate.

12. Contact

12.1 Please also refer to contact names provided for Risk owners/accountable officers as well as lead Officers who hold responsibility for implementing systems of internal control and mitigating actions to manage and alleviate the risks identified against each broad risk category and risk subject area.

Background papers: There are none*.*

Appendices:
Appendix A - Corporate Risk Register – this includes related narrative content as well as (i) level of assessed risk i.e., Red/Amber/Green - RAG status of each risk category (ii) Numerical Risk score and Direction of Travel.
Appendix B –Risk scoring matrix summary – level of assessed risks in the register
Appendix C- RESTRICTED ITEM
Appendix D- RESTRICTED ITEM

APPENDIX A Corporate Risk Register - Spelthorne Borough Council

Risk category	1a - Housing – Development and Targets
Risk subject area	Alternative Development delivery options

12

<12 9>

Last review by	p.talwar@spelthorne.gov.uk 2/29/2024 4:48:07 PM
Corporate priorities	Addressing Housing Need
Risk owner	Admin Lee O'Neil Terry Collier Daniel Mouawad
Lead officer	Coralie Holman

Risk description

- In identifying alternative Development Delivery Options for Council Owned Development Sites, there are new risks to assess to determine whether such arrangements (for example Joint Ventures) represent financially viable solutions in the long term and that they do not accelerate the Council's financial risk exposure to an unacceptable level, consequently presenting further uncertainty and strain on the Council's financial sustainability.

Current control actions

These are specific actions to reduce the likelihood of a risk event or occurrence

- Governance and reporting arrangements.
- Professional advice, expertise and input from officers across the Council , to guide and support on the implications of any proposed routes put forward.
- Scrutiny of decisions is embedded within the Committee system of governance, and a 'call in' procedure can be invoked if required.

Current mitigating actions

These are specific actions to reduce the impact of a risk event should it occur

- Progressing new Member driven strategy in consultation with residents for delivering housing outcomes across the sites currently owned by the Council.

Future actions

Type	Timeline	Description	Status	Comments
Mitigation	April 2024	Identification and rigorous assessment of alternative Development Delivery Options for Council Owned Development Sites, to ensure they represent financially viable and sustainable solutions in delivering development targets.	In Progress	

APPENDIX A Corporate Risk Register - Spelthorne Borough Council

Risk category	1a - Housing – Development and Targets
Risk subject area	Timelines for delivery

12

<12 9>

Last review by	p.talwar@spelthorne.gov.uk 2/29/2024 5:00:57 PM
Corporate priorities	Addressing Housing Need
Risk owner	Admin Lee O'Neil Terry Collier Daniel Mouawad
Lead officer	Coralie Holman

Risk description

- Further to the Council's decision to suspend direct delivery of the Housing development programme from mid-September 2023, this will further impact timelines for delivery of housing schemes and development targets (both affordable and general housing).

Current control actions
These are specific actions to reduce the likelihood of a risk event or occurrence

- Residual risk that may have to be accepted given the risk event occurrence and impact.

Current mitigating actions
These are specific actions to reduce the impact of a risk event should it occur

- Residual risk that may have to be accepted given the risk event occurrence and impact.

Future actions

Type	Timeline	Description	Status	Comments
Mitigation	June 2024	Once strategy routes have been confirmed, monitoring mechanisms to be pursued of revised timelines for delivery of targets	Outstanding	

APPENDIX A Corporate Risk Register - Spelthorne Borough Council

Risk category	1a - Housing – Development and Targets
Risk subject area	Local Plan

12

<12 9>

Last review by	p.talwar@spelthorne.gov.uk 3/5/2024 5:38:03 PM
Corporate priorities	Addressing Housing Need
Risk owner	Admin Lee O'Neil Terry Collier Daniel Mouawad
Lead officer	Heather Morgan

Risk description

- Any further delays in the examination and adoption of the Local Plan are likely to continue to impact on the ability to bring forward the appropriate quantum of housing development.

- If the Local Plan process is not subject to robust challenge, this may not provide adequate opportunity to shape and finalise a plan at key stages to ensure it meets the (a) optimal interests of Spelthorne (b) all regulatory, legislative and professional requirements.

- Due to further pausing of the Local Plan Examination Hearings until Spring 2024, a number of specific risks and challenges include: (i) additional pressure on SBC Local Plan to meet the housing need of other boroughs (ii) a lack of certainty around Housing Delivery (iii) legal challenge (iv) prospect of unsuitable developments (v) financial impact to the Council from delays in adoption of the plan (vi) adverse publicity and reputational damage

- Increased possibility of central government intervention to facilitate progression of the plan if the Council does not take active steps to move forward at an appropriate pace. This could have significant implications in terms of the sovereignty of decision making by the Council.
- Current Environment Agency flood modelling (summer 2023) indicates a marginal increased level of flood risk across some parts of the borough of Spelthorne which could adversely impact property and land. These present important factors in pursuing delivery of Housing schemes/outcomes and impact decisions on how to proceed with Council owned sites.

Current control actions

These are specific actions to reduce the likelihood of a risk event or occurrence

- Impact assessment of the revised NPPF on the Local Plan submitted for Examination (on the basis of the current draft NPPF), with options around possible next steps.

- Planning regulatory framework

- Planning Committee, Officer presentations/professional advice and Member decision making

APPENDIX A Corporate Risk Register - Spelthorne Borough Council

- Local Planning inspectorate and independent examination/assessment .
- As a result of the Ministerial direction, monthly progress meetings are being held between senior officers from DLUHC and the Council.
- Strategic flood risk assessment (SFRA) as part of Local Plan process, informing decision making.
- Planning policies and guidelines

Current mitigating actions
These are specific actions to reduce the impact of a risk event should it occur

- Strategic flood risk assessment (SFRA) as part of Local Plan process, informing decision making.
- Impact assessment of the revised NPPF on the Local Plan submitted for Examination (on the basis of the current draft NPPF), with options around possible next steps.

Future actions

Type	Timeline	Description	Status	Comments
Control	TBD	Preparation and adoption of New Local Plan to meet future need and strengthen affordable Housing Policy	Outstanding	
Mitigation	TBD	Preparation and adoption of New Local Plan to meet future need and strengthen affordable Housing Policy	Outstanding	
Mitigation	Apr 2024	All schemes progressed on Council owned land considered against the flood risk to ensure appropriate mitigation is included within the scheme design.	Outstanding	
Control	Apr 2024	Future review of the Strategic Flood Risk Assessment (SFRA) in light of the River Thames Scheme modelling as required	Outstanding	
Mitigation	Apr 2024	Future review of the Strategic Flood Risk Assessment (SFRA) in light of the River Thames Scheme modelling as required	Outstanding	

APPENDIX A Corporate Risk Register - Spelthorne Borough Council

Risk category	1a - Housing – Development and Targets
Risk subject area	Housing Development Programme

12

<12 9>

Last review by	p.talwar@spelthorne.gov.uk 2/29/2024 5:01:45 PM
Corporate priorities	Addressing Housing Need
Risk owner	Admin Lee O'Neil Terry Collier Daniel Mouawad
Lead officer	Coralie Holman

Risk description

- A number of factors have continued to very significantly affect the financial viability of each project (as previously reported) leading to rising overall costs, and risk of adverse financial position of the Council. In responding to this threat, the Council decided to suspend direct delivery of the Housing development programme from mid-September 2023. Options are being explored which will determine when accumulated capitalised costs of £10m to £15M will need to be charged to Revenue. In addition, holding costs of £1.6m per annum relating to the housing delivery schemes are continuing to be incurred until outcomes are delivered on the sites. This continues to have a significant financial impact on the Council's budgetary position.

Current control actions

These are specific actions to reduce the likelihood of a risk event or occurrence

- Governance and reporting arrangements. Examples include progress reporting of Property Development projects to officer and Member groups.
- Established policies and framework

Current mitigating actions

These are specific actions to reduce the impact of a risk event should it occur

- Progressing new Member driven strategy in consultation with residents for delivering housing outcomes across the sites currently owned by the Council.
- Reserves strategy. Application of earmarked financial reserves to the Council's budget.
- Assessment of options incorporating mitigation of holding costs on development sites.

Future actions

Type	Timeline	Description	Status	Comments

APPENDIX A Corporate Risk Register - Spelthorne Borough Council

• Mitigation	.	Finalisation and implementations of Member driven strategy for delivering housing outcomes across sites owned by the Council	Outstanding

APPENDIX A Corporate Risk Register - Spelthorne Borough Council

Risk category	1b - Housing – Affordable
Risk subject area	Housing Supply and Demand

12

<12 12>

Last review by	s.nicholson@spelthorne.gov.uk 3/4/2024 11:46:49 AM
Corporate priorities	Addressing Housing Need
Risk owner	Admin Lee O'Neil Terry Collier Daniel Mouawad
Lead officer	Karen Sinclair Housing Admin

Risk description

- Lack of affordable housing supply increases homelessness with increased demand for temporary or social housing.
  The demand for temporary housing increased significantly over the last year and is expected to increase further. This is caused by the shrinking private rented sector, affordability of rent and the wider cost of living crisis.
  Long term prospect for increase in supply of housing appears bleak due to lack of interest from RPs to take s.106 units, the Council suspending its development and wider viability challenges for developers.
- Increased rate of determination of asylum seekers claims is resulting in more residents at the Asylum Seekers initial accommodation hotel in the Borough presenting to the Council seeking housing support.
- Geopolitical factors continue to present increased demand in supporting refugee communities and consequently managing the provision of suitable and secure housing.
- Housing provision (types of units) does not meet local resident needs or address client special needs for accommodation. Any delay in adopting the Local Plan does not assist in progressing a wide spread of units for differing needs. If fundamental housing needs are not met / maintained this may have a negative impact on the health and wellbeing of individuals / families.
- If information relating to housing need becomes out of date or is significantly inaccurate this could have implications for the effectiveness and implementation of housing and homelessness strategies

Current control actions
These are specific actions to reduce the likelihood of a risk event or occurrence

- The review process for S106 agreements with Developers aims to capture additional affordable housing.
- Quarterly Strategic Action Plan monitoring and review relating to Housing and Homelessness Strategies. Member approved tenancy strategy.
- More robust eligibility criteria now applied in determining applicants for the Social Housing register, to reflect allocation policy.

APPENDIX A Corporate Risk Register - Spelthorne Borough Council

- Homelessness Reduction Act incorporates proactive and preventative measures to support those at higher risk of homelessness

- Collaborative working with Registered Social Landlords and Partners to pursue delivery of affordable housing need and manage pipleline of units.

Current mitigating actions

These are specific actions to reduce the impact of a risk event should it occur

- Council is lobbying for additional funding support in recognition of the resourcing and financial impact of more asylum seekers presenting in need of housing support.

- Spelthorne participates in the Local Authority Housing Fund capital funding programme (Rounds 1 and 2) to acquire properties to house homeless refugees, intended in the longer term to support general housing need.

- Applying Home Office funding and implementing wider schemes to provide additional support to refugees.

Future actions

Type	Timeline	Description	Status	Comments
Mitigation		Targeted exercise to identify potential tenancy fraud , with a view to freeing up social housing	In Progress	
Mitigation		Acquisition of properties to support refugees forms an important strategy that the Council is pursuing. (Partly funded from the LAHF grant rounds 1 & 2).	In Progress	

APPENDIX A Corporate Risk Register - Spelthorne Borough Council

Risk category	1b - Housing – Affordable
Risk subject area	Housing provision and addressing need

12

<12 9>

Last review by	p.talwar@spelthorne.gov.uk 3/5/2024 5:39:54 PM
Corporate priorities	Addressing Housing Need
Risk owner	Admin Lee O'Neil Terry Collier Daniel Mouawad
Lead officer	Karen Sinclair Housing Admin

Risk description

- Housing provision (types of units) does not meet local resident needs or address client special needs for accommodation. Any delay in adopting the Local Plan does not assist in progressing a wide spread of units for differing needs. If fundamental housing needs are not met / maintained this may have a negative impact on the health and wellbeing of individuals / families.

- If information relating to housing need becomes out of date or is significantly inaccurate this could have implications for the effectiveness and implementation of housing and homelessness strategies

Current control actions
These are specific actions to reduce the likelihood of a risk event or occurrence

- Collaborative working with Registered Social Landlords and Partners to pursue delivery of affordable housing need and manage pipeline of units.

- The review process for S106 agreements with Developers aims to capture additional affordable housing.

- Quarterly Strategic Action Plan monitoring and review relating to Housing and Homelessness Strategies. Member approved tenancy strategy.

- More robust eligibility criteria now applied in determining applicants for the Social Housing register, to reflect allocation policy.

Current mitigating actions
These are specific actions to reduce the impact of a risk event should it occur

Future actions

Type	Timeline	Description	Status	Comments

APPENDIX A Corporate Risk Register - Spelthorne Borough Council

Risk category	2 - Economy
Risk subject area	Long Term uncertainty of macroeconmic environment

9

<9 9>

Last review by	p.talwar@spelthorne.gov.uk 3/5/2024 5:40:36 PM
Corporate priorities	Resilience
Risk owner	Admin Lee O'Neil Terry Collier Daniel Mouawad
Lead officer	Heather Morgan

Risk description

- Whilst Council actions aim to support businesses and the local economy, these actions alone can only have a limited impact due to the overarching effects and long-term uncertainty of the macroeconomic environment, market volatility and geopolitical factors over which the Council has incredibly little influence.

Current control actions
These are specific actions to reduce the likelihood of a risk event or occurrence

- The Economic Development Committee provides a mechanism for the Council's Economic Prosperity strategy to be periodically refreshed and reported.
- An Economic Prosperity Strategy has been developed (2023 – 2028) which addresses the key actions which face the borough. It incorporates a detailed strategy action plan detailing performance management measures in anticipating outcomes.

Current mitigating actions
These are specific actions to reduce the impact of a risk event should it occur

- Whilst Council actions aim to support businesses and the local economy, these actions alone can only have a limited impact due to the overarching effects and long-term uncertainty of wider externalities.

Future actions

Type	Timeline	Description	Status	Comments

APPENDIX A Corporate Risk Register - Spelthorne Borough Council

Risk category	2 - Economy
Risk subject area	Cost of doing Business crisis

9

<9 9>

Last review by	p.talwar@spelthorne.gov.uk 3/5/2024 5:41:22 PM
Corporate priorities	Resilience
Risk owner	Admin Lee O'Neil Terry Collier Daniel Mouawad
Lead officer	Heather Morgan

Risk description

- The potential for increased level of business failures amidst the growing ‘Cost of doing business crisis’ has led to closure of some retail and business units across the borough as a result of wider economic instability (inflationary pressures and increase in borrowing) and the need to pass on increased costs to the consumer. This impacts the economic prosperity of the borough and affects collections rates for business rate income, with reduced levels impacting finances and services available.

Current control actions

These are specific actions to reduce the likelihood of a risk event or occurrence

- Government assisted Energy Bills Support Scheme (EBSS) to support increased energy costs / bills.
- Monthly monitoring of Collection fund - Business Rates and Council Tax collection rates. Regular reporting of these to Corporate Debt Group and as part of KPI’s to Councillors
- Shared Prosperity Fund Investment Plan to support economic regeneration.

Current mitigating actions

These are specific actions to reduce the impact of a risk event should it occur

- Approved Town Centres Strategy for 2023 which sets out key actions for smaller shopping areas and parades. These will provide targeted support and interventions, with timescales and measures of success identified.
- Local mitigating measures taken by the Economic Development team (to influence areas where a degree of local control can be applied). These include several measures to strengthen the resilience of local businesses in the face of future challenges.

Future actions

Type	Timeline	Description	Status	Comments

APPENDIX A Corporate Risk Register - Spelthorne Borough Council

Risk category	3 - Financial Resilience and Commercial Assets
Risk subject area	Commercial investment portfolio

9

<9 9>

Last review by	p.talwar@spelthorne.gov.uk 2/29/2024 4:22:53 PM
Corporate priorities	Resilience, Services
Risk owner	Admin Lee O'Neil Terry Collier Daniel Mouawad
Lead officer	Coralie Holman

Risk description

- Evolving externalities arising since the aftermath of the pandemic now compounded by the Cost-of-Living crisis and inflation, both continue to increase the Council's exposure to financial risk, with possible implications for the investment portfolio, including loss of anticipated rental income and increased costs from vacant space within the commercial assets. This may impact on the financial position, and our ability to deliver discretionary services, leading in the worst-case scenario to the Council becoming financially unsustainable with associated reputational damage.

- If key commercial asset leases are not maintained or renewed this may have implications for maintaining flow of rental income. Where asset holdings are aligned to a specific sector or location this could be impacted by wider externality factors and potentially present limitations in deriving optimal value

Current control actions
These are specific actions to reduce the likelihood of a risk event or occurrence

- Overarching Asset Management Strategy
- Asset Investment Strategies for all assets focused on the coming 12 month period
- Medium term business plans that consider the assets over a 5 year period
- Capital Strategy includes key performance indicators (being developed further) with a particular focus on the investment portfolio.
- Performance management measures – developing KPIs which are reviewed annually and benchmarked against external, regional property indicators i.e., vacancy rates, market rentals, occupier demand.
- Governance reporting - Investment performance reported regularly to Councillors

Current mitigating actions
These are specific actions to reduce the impact of a risk event should it occur

- Sinking fund reserves strategy to support periods of tenancy voids and offset dips in rental income. Monitoring of contributions and overall amount of sinking fund balance held.

APPENDIX A Corporate Risk Register - Spelthorne Borough Council

- Ten-year worst and expected case sinking fund scenario projections are reviewed fortnightly and will be shortly extended to a 20-year time frame.
- Periodical financial health check of tenants to support accurate forecasts
- Ongoing management of voids with a view to reducing the portfolio void rate. Assets team proactively working to fill voids quickly using external lettings agents, understanding market demand and the size of accommodation needed.
- Proactive monitoring of key lease renewals to secure ongoing rental income, or pursue options for alternative use
- Public Interest Report Action Plan implemented
- Invite external consultants with specialist expertise to critique approaches and share any learning points

Future actions

Type	Timeline	Description	Status	Comments
• Mitigation		SBC has participated in a review of capital risk mitigation with DLUHC and Chartered Institute of Public Finance and Accountancy (CIPFA) and is in the process of taking on board any improvement suggestions.	In Progress	
• Mitigation	August 2024	To explore and assess opportunities for further diversification of the Council's asset holdings	Outstanding	

APPENDIX A Corporate Risk Register - Spelthorne Borough Council

Risk category	4 - Financial Resilience and Supporting Communities
Risk subject area	Financial Pressures - increased costs

9

<12 9>

Last review by	s.nicholson@spelthorne.gov.uk 2/29/2024 11:34:24 AM
Corporate priorities	Resilience
Risk owner	Admin Lee O'Neil Terry Collier Daniel Mouawad
Lead officer	Terry Collier

Risk description

- Significantly increased financial pressures faced by the Council, similar to other councils arising from the recent inflationary pressures on fuel, gas and electricity, staff pay pressures, significantly increased PWLB loan rates presenting higher borrowing costs, managing accumulated capitalized costs and annual holding costs relating to housing delivery schemes, and other external factors are collectively causing a significant increase in revenue costs and capital expenditure. Equally the housing crisis is increasing the need to spend on temporary accommodation to support residents

  Potential risk as housing and cost of living crises continue to impact on households more of them will struggle to pay council tax bills

Current control actions
These are specific actions to reduce the likelihood of a risk event or occurrence

- Financial impact assessment modelling undertaken as proactive measure.

- Annual budget process incorporates review and scrutiny at several stages.

  Under COmmittee system process has been made more transparent

  For 2025-26 we will be implementing Zero Based Budgeting

- All Councillor Budget Briefings, undertaken 3 times a year setting out financial risks in context of budgetary position, informing budgetary process.

Current mitigating actions
These are specific actions to reduce the impact of a risk event should it occur

- Inflationary pressure contingency reserve to assist with any anticpated budget deficit.

- Earmarked revenue reserves with forecast for the next four years. Financial Reserves strategy subject to regular review, with annual review and approval of the Reserves Strategy by Corporate Policy and Resources Committeee

APPENDIX A Corporate Risk Register - Spelthorne Borough Council

- Monitoring levels of reserves used at SBC and key financial performance indicators. Benchmarking and analysis of other Surrey Borough's and districts use of reserves. Also benchmarking through LG Improve

- Medium term financial strategy providing a framework for managing financial resources, in a planned and pro-active way. Enables measures to be implemented which may take time to deliver results ahead of when required. For example the Council is expecting additional pressures in 2026-27 if a Fair Funding Review and Business Rates reset happens then.

- Budget put forward for making efficiency savings over the next 4 years to further safeguard the authority. New targets have been incorporated into the 2024-25 Budget. Progress against savings targets will be reported on a quarterly basis to MATplus and councillors

Future actions

Type	Timeline	Description	Status	Comments
• Mitigation		SBC has participated in a review of capital risk mitigation with DLUHC and Chartered Institute of Public Finance and Accountancy (CIPFA) and is in the process of taking on board any improvement suggestions.	In Progress	
• Mitigation		Progressing medium term financial strategy and efficiency savings plan.	In Progress	
• Mitigation		Monitoring and periodically reporting on outcomes of 4 year efficiency savings plan	In Progress	

APPENDIX A Corporate Risk Register - Spelthorne Borough Council

Risk category	4 - Financial Resilience and Supporting Communities
Risk subject area	Restricted borrowing levels

9

<12 9>

Last review by	p.talwar@spelthorne.gov.uk 2/29/2024 5:05:23 PM
Corporate priorities	Resilience
Risk owner	Admin Lee O'Neil Terry Collier Daniel Mouawad
Lead officer	Paul Taylor

Risk description

- As the Council's borrowing levels have necessarily become restricted in the context of wider financial and externality risk, this could impact how the Council responds to unexpected events or factors presenting uncertainty and therefore its financial resilience.

Current control actions

These are specific actions to reduce the likelihood of a risk event or occurrence

- Revised Treasury Management Strategy approved with amendments to the prudential indicators

Current mitigating actions

These are specific actions to reduce the impact of a risk event should it occur

- Participated in a review of capital risk mitigation with DLUHC and Chartered Institute of Public Finance and Accountancy (CIPFA) and in the process of taking on board any improvement suggestions
- Participated in Surrey wide financial resilience review with commissioning of independent consultants to consider financial metrics as part of this assessment

Future actions

Type	Timeline	Description	Status	Comments
Mitigation		Any outcomes or further learning arising from the Surrey wide financial review will continue to be considered.	In Progress	

APPENDIX A Corporate Risk Register - Spelthorne Borough Council

Risk category	4 - Financial Resilience and Supporting Communities
Risk subject area	Financial Pressures - Cost of Living Crisis and increased demand on Council Services

12

<12 9>

Last review by	s.nicholson@spelthorne.gov.uk 2/29/2024 12:34:45 PM
Corporate priorities	Resilience
Risk owner	Admin Lee O'Neil Terry Collier Daniel Mouawad
Lead officer	Terry Collier

Risk description

- Combined with reduced fee income and potential for lower collection rates of Business Rates and Council Tax (exacerbated further by the continued Cost-of-Living crisis) this could have an impact on the Council's ability to deliver services as well as creating greater demands on community services, leading to a negative impact on the Borough's residents and communities (economic, social, physical and mental wellbeing). This coincides with increased service demands, leading to further growth bids for resourcing which are not financially sustainable or affordable unless these can be offset by savings. Ongoing financial pressures, in worst case scenario, could lead to the Council becoming financially unsustainable

Current control actions

These are specific actions to reduce the likelihood of a risk event or occurrence

- Annual budget process incorporates Officer and Member review and scrutiny at several stages with measures to support production of balanced budget. Service planning process integrates with annual budget process.
- Medium term financial strategy providing a framework for managing financial resources.
- All Councillor Budget Briefings, undertaken 3 times a year setting out financial risks in context of budgetary position, informing budgetary process.

Current mitigating actions

These are specific actions to reduce the impact of a risk event should it occur

- Budget put forward for making efficiency savings over the next 4 years to further safeguard the authority. Progress against this target is currently being re-assessed, and additional measures put in place to maintain clear focus on cashable savings.
- Cashable savings working group set up to target efficiencies and savings.
- Procurement Projects Board set up to ensure focus on delivering value for money from procurement.

Future actions

Type	Timeline	Description	Status	Comments

APPENDIX A Corporate Risk Register - Spelthorne Borough Council

• Mitigation	Progress against cashable savings will be incorporated into the quarterly budget monitoring reports.	In Progress

APPENDIX A Corporate Risk Register - Spelthorne Borough Council

Risk category	5 - Treasury Management
Risk subject area	Return on Investments

9

<9 9>

Last review by	p.talwar@spelthorne.gov.uk 3/5/2024 5:43:05 PM
Corporate priorities	Resilience, Services
Risk owner	Admin Lee O'Neil Terry Collier Daniel Mouawad
Lead officer	Paul Taylor

Risk description

- If the Council receives a reduced return on long term investments and/or investments become insecure in the current / future economic climate, then this will have an adverse impact on the Council's financial position, weakening financial resilience. Currently interest rates are relatively high which has boosted returns, but it is expected that the Bank of England will start to reduce base rate later in 2024, when this happens rates we can achieve are likely to start to reduce

Current control actions
These are specific actions to reduce the likelihood of a risk event or occurrence

- Council's investments are managed internally in consultation with specialist advisors Arlingclose.
- Investments with approved institutions as per policy and strategy
- Aim to select counter parties of the highest credit quality.Credit ratings monitored. Credit Default Swaps (SDS) are monitored
- Approved Treasury Management Strategy for 2023-24. February 2024 Council has approved Strategy for 2024-25
- Application of professional (CIPFA) Code of Practice and Prudential and Treasury Management Codes
- Performance measurement and outturn reporting, as well as Investment Benchmarking
- Regular engagement with the Council's specialist advisors at Officer and Member level to enhance knowledge, subsequently informing decisions.

Current mitigating actions
These are specific actions to reduce the impact of a risk event should it occur

- By investing in a balanced mix of unit funds linked to assets, bonds and equities this is intended to spread the risk and minimize the impact of occurrence of any adverse investment returns.

APPENDIX A Corporate Risk Register - Spelthorne Borough Council

Future actions

	Type	Timeline	Description	Status	Comments
•	Control	Jan 2024	Arlingclose to provide training session for councillors	Outstanding	

APPENDIX A Corporate Risk Register - Spelthorne Borough Council

Risk category	5 - Treasury Management
Risk subject area	Borrowing

9

<9 9>

Last review by	p.talwar@spelthorne.gov.uk 3/5/2024 5:43:53 PM
Corporate priorities	Resilience, Services
Risk owner	Admin Lee O'Neil Terry Collier Daniel Mouawad
Lead officer	Paul Taylor

Risk description

- Significant rises in interest rates and increased cost of borrowing / loans influence the Council's treasury activities. This also presents positive opportunities in enabling great returns to be earned on the Council's surplus cash supporting the Revenue Budget.

Current control actions
These are specific actions to reduce the likelihood of a risk event or occurrence

- Approved Treasury Management Strategy for 2023-24.
- Application of professional (CIPFA) Code of Practice and Prudential and Treasury Management Codes
- Regular engagement with the Council's specialist advisors at Officer and Member level to enhance knowledge, subsequently informing decisions.

Current mitigating actions
These are specific actions to reduce the impact of a risk event should it occur

- Ongoing review and assessment of options with Treasury Management advisors regarding the Council's borrowing strategy in the context of interest rates rises and volatility.
- Fixed interest rate on most debt and for investment assets an interest equalization reserve is in place.

Future actions

Type	Timeline	Description	Status	Comments
Control	Jan 2024	Arlingclose to provide training session for councillors.	Outstanding	

APPENDIX A Corporate Risk Register - Spelthorne Borough Council

Risk category	6 - Climate Change
Risk subject area	Climate Change threat and impact

9

<12 9>

Last review by	p.talwar@spelthorne.gov.uk 3/5/2024 5:44:46 PM
Corporate priorities	Environment
Risk owner	Admin Lee O'Neil Terry Collier Daniel Mouawad
Lead officer	Sandy Muirhead

Risk description

- Climate change represents a significant global threat driving social and economic disruption with far ranging consequences for socioeconomic stability. Climate change and extreme weather events impact health and safety, food systems, supply chains & procurement, economic productivity, and losses. Due to climate change, there is a specific risk to the Borough of Spelthorne in terms of more extreme heat and increased flooding, besides the more global threats such as severe storms (threat to loss of life and limb) impacting locally.

Current control actions
These are specific actions to reduce the likelihood of a risk event or occurrence

- Environment and Sustainability Committee developed an action plan to move the Council towards net zero carbon emissions, aiming to get to Net Zero for Scope 1 and 2 emissions by 2030.

- Environment and Sustainability Committee will continue to explore ways to meet a carbon neutral target, and to promote climate change as an issue that needs to permeate all Council areas to ensure SBC reduce their carbon footprint and adapt to climate change.

- Surrey County Council have developed a strategy on Climate Change referred to as Greener Futures Delivery Plan which the Environment and Sustainability Committee have supported. Linked Spelthorne's Climate Change strategy where appropriate to Greener Futures Delivery Plan.

- Collaborative measures to support a coordinated approach to strategy implementation.

- Continuing to roll out Carbon Literacy training days and participating staff have committed to a range of carbon saving pledges. Member Induction training of June 2023 incorporated this area.

Current mitigating actions
These are specific actions to reduce the impact of a risk event should it occur

- Funding resources secured to support strategy implementation and are being allocated and targeted to reduce the carbon footprint of the Council to help ensure SBC are net zero by 2030

APPENDIX A Corporate Risk Register - Spelthorne Borough Council

Future actions

Type	Timeline	Description	Status	Comments
• Control		Within the legal constraints to implement the proposed supplementary planning guidance to assist in future properties being better adapted to both heat and cold.	Outstanding	
• Mitigation		Within the legal constraints to implement the proposed supplementary planning guidance to assist in future properties being better adapted to both heat and cold.	Outstanding	

APPENDIX A Corporate Risk Register - Spelthorne Borough Council

Risk category	6 - Climate Change
Risk subject area	Responding and adapting to Climate Change

12

<12 9>

Last review by	p.talwar@spelthorne.gov.uk 3/5/2024 5:45:56 PM
Corporate priorities	Environment
Risk owner	Lee O'Neil Terry Collier Daniel Mouawad
Lead officer	Sandy Muirhead

Risk description

- If the Council is not pursuing measures or seeking positive opportunities to mitigate and adapt to climate change, it could result in criticism / bad press / public demonstration and additional organisational pressures may result in a loss of focus around climate change and green initiatives. A lack of preparedness for the impacts of climate change may lead to Council Services no longer being sustainable or in a suitable position to operate in the future. The last 8 years have been the world's hottest and in the last summer there were 72,000 excess deaths in Europe due to the extreme heat. The UK is equally likely to see weather extremes going forward impacting on the economy and actions required by the Council e.g in times of severe flooding seriously draining the Council's resources.

Current control actions
These are specific actions to reduce the likelihood of a risk event or occurrence

- Environment and Sustainability Committee developed an action plan to move the Council towards net zero carbon emissions, aiming to get to Net Zero for Scope 1 and 2 emissions by 2030.
- Environment and Sustainability Committee will continue to explore ways to meet a carbon neutral target, and to promote climate change as an issue that needs to permeate all Council areas to ensure SBC reduce their carbon footprint and adapt to climate change.
- Surrey County Council have developed a strategy on Climate Change referred to as Greener Futures Delivery Plan which the Environment and Sustainability Committee have supported. Linked Spelthorne's Climate Change strategy where appropriate to Greener Futures Delivery Plan.
- Collaborative measures to support a coordinated approach to strategy implementation.
- Continuing to roll out Carbon Literacy training days and participating staff have committed to a range of carbon saving pledges. Member Induction training of June 2023 incorporated this area.
- Carbon Footprint section on Service Plans which provides an opportunity for departments to support the Council's commitment to reducing carbon emissions and explain how they intend to adapt elements of their service delivery to achieve this.

APPENDIX A Corporate Risk Register - Spelthorne Borough Council

Current mitigating actions
These are specific actions to reduce the impact of a risk event should it occur

- Funding resources secured to support strategy implementation and are being allocated and targeted to reduce the carbon footprint of the Council to help ensure SBC are net zero by 2030

Future actions

Type	Timeline	Description	Status	Comments
• Control		Training is underway to raise awareness and enhance understanding of Climate Change issues across the Council (staff and Councillors).	Outstanding	
• Mitigation		Training is underway to raise awareness and enhance understanding of Climate Change issues across the Council (staff and Councillors).	Outstanding	

APPENDIX A Corporate Risk Register - Spelthorne Borough Council

Risk category	6 - Climate Change
Risk subject area	Integration into decision making

12

<12 9>

Last review by	p.talwar@spelthorne.gov.uk 3/5/2024 6:12:23 PM
Corporate priorities	Environment
Risk owner	Admin Lee O'Neil Terry Collier Daniel Mouawad
Lead officer	Sandy Muirhead

Risk description

- Where integration into wider Council decision-making is not evident this reduces the effectiveness of holistic approaches in delivering Spelthorne's strategy

Current control actions

These are specific actions to reduce the likelihood of a risk event or occurrence

- All Committee reports include a section on Sustainability and Climate Change considerations which should be reflected upon by report authors to identify both positive and adverse impact of proposals being put forward by Officers requiring a Member decision.
- Through carbon literacy training of staff and the climate change and sustainability officers working with services across the Council, climate change is becoming embedded in service delivery.

Current mitigating actions

These are specific actions to reduce the impact of a risk event should it occur

Future actions

Type	Timeline	Description	Status	Comments
Control	December 2024	Mandatory Carbon literacy training programme underway across the Council	In Progress	

APPENDIX A Corporate Risk Register - Spelthorne Borough Council

Risk category	6 - Climate Change
Risk subject area	Targets for Climate Change
Last review by	p.talwar@spelthorne.gov.uk 3/5/2024 5:48:53 PM
Corporate priorities	Environment
Risk owner	Admin Lee O'Neil Terry Collier Daniel Mouawad
Lead officer	Sandy Muirhead

9

<12 9>

Risk description

- Inadequate mechanisms for monitoring and reporting on status provides limited insight regarding keeping on track in pursuing net zero carbon emissions and wider government reporting requirements.

Current control actions

These are specific actions to reduce the likelihood of a risk event or occurrence

- A Climate Change Working group made up of a cross party group of elected Members to focus on monitoring of actions towards carbon neutrality and initial assessment of ideas.
- Officer updates to Members on the progress of the Climate Change Action Plan.
- Annual Reporting of Carbon Emissions to Surrey County Council
- Quarterly KPI reporting
- Benchmarking and/or analysis of comparative energy savings achieved across Surrey Districts and boroughs

Current mitigating actions

These are specific actions to reduce the impact of a risk event should it occur

Future actions

Type	Timeline	Description	Status	Comments
Control		Environmental Social Governance (ESG) assessment underway to develop future strategies for reporting requirements on climate change	Outstanding	

APPENDIX A Corporate Risk Register - Spelthorne Borough Council

Risk category	7 - Corporate Capacity, Resources , Recruitment and Retention
Risk subject area	Corporate capacity

12

<12 12>

Last review by	p.talwar@spelthorne.gov.uk 3/5/2024 5:50:13 PM
Corporate priorities	Resilience, Services
Risk owner	Admin Lee O'Neil Terry Collier Daniel Mouawad
Lead officer	Sandy Muirhead

Risk description

- Overstretched capacity could lead to increased staff fatigue / burnout / sickness levels arising. This may impact further on employee stress levels and mental / physical wellbeing, which may also lead to reductions in expected service delivery.

Current control actions
These are specific actions to reduce the likelihood of a risk event or occurrence

- Management to address workload issues across teams, with continued prioritisation of tasks
- Corporate performance management systems operating across various levels, intended to promote golden thread and support delivery of corporate priorities and objectives.
- Annual Service Planning should refer to capacity pressures being experienced/foreseen by Service Managers/Group Heads (under risks section), so that any remedial action can be proposed and discussed
- Collaborative Working Group promoting partnerships and alternative service models with a view to supporting organisational resilience measures

Current mitigating actions
These are specific actions to reduce the impact of a risk event should it occur

- Various support systems operating in promoting and supporting staff wellbeing
- Corporate performance management systems operating across various levels, intended to promote golden thread and support delivery of corporate priorities and objectives.
- Management and HR monitoring of sickness absence levels related to stress or overstretched capacity provides corporate insight that could indicate any further remedial action required
- Participated in an LGA review of 2022 which raised findings regarding working Culture

APPENDIX A Corporate Risk Register - Spelthorne Borough Council

- Corporate Establishment Review undertaken with some further actions identified/ pursued. This also overlaps with the other risks in this category relating to recruitment and retention

Future actions

Type	Timeline	Description	Status	Comments
• Control		Demand Management and developing approaches to measure and monitor demand levels across the Council (NEW PROPOSED ACTION)	Outstanding	

APPENDIX A Corporate Risk Register - Spelthorne Borough Council

Risk category	7 - Corporate Capacity, Resources , Recruitment and Retention
Risk subject area	Recruitment and retention

12

<12 | 9>

Last review by	p.talwar@spelthorne.gov.uk 3/5/2024 5:50:58 PM
Corporate priorities	Community, Addressing Housing Need, Resilience, Environment, Services
Risk owner	Admin Lee O'Neil Terry Collier Daniel Mouawad
Lead officer	Sandy Muirhead

Risk description

- Unsuccessful recruitment and ongoing unfilled vacancies in a challenging and competitive labour market leads to reduced availability of technical skills and relevant expertise is spread more thinly across Services. Staff shortages further exacerbate workload pressures across teams. The consequences of this risk are set out earlier under corporate capacity.
- Ineffective or inappropriate recruitment exacerbated by the skill shortages within the local government market could result in appointments that fail to effectively meet business need leading to reduced service quality and/or periods of ongoing vacancies.

Current control actions

These are specific actions to reduce the likelihood of a risk event or occurrence

- Several measures have been underway for some time and previously reported. These relate to HR policies, financial enhancements for hard to fill posts, development and upskilling opportunities,schemes to support staff wellbeing, hybrid working patterns and felxible working arrangements to attract and incentivise staff to modern working practices, staff pay reviews, HR professional networking forums with a view to applying best practice learnt.
- Staff and member feedback including commissioniong annual surveys to ascertain key concerns,issues and promote continuous improvement measures

Current mitigating actions

These are specific actions to reduce the impact of a risk event should it occur

Future actions

Type	Timeline	Description	Status	Comments
Control		Continue to explore new and innovative recruitment and retention strategies in a competitive market.	Outstanding	

APPENDIX A Corporate Risk Register - Spelthorne Borough Council

• Mitigation	Continue to explore new and innovative recruitment and retention strategies in a competitive market.	Outstanding
• Mitigation	Continue to draw optimal value from all relevant hubs of expertise including externally conducted research in continuing to facilitate and promote a holistic approach to responding to recruitment and retention challenges and future-proofing the Council's workforce.	Outstanding

APPENDIX A Corporate Risk Register - Spelthorne Borough Council

Risk category	8 - Equality, Diversity and Inclusivity
Risk subject area	Legislative requirements

9

<9 6>

Last review by	p.talwar@spelthorne.gov.uk 3/5/2024 5:52:10 PM
Corporate priorities	Community, Addressing Housing Need, Resilience, Environment, Services
Risk owner	Admin Lee O'Neil Terry Collier Daniel Mouawad
Lead officer	Sandy Muirhead

Risk description

- If there is a failure to effectively adhere to the Equality Act (2010), this could lead to workplace practices and delivery of services that fail to incorporate necessary principles, standards and requirements in promoting equal opportunities, diversity and inclusivity. This may increase risks of discriminatory practices and consequentially, the Council could be subject to complaints or even claims resulting in reputational damage.

Current control actions

These are specific actions to reduce the likelihood of a risk event or occurrence

- Training mechanisms to raise awareness and understanding such as the online Workrite module.

- All Committee reports include a section on Equality, Diversity and Inclusivity considerations to ensure this area is embedded into Council decision making . It should be carefully reflected upon by report authors to identify any implications and whether there is any specific impact for proposals being put forward requiring a Member decision.

Current mitigating actions

These are specific actions to reduce the impact of a risk event should it occur

- Equality Impact Assessments are completed as a requirement on initiation of new projects and strategies.

Future actions

Type	Timeline	Description	Status	Comments

APPENDIX A Corporate Risk Register - Spelthorne Borough Council

• Control	(This action is subject to resource allocation). Assign a lead Officer to support production of an Equality, Diversity, and Inclusivity Strategy for the Council. This will provide a more robust structured approach in delivering and embedding essential, principles, standards, and requirements in promoting equal opportunities, diversity, and inclusivity.	Outstanding

APPENDIX A Corporate Risk Register - Spelthorne Borough Council

Risk category	8 - Equality, Diversity and Inclusivity
Risk subject area	Coordinated approach

9

<9 6>

Last review by	p.talwar@spelthorne.gov.uk 3/5/2024 5:53:04 PM
Corporate priorities	Community, Addressing Housing Need, Resilience, Environment, Services
Risk owner	Admin Lee O'Neil Terry Collier Daniel Mouawad
Lead officer	Sandy Muirhead

Risk description

- If there is insufficient resource, skills or expertise to develop, promote and support implementation of E, D & I standards, progress in driving change and positive impact through a structured and coordinated approach may be limited.

Current control actions

These are specific actions to reduce the likelihood of a risk event or occurrence

- Communications and engagement with staff, Members and the public to recognize and celebrate diversity
- Champions (Staff reps) to explore further positive approaches relating to E, D & I. Inclusivity Working Group meets regularly
- Corporate Values – (PROVIDE) are incorporated into the Council's equality and diversity objectives together with an internal equality and diversity policy.
- An Equality, Diversity and Inclusivity 'Statement of Intent' document has been reported.
- Internal and external websites have been updated with Equality and Diversity policy and statement published.
- Participated in Race Equality Week (Feb 2024) and promoted important messages to all staff

Current mitigating actions

These are specific actions to reduce the impact of a risk event should it occur

Future actions

Type	Timeline	Description	Status	Comments

APPENDIX A Corporate Risk Register - Spelthorne Borough Council

• Control	(This action is subject to resource allocation). Assign a lead Officer to support production of an Equality, Diversity, and Inclusivity Strategy for the Council. This will provide a more robust structured approach in delivering and embedding essential, principles, standards, and requirements in promoting equal opportunities, diversity, and inclusivity.	In Progress

APPENDIX A Corporate Risk Register - Spelthorne Borough Council

Risk category	9 - Working arrangements across LG tiers
Risk subject area	Change Management

9

<9 9>

Last review by	p.talwar@spelthorne.gov.uk 3/5/2024 5:54:23 PM
Corporate priorities	Community, Addressing Housing Need, Resilience, Environment, Services
Risk owner	Admin Lee O'Neil Terry Collier Daniel Mouawad
Lead officer	Heather Morgan

Risk description

- If there is a lack of clarity or unified understanding around the wide-reaching implications of a County Deal this could make the task of planning, managing, communicating and implementing change challenging.

Current control actions

These are specific actions to reduce the likelihood of a risk event or occurrence

- Ensure the appropriate level of resource is put in place and time is freed up from other parts of the organisation involved in the change management process if no additional financial or staff resources are available (this will require decision on what else not to do/deliver in another way on a temporary basis/apply a risk based approach to work)

- Ensure there is capacity and appropriately skilled staff are available, or skills are developed, to work effectively where the strategy of engagement and collaborative working has been agreed - to ensure that we are equal partners on any joint service delivery

Current mitigating actions

These are specific actions to reduce the impact of a risk event should it occur

- To ensure that any decisions made on engagement/joint service delivery/moving services up to County meets our priorities they need to align with the Corporate Plan 2024 - 2028, our values and priorities

Future actions

Type	Timeline	Description	Status	Comments
Mitigation	Apr 2024	Planning for potential change and ascertaining transitional and future arrangements for service delivery, decision making and strategic direction.	Outstanding	

APPENDIX A Corporate Risk Register - Spelthorne Borough Council

Risk category	9 - Working arrangements across LG tiers
Risk subject area	Strategic decisions

9

<9 9>

Last review by	p.talwar@spelthorne.gov.uk 3/5/2024 5:55:10 PM
Corporate priorities	Community, Addressing Housing Need, Resilience, Environment, Services
Risk owner	Admin Lee O'Neil Terry Collier Daniel Mouawad
Lead officer	Heather Morgan

Risk description

- The current governance structure may present limited opportunities for Spelthorne to influence future shaping and direction within the wider Surrey landscape. This could lead to strategic decisions being made that may not be in the best interests of Spelthorne's residents and local communities.

Current control actions

These are specific actions to reduce the likelihood of a risk event or occurrence

- Look to influence the governance structure of the Growth Board by increasing Local Authority representation (currently one Leader and one Chief Executive) to sit at the decision making table, and ensure that our views are clearly understood by those represented and clearly relayed (via our Leader and Chief Executive)

- Look to influence the governance and representation at the Surrey Business Leadership Forum to ensure that our business voice is heard on future decision making around the economy (and the functions which Surrey will take over from the Enterprise M3 Local Economic Partnership)

- The Council needs to have a clear view on its priorities for collaboration (or not) so that business cases can be developed to help inform future service delivery and the resources which are required to deliver. This can then feed into the medium term financial strategy
- Ensure that there is early and wide engagement with all councillors in the autumn 2024 so there is a clear view from them in terms of 'red lines' - e.g. what the Council needs to deliver locally and we do not engage with Surrey on, where we can work to deliver improved outcomes for our communities

Current mitigating actions

These are specific actions to reduce the impact of a risk event should it occur

- Leader and Chief Executive to actively engage with adjoining authorities to fully understand common approaches to levels of engagement with Surrey, and opportunities for sharign resources

Future actions

Type	Timeline	Description	Status	Comments

APPENDIX A Corporate Risk Register - Spelthorne Borough Council

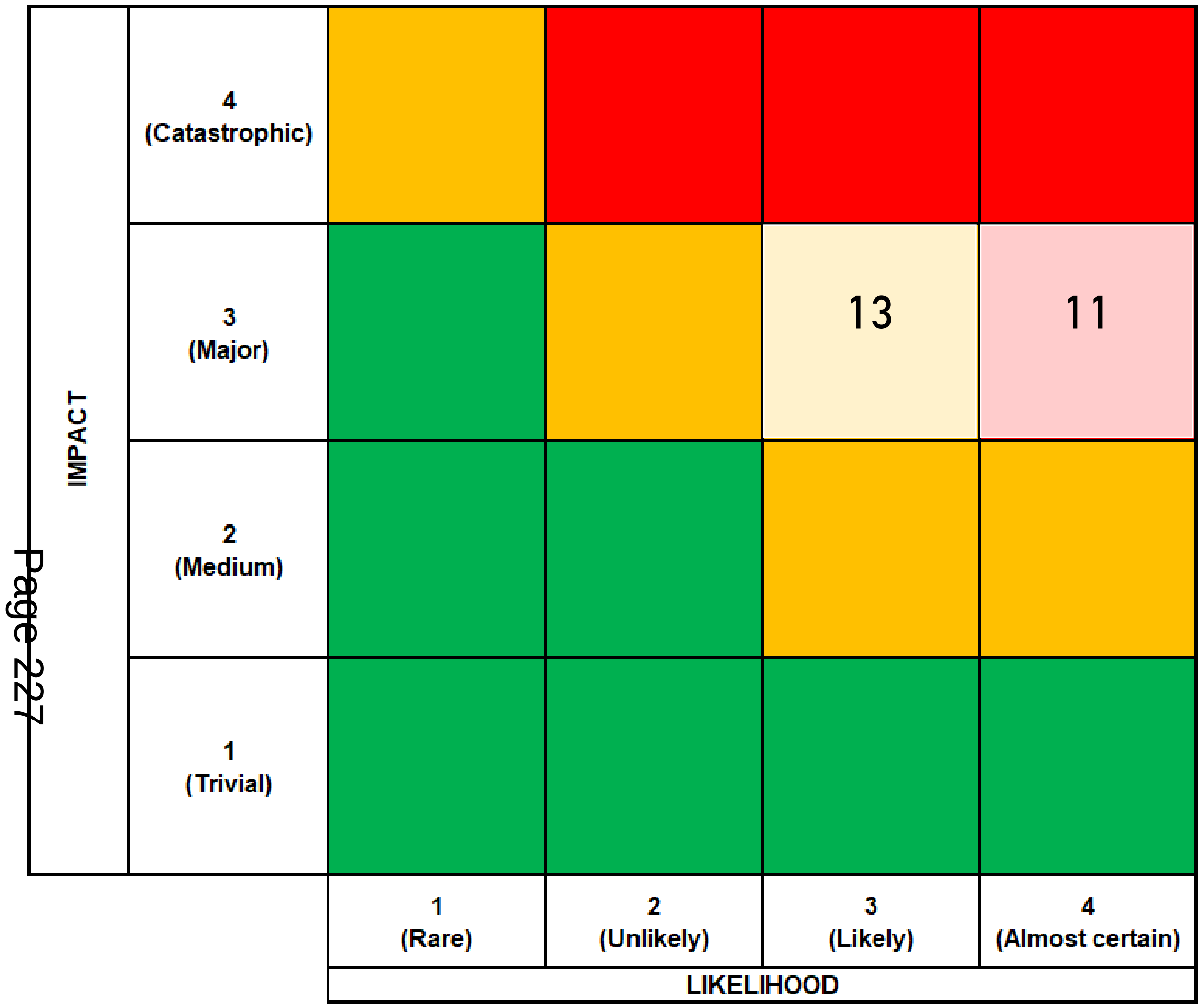
•	Mitigation	Apr 2024	Planning for potential change and ascertaining transitional and future arrangements for service delivery, decision making and strategic direction.	Outstanding
•	Control	June 2024	develop a terms of reference and set aside resources for a specific councillor/officer working group to work together to spearhead the Councils approach and response to the County Deal	Outstanding

Risk Scoring Matrix (Plotted March 2024 for current RAG rating and current risk score in consultation with Officers)

Appendix B

This is the matrix that forms part of the risk management policy. We currently assess the level of each risk category by plotting them on this matrix to provide a traffic light RAG rating. We also determine a numerical risk score by multiplying likelihood and impact scores. Please also refer to the next page for further detail on the approach and criteria applied.

When assessing the Council's risks in terms of likelihood and impact, we take into account the national and global picture for wider externalities such as the macroeconomic environment and geopolitical factors. Spelthorne's operations remain influenced by these external challenges and pressures, as is the case for other Councils. Due to these externalities, there are many activities that the Council cannot directly control/mitigate, or influence and continued recognition is important. **Red** risks require prompt, planned management action **Amber** risks require planned management action **Green** risks are accepted risks. RC = Risk category on the detailed register e.g., RC2 = Risk Category 2 – Economy. This is also referred to on the matrix for ease of reference.



The numbers in the risk matrix above represent the total number of risk items within that level of risk. Click on the number for details of which risks are affected.

Category and Subject area

- **9 - Working arrangements across LG tiers**
  - 77 Strategic decisions
  - 76 Change Management
- **8 - Equality, Diversity and Inclusivity**
  - 69 Coordinated approach
  - 68 Legislative requirements
- **7 - Corporate Capacity, Resources , Recruitment and Retention**
  - 67 Recruitment and retention
  - 66 Corporate capacity
- **6 - Climate Change**
  - 65 Targets for Climate Change
  - 64 Integration into decision making
  - 63 Responding and adapting to Climate Change
  - 62 Climate Change threat and impact
- **5 - Treasury Management**
  - 75 Borrowing
  - 74 Return on Investments
- **4 - Financial Resilence and Supporting Communities**
  - 61 Financial Pressures - Cost of Living Crisis and increased demand on Council Services
  - 58 Restricted borrowing levels
  - 53 Financial Pressures - increased costs
- **3 - Financial Resilience and Commercial Assets**
  - 51 Commercial investment portfolio
- **2 - Economy**
  - 50 Cost of doing Business crisis
  - 49 Long Term uncertainty of macroeconmic environment
- **1b - Housing – Affordable**
  - 78 Housing provision and addressing need

How risks are scored:

We assess and score risks, with their current controls and current mitigations in place, for likelihood and impact as shown below:

Score	Impact	Likelihood (over 4 years or timescale deemed appropriate)
1	Trivial	Rare (once)
2	Medium	Unlikely (a few times / less than annual)
3	Major	Likely (several times / more than annual
4	Catastrophic	Almost certain (many times a year)

Impact can be measured in many ways and will be specific to what you are assessing, but the most common are on objectives, finance, and reputation. We then plot the risk on the risk matrix model shown on the prior page to provide a RAG rating, to determine and prioritise the most significant risks for action. The risk action plan (refer to separate document) sets out how the authority is working towards further addressing and mitigating the risks.

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of the Local Government Act 1972.

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

Document is Restricted

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Audit Committee

19th March 2024

Title	**Counter Fraud, Bribery and Corruption Strategy**
Purpose of the report	To make a decision and a recommendation to Council
Report Author	Internal Audit Manager, Punita Talwar
Ward(s) Affected	All Wards
Exempt	No
Exemption Reason	Not Applicable
Corporate Priority	All priorities Community Addressing Housing Need Resilience Environment Services
Recommendations	**Audit Committee is asked to:** **1. Endorse the Council's Counter Fraud, Bribery and Corruption Strategy which forms part of the Council's constitution** **2. Approve the changes recommended to the Council's Counter Fraud, Bribery and Corruption Strategy.**
Reason for Recommendation	**The Audit Committee is required to make any recommendations for change to the Corporate Policy and Resources Committee.**

1. Summary of the report

What is the situation	Why we want to do something
• The Council's Counter Fraud, Bribery and Corruption Strategy sets out the Council's commitment to dealing	• With the continued Cost of Living Crisis, fraud and corruption occurrences are perceived nationally to be on the increase,

effectively with fraud, bribery, and corruption, reinforcing the important role it plays in the overall corporate governance framework.
• The key elements of the Council's strategy to combat fraud, bribery and corruption are:
  • An open and honest culture
  • Effective systems of internal control
  • Adequate preventative and deterrence measures
  • Systems for detection and investigation to stop/recover fraud losses
  • Understanding and awareness within the Council and the adoption of a "whistleblowing" policy
	leading to financial losses to the public purse, reduced public services and reputational damage. It remains essential for the Council to protect its assets, resources, and information systems to minimise heightened risks of fraudulent activity.
	• During periods of heightened volatility there is likely to be increased scrutiny relating to fraud management from the government, regulators and the public.

This is what we want to do about it	**These are the next steps**
• Ensure that the Council’s fraud management response is in line with good practice and proportionate to the overall level of perceived risk. • Continue to review the strategy annually to consider any necessary updates and areas of focus	• The Audit Committee is required to review the Council’s Counter Fraud, Bribery and Corruption Strategy annually and make any recommendations for change to the Corporate Policy and Resources Committee. • All members of staff to continue to remain alert to the risk of fraud, bribery and corruption. • Management accountability for maintaining and operating adequate systems of internal control to minimise heightened risks of fraudulent activity.

	• Internal Audit to continue to consider fraud risk (encompassing bribery and corruption) as part of audit planning and risk assessment, drawing out areas requiring improvement

1.1 The continued importance of having a defined approach for how Spelthorne will counter fraud, bribery, and corruption in the form of a strategy is acknowledged. This report sets out the proposed changes to the strategy , these being of a minor nature to ensure it remains relevant and current. A track changes version can be seen at Appendix 1, with a clean version at Appendix 2. The strategy was previously reviewed and reported to Audit Committee in March 2023 and subsequently a recommendation was made to Full Council in May for the proposed changes to be approved.

1.2 *'Every year in the UK up to £49 billion of public money is lost to fraud. Resources are stretched and fraudsters are increasingly sophisticated, making the public services more vulnerable than ever to criminal activity'. (CIPFA – Chartered Institute of Public Finance)*

1.3 We continue to face economically challenging times and with the continued Cost of Living/ Cost of Doing Business Crisis, fraud and corruption occurrences are perceived to be on the increase. It remains essential for the Council to protect its assets, resources, and information systems to minimise heightened risks of fraudulent activity and cyber-crime. Such occurrences could lead to significant business disruption, reputational damage, financial losses to the public purse, reduced public services if resources are exploited by fraudsters - adversely impacting those members of the community who genuinely need services. There is also an associated risk of harm to vulnerable members of the community targeted by fraudsters. Poor data security and breaches are often viewed as an enabler for fraudulent activity to prevail.

2. Key issues

2.1 The Audit Committee is required to review the Council's Counter Fraud, Bribery and Corruption Strategy annually and make any recommendations for change to the Corporate Policy and Resources Committee. The Strategy forms part of the Council's Constitution and is in line with best practice. The Strategy continues to underpin the Council's commitment to dealing effectively with all forms of fraud, bribery, and corruption, demonstrating the important role it plays in the overall corporate governance framework.

2.2 As part of this review, lead officers from high-risk public fraud teams and the external service provider undertaking fraud investigations have had an opportunity to feed back any comments on the current strategy document (version approved by Full Council in May 2023). Some minor changes are proposed to the strategy by the Internal Audit Manager to reflect current developments. Some additional narrative has been included in green text at Appendix 1 along with some minor track changes and these relate to the following sections/references within the strategy document:

- Under the Counter fraud measures section 17 under the broader heading of Detection and Investigation, added '**with some taken effect'** to recognise that the authority has progressed specific counter fraud initiatives during the last year in responding to public fraud risk, such as the bulk data matching exercise to target social housing fraud and participation in the Countywide Single Person Discount Exercise. Also added to this section '**Measures are taken to ensure the services procured from the external service provider continue to provide a targeted approach to counter fraud, proportionate to perceived risk'**.
- Under the Awareness heading at section 20 the emphasis on referring all suspected cases to the external service provider has been removed, replacing with referring **'reasonably informed'** suspicions (based on professional judgement) as this will ensure that the level of referrals and caseload remains more manageable for the external service provider within capacity levels and that the scope of work remains focused on higher risk cases. It should be noted that it is challenging to predict fraud occurrence outcomes accurately until investigations have progressed and intelligence gathered, nonetheless this revised approach has been agreed with key contacts in frontline services with a view to streamlining processes further.

2.3 Best practice principles promoted in publications such as CIPFA's 'Fraud and Corruption Tracker, national report 2020', and 'Fighting Fraud and Corruption Locally' (2020) have been considered as part of the strategy review, and current activity is deemed as proportionate relative to the perceived risk and size of the authority.

2.4 Several Counter Fraud measures and principles continue to operate as part of the strategy, and these are highlighted below:

(i) **Govern** – Continued commitment and senior executive support remains essential in promoting and embedding a counter fraud, bribery and corruption culture.

(ii) **Open and honest Culture** – An acceptance that there is always going to be fraud and as public servants everyone has a part to play in remaining alert to the possibility of fraud, bribery or corruption and being mindful that the risks of occurrence can become even more prevalent during periods of ongoing economic instability and geopolitical uncertainty. This links to responsibility for raising concerns in accordance with policy and procedure. The Confidential Reporting Code (Whistleblowing Policy) refers to Fraud, Bribery and Corruption as constituting a serious concern category and sets out the protocol.

(iii) **Communicate and inform** – Spelthorne endeavours to alert Members, officers, and communities of known scams and suspicious communications. This risk remains heightened during the continued Cost of Living and Cost of Doing Business Crises as unfortunately temptation to perpetrate fraud and wrongdoing increases to alleviate need. High risk public fraud cases proven are publicised to serve as a deterrent, and the Council's communication channels have encouraged members of the public to report anything suspicious, including suspected fraudulent activity across high-risk public fraud areas such as Housing, Benefits, Council Tax, Business Rates.

(iv) **Collaboration** - Spelthorne continues to procure specialist counter fraud resource/expertise/services from Reigate and Banstead Council to target high risk public fraud areas which are likely to generate greater financial returns (business rates and housing) as well as deliver wider social benefits. Collaborative working has produced positive outcomes particularly in Housing including two successful prosecution cases reported during 2023/24. For example, in quarter 2 Spelthorne received £22k from a successful prosecution as compensation for the loss, and in addition the court awarded costs to Spelthorne of £6k which would assist with payment for the trial. Reigate also provide Counter Fraud services for five other local authorities in Surrey which enables sharing of intelligence where appropriate to support investigation outcomes. Opportunities to participate in joint data sharing exercises with County and other Councils continues to be promoted in tackling fraud.

(v) **Prevention -** It is more difficult and time consuming to recover loss post payment or award, so an emphasis on prevention as the most strategic and effective way to address fraud continues to be pursued. It remains the responsibility of everyone to help prevent fraud and corruption by remaining vigilant. Enhanced verification for homelessness applications (prior to award) is an example of a preventative measure currently in place which has led to applications being withdrawn. Further to the revised housing allocation policy which incorporated tightened eligibility and banding criteria, a reregistration process has been undertaken and the Housing team have reported that this has resulted in 1700 re-applications being submitted, these being a significant reduction from the previous level of 3800 applications on the Council's Housing register. This reregistration process may have also contributed to sifting out any potential fraudulent applications that had entered the system prior, as well as promoting efficiencies in managing the register going forward.

(vi) **Detection and Investigation**- Measures are set out in the attached strategy under 'Detection and Investigation'. Qualified fraud investigators (including Financial Investigators) have access to open source and other intelligence to inform investigations.

(vii) **Fraud Recording and Reporting** – There is quantifiable reporting of returns and estimated savings delivered through reducing financial losses from fraud and error. This is based on applicable financial savings advised by the Cabinet Office across each of the high-risk public fraud categories. The 2023/24 overall fraud return will be reported in due course in the annual audit report for 2023/24 to provide insight of returns achieved and outcomes across specific categories.

(viii) **Opportunities -** Increased focus on social housing fraud (such as unlawful sub-letting and wrongly claimed tenancy succession) has been pursued with registered providers. This was reported as the largest growing fraud area in CIPFA'S Fraud and Corruption Tracker 2020.The Cabinet Office notional figure for tenancies recovered currently stands at £93k for every case.

Best practice promotes organisations working together and sharing relevant information to counter fraud. Housing, Internal Audit, Reigate and Banstead Council and A2 Dominion agreed some time ago to the pursual and facilitation of a bulk data matching exercise with a view to freeing up social housing to those in genuine need and reducing the financial burden of temporary accommodation. This is particularly important in view of the Housing crisis and associated challenges facing local government. The strategic lead for Housing has been responsible for managing the day-to-day progress of this project with collaborative input from various parties to coincide with key stages of the project.

Given such a targeted exercise has never been undertaken previously, the scale of potential data matches received has been high and a risk-based approach applied. As at the end of January 2024, some of the highlights reported by Reigate and Banstead Council (fraud team) in terms of progress and outcomes relating to the targeted exercise of tenancy fraud are set out in the following paragraph.

All very high risk, high risk, medium risk and other specific risk category matches have had preliminary fraud checks completed on them, this led to 60 case investigations. There are 43 cases which remain open for investigation, with potential offences under Proceeds of Social Housing Fraud Act (PoSHFA), Council Tax Support (CTS) and The Fraud Act. 15 cases have been closed with No Further Action; 2 cases have been recorded as positive outcomes with £93,000 notional savings attributed to each of them. There will be further reporting on outcomes achieved once the data matching exercise and prioritised checks have been completed in full.

Business Rates and Council Tax are prevalent areas of fraud in local government. Pro-active and reactive fraud initiatives (e.g., targeting small business rate relief and Single Person Discount) continue to be agreed areas of focus with the service area given their risk significance. Customer Services are participating in the Countywide SPD exercise led by County and are awaiting to hear on results to ascertain further action, which could lead to removal of discounts from the taxpayers account(s) and adjustments on invoice balances due.

(ix) Understanding & Awareness- Reigate and Banstead Council have delivered high risk public fraud awareness training (refresher sessions) to Housing, Benefits and Customer Services during March 2023, as well as Registered Providers. Services were reminded of the scope of Counter Fraud provision and making referrals of suspected cases across all high- risk categories through established channels, which did result in an initial increase in referrals.

In addition, a guide has been produced to support the Housing service in determining cases to refer to the Fraud team for further investigation.

Spelthorne's corporate training platform (WorkRite) includes courses on anti-bribery and corruption, as well as Whistleblowing (fraud, bribery and corruption constitute a serious concern area under the Whistleblowing Policy).

The prevalence of technology enabled fraud continues to be a growing area of concern. Spelthorne provide monthly IT security sessions to educate staff and raise awareness of ongoing threats and the need to remain vigilant. This is a challenging area given the sophistication of techniques applied by online fraudsters. Artificial Intelligence presents new threats as well as opportunities, as it could become easier for criminals to perpetrate fraud and scams on a larger scale, whilst on the other hand facilitate organisations to improve fraud detection and prevention. The specific implications for the Council's activities will need to be reflected upon in due course.

(x) Internal Audit & Fraud Risk Management - Fraud can be external in nature (public fraud) or internal to an organisation (internal fraud). Managers are accountable for ensuring the adequate operation of systems of internal control in their service areas. Internal Audit provides independent assurance that effective controls and mitigation measures are in place and operating to manage the risk of fraud, bribery and corruption for areas reviewed.

Data analytics continues to be explored and applied where appropriate to detect potential fraudulent and erroneous transactions or activity associated with higher risk datasets. This modern audit approach is intended to provide extended assurance to the Council to safeguard the council's financial resources.

(xi) Data Sharing and Analytics - Spelthorne already participate in the National fraud Initiative (NFI) every two years, whereby electronic data is matched within and between public and private sector bodies to prevent and detect fraud.

3. Options analysis and proposal

Either

i. To note the current position and accept the amendments proposed to the Counter Fraud, Bribery and Corruption Strategy. (Preferred option)

Or:

ii.To make further amendments to the Counter Fraud, Bribery and Corruption Strategy.

Or:

iii. To make no changes to the strategy, thereby not reflecting the current position.

4. Financial management comments

Resources required (staff time) to implement actions to prevent and detect Fraud, bribery and corruption risks should be contained within existing budgets. There is approved funding for corporate counter fraud resource until March 2025 (based on 2 FTE) to support Housing, Benefits, Business Rates and Council Tax in undertaking preventative/detection/investigatory work/preparatory activity relating to potential prosecutions.

5. Risk management comments

5.1 Associated risks and consequences of fraud, bribery and corruption include financial losses (potentially high value), reputational damage to the authority, corporate liability offence associated with bribery, harm to staff or the local community, and reduced public services for the borough's residents (if resources are exploited by fraudsters).

5.2 Measures are already being taken to ensure the services procured from the external service provider continue to provide a targeted approach to counter fraud, proportionate to perceived risk.

6. Procurement comments

6.1 The Procurement team were consulted at the time of procuring the external service from Reigate and Banstead Council and this was discussed further at the Procurement Board in November 2022. As the arrangement relates to the procurement of services from another local authority, advice was sought/provided.

6.2 Reigate and Banstead Council provide Counter Fraud Services to several other local authorities across Surrey. When the Council next goes out to market for this service anticipated during 2024, there may be scope to consider collaborative procurement opportunities with a view to maximising savings from procurement activity.

7. Legal comments

7.1 The Legal team have been consulted regarding the service provider agreement and are reviewing some aspects of the contract further.

8. Other considerations

8.1 Reigate and Banstead Council have demonstrated continued passion and drive for counter fraud activity in supporting positive outcomes and added value to Spelthorne and its residents. This enthusiasm and fight against fraud has over the course of time filtered through to some frontline service areas dealing with public fraud.

8.2 The Group Head of Corporate Governance may wish to provide further direction regarding future strategy, particularly the authority's preferred approach regarding investigations of benefit fraud. To date , Spelthorne have received some positive financial returns relating to Housing Benefits and cashable savings further to prosecution cases and other sanctions. However, there may now be an opportunity to review such arrangements.

9. Equality and Diversity

9.1 Fraud, Bribery and Corruption risks should be considered in all areas of operation as fraudulent activity can result in Council services being diverted away from communities who need them.

10. Sustainability/Climate Change Implications

10.1 There are none specifically to highlight.

11. Timetable for implementation

11.1 There is no specific timetable as implementation of the strategy remains ongoing with annual review and reporting.

12. Contact

12.1 Punita Talwar, Internal Audit Manager. **P.Talwar@spelthorne.gov.uk**

Background papers: CIPFA Fraud and Corruption Tracker, national report 2020
CIPFA Fighting Fraud and Corruption locally 2020.

Appendices:
Appendix 1 – Track changes version of Counter Fraud, Bribery and Corruption Strategy (reviewed February 2023)
Appendix 2 – Clean version of Counter Fraud, Bribery and Corruption Strategy (February 2023)

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APPENDIX 1 - COUNTER FRAUD, BRIBERY AND CORRUPTION STRATEGY

Introduction

1. This Strategy is applicable to Members and staff. The Borough of Spelthorne is committed to providing a high standard of service and accountability. An important aspect of this is a strategy which protects against fraud, bribery and corruption within the Council itself and from external sources.

   In this context

   Fraud means - the illicit gaining of cash or other benefit by deception;

   Corruption means - the dishonest influencing of actions and decisions.

   Bribery means – the offering, giving or soliciting of an inducement or reward which may influence a person to perform a function or activity improperly.

2. The Council recognises that it is already subject to a high degree of external scrutiny of its affairs by a variety of parties. This includes the general public, Council Tax / Business Rates payers, service users, the Local Government Ombudsman, Central Government, in particular, HM Revenue and Customs, the Department for Levelling Up, Housing, and Communities (DLUHC),the Department for Business and Trade (DBT) and the Department for Work and Pensions.

3. It also has external auditors who advise whether the Council has in place adequate arrangements for the prevention and detection of fraud, bribery and corruption.

4. While this external scrutiny assists in protecting against fraud, bribery and corruption the Council believes a clear statement of its own strategy is needed.

5. The key elements of the Council's strategy to combat fraud, bribery and corruption are:

   - An open and honest culture
   - Adequate preventative measures
   - Systems for detection and investigation
   - Understanding and awareness within the Council and the adoption of a "whistleblowing" policy

Culture

6. The Council expects Members and staff at all levels to behave with integrity and propriety and to act within the law and the regulations, procedures and

practices laid down in relation to the conduct of the Council's business. The Council believes this is achieved best through the promotion of an atmosphere of honesty and openness.

7. The Council encourages Members and staff to raise any concerns they have about fraud, bribery and corruption immediately as they occur. It will treat all concerns raised, seriously and in confidence.This is covered with all staff as part of their induction process.

8. The Council has three senior officers who have particular responsibility for regulating the conduct of the Council and its activities. These are:

Chief Finance Officer	Responsible for the financial management, audit and financial probity of the Council and also for its proper personnel policies and practices.
Monitoring Officer	Responsible for the legal probity and avoidance of maladministration or injustice by the Council.
Chief Executive	Responsible as Head of Paid Service for the overall management and direction of the Council and for ensuring adequate staff resources for services.

9. In addition each Group Head and senior manager have responsibility for the proper organisation and conduct of their service area.It is important that Managers and officers at all levels do not become complacent about the risk of fraud as this may have an impact in terms of the robustness of controls applied in practice. Please refer to the section on systems below.

10. Concerns should be raised with any of the above officers under section 8 or with the Council's Internal Audit Manager.

11. More detailed guidance and advice on how to raise any concerns relating to fraud, bribery and corruption is contained in the Council's Confidential Reporting Code (whistleblowing policy).

12. If anyone feels they are unable to raise their concerns through any of the above routes, under the Confidential Reporting Code they may contact 'Protect' (020 3117 2520 – advice line), a registered charity whose services are free and strictly confidential.

Prevention

13. The adoption of proper and adequate measures to prevent fraud, bribery and corruption is the responsibility of Members, Chief Executive, Deputy Chief Executives, Group Heads and other managers. Preventative measures can be classified under two broad headings - Codes/Procedures and Systems.

1. Codes/Procedures

All Members and staff need to be aware of, and have ready access to, the Council's agreed policies and procedures eg. Financial Regulations, Standing Orders, Codes of Conduct, Code of Corporate Governance and any relevant practice and procedure documents. A review of the Council's Constitution has been led by the Group Head of Corporate Governance. The Governance Framework continues to be developed and enhanced to reflect the Council's significant property/asset portfolio.

In particular staff must observe the Council's Code of Conduct for Staff (a copy of which is made available to all staff) and any relevant professional codes.

References will be taken up for all permanent and temporary staff to verify their suitability, honesty and integrity. Other vetting should be applied which gives due consideration to the nature of the appointed position.

The Members Code of conduct is kept under review by the Standards Committee. Members will be supplied with a copy of any relevant code, policy and procedure and advised of their responsibilities.

2. Systems

The Council has and will maintain in place systems and procedures which incorporate internal controls, including adequate separation of duties to ensure that, as far as possible, errors, fraud, bribery and corruption are prevented.

The Chief Finance Officer has a statutory responsibility under Section 151 of the Local Government Act 1972 to ensure the proper administration of the Council's financial affairs. Financial procedures detail key financial systems and provide guidance which underpins the Council's Financial Regulations.

Chief Executive, Deputy Chief Executives, Group Heads and managers are responsible for ensuring that appropriate internal controls are properly maintained to minimise the risk of errors, fraud, bribery and corruption.

A detailed analysis of the risks associated with any service and how they are being addressed has been integrated into the annual service planning process to enable greater alignment across corporate processes. Managers are responsible for ensuring that fraud, bribery and corruption risks are minimised and Internal Audit will advise through the provision of independent assurance.

14. Detection and investigation

Concerns should be reported to one of the individuals referred to in paragraphs 8 and 10 above or in accordance with the Council's whistleblowing policy.

A detailed investigation of any concerns raised will be undertaken with the assistance of the Council's Internal Audit Service. The Group Head of Corporate Governance holds responsibility for responding to allegations of bribery and corruption relating to Members. The Council will deal with any instances of fraud, bribery or corruption swiftly. Disciplinary action will be taken if appropriate after the police have been informed/involved, and the relevant Committee informed where necessary. Where the Council has adopted a prosecution policy for any business area (eg Housing Benefit Fraud or Housing register) this will be followed. Any lessons learnt from Investigations undertaken relating to systematic weaknesses will be highlighted and should feed back into improving fraud prevention/detection measures.

In the event that fraud is suspected on the part of contractors' employees or internally, by staff involved in agency or contract work on behalf of other bodies, procedures and responsibilities for reporting and initial investigation are the same as for staff. The Council will inform and involve employing contractors or agencies when appropriate.

Counter Fraud measures - Given the significance of corporate fraud in national and local statistics and the cost to the taxpayer, the Council recognises the continued importance of collaborative working arrangements with other Councils/Partners to help prevent, deter, detect and investigate fraud, providing access to specialist skills and greater capacity to investigate fraud. The strategy to target areas of public fraud which are likely to generate greater financial returns (Business Rates and Social Housing) will continue. Such initiatives have demonstrated positive financial fraud returns for Spelthorne (notional and cashable savings) and continue to do so. For high-risk public fraud areas, Internal Audit will continue to collaborate with Services to promote awareness and encourage take up of counter fraud measures (these incorporate preventative as well as detective and investigatory approaches). It remains the responsibility and decision of Group Heads and Service Managers to pursue/implement collaborative opportunities presented enabling sustained targeting of counter fraud measures. Some examples regularly promoted (with some taken effect) include enhanced pro-active vetting of Housing register applications (preventative measure), periodical County Wide Single Person Discount exercises led by Surrey to target Council Tax fraud, the use of Financial Investigator Resource to recover losses/assets (where appropriate), proactive fraud drives such as bulk data matching exercises with Registered Providers to target social housing fraud. There has been strong commitment across teams to pursue the bulk data matching initiative with A2D and this is explained in more detail in other reports along with positive anticipated returns.

Counter fraud measures targeting illegal sub-letting and other types of social housing fraud also contribute to the delivery of wider social benefits, enabling more social housing to be available to those people and members of the community who are genuninely in need of a home, leading to a reduction in housing applicant waiting times, reduced temporary accommodation costs and ultimately the need for fewer houses to be built. Positive results (proven fraud) are publicised periodically to serve as a deterrent.

Measures are taken to ensure the services procured from the external service provider continue to provide a targeted approach to counter fraud, proportionate to perceived risk.

Whilst the Surrey Counter Fraud Board (SCFB) no longer meets on a regular basis, existing networks provide useful points of contact. This enables the sharing of best practice and approaches in tackling public fraud and provides opportunities to pursue joint counter fraud initiatives such as data matching. The importance of engaging with members of the public to join the fight against fraud is recognised. Periodical monitoring and analysis of Spelthorne's quantified fraud returns across categories and time intervals is included in Internal Audit reporting to Management Team and Audit Committee. These demonstrate financial savings (notional and where measurable cashable)/financial losses prevented for the Council and the wider public purse.

Awareness

The Council recognises the continuing effectiveness of the Counter Fraud, Bribery and Corruption Strategy depends largely on the awareness and responsiveness of Members and staff. It is essential that both Members and staff are made aware of the strategy when they join the Council for inclusion in their personal records and, in addition, have ready access to all other relevant documents, policies and procedures which regulate the Council's activities. Action will be taken on a regular basis to remind both Members and staff of the importance the Council places on preventing fraud and corruption and investigating irregularities. Effective methods for mandatory training and raising awareness including face to face and online shall be periodically explored and delivered. For those Services administering areas that present higher risk of public fraud occurrence, as well as Registered Providers, periodical awareness raising, and training is delivered by the Service Provider (Reigate and Banstead Council). This serves as a reminder of the prevalence of fraud in these areas using anonymised case studies to bring the training to life and encourage reasonably informed suspicions to be referred by officers for investigation through correct channels. This promotes a zero tolerance to fraud culture across the Council

In accordance with the Government's Serious and Organised Crime Strategy, local Police representatives have previously provided awareness raising sessions for staff and Members to identify areas where Spelthorne is at most risk of being targeted by serious and organised crime and highlight known vulnerabilities. During these sessions the importance of sharing intelligence with Law Enforcement Partners has been encouraged. Organised crime includes drug trafficking, human trafficking, child sexual exploitation, high value fraud and cyber-crime. Further consultation with the local police is ongoing and red flags /known risks will continue to be highlighted by the relevant Service Area (Community Safety) falling under Neighbourhood Services.

Group Heads and Managers are responsible for assessing governance arrangements in place to combat risks in this area for their respective functions.

APPENDIX 2 - COUNTER FRAUD, BRIBERY AND CORRUPTION STRATEGY

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2. The Council recognises that it is already subject to a high degree of external scrutiny of its affairs by a variety of parties. This includes the general public, Council Tax / Business Rates payers, service users, the Local Government Ombudsman, Central Government, in particular, HM Revenue and Customs, the Department for Levelling Up, Housing, and Communities (DLUHC),the Department for Business and Trade (DBT) and the Department for Work and Pensions.

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   - Understanding and awareness within the Council and the adoption of a "whistleblowing" policy

Culture

6. The Council expects Members and staff at all levels to behave with integrity and propriety and to act within the law and the regulations, procedures and

practices laid down in relation to the conduct of the Council's business. The Council believes this is achieved best through the promotion of an atmosphere of honesty and openness.

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Chief Executive	Responsible as Head of Paid Service for the overall management and direction of the Council and for ensuring adequate staff resources for services.

9. In addition each Group Head and senior manager have responsibility for the proper organisation and conduct of their service area.It is important that Managers and officers at all levels do not become complacent about the risk of fraud as this may have an impact in terms of the robustness of controls applied in practice. Please refer to the section on systems below.

10. Concerns should be raised with any of the above officers under section 8 or with the Council's Internal Audit Manager.

11. More detailed guidance and advice on how to raise any concerns relating to fraud, bribery and corruption is contained in the Council's Confidential Reporting Code (whistleblowing policy).

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2. Systems

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A detailed analysis of the risks associated with any service and how they are being addressed has been integrated into the annual service planning process to enable greater alignment across corporate processes. Managers are responsible for ensuring that fraud, bribery and corruption risks are minimised and Internal Audit will advise through the provision of independent assurance.

Detection and investigation

14. Concerns should be reported to one of the individuals referred to in paragraphs 8 and 10 above or in accordance with the Council's whistleblowing policy.

15. A detailed investigation of any concerns raised will be undertaken with the assistance of the Council's Internal Audit Service. The Group Head of Corporate Governance holds responsibility for responding to allegations of bribery and corruption relating to Members. The Council will deal with any instances of fraud, bribery or corruption swiftly. Disciplinary action will be taken if appropriate after the police have been informed/involved, and the relevant Committee informed where necessary. Where the Council has adopted a prosecution policy for any business area (eg Housing Benefit Fraud or Housing register) this will be followed. Any lessons learnt from Investigations undertaken relating to systematic weaknesses will be highlighted and should feed back into improving fraud prevention/detection measures.

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17. Counter Fraud measures - Given the significance of corporate fraud in national and local statistics and the cost to the taxpayer, the Council recognises the continued importance of collaborative working arrangements with other Councils/Partners to help prevent, deter, detect and investigate fraud, providing access to specialist skills and greater capacity to investigate fraud. The strategy to target areas of public fraud which are likely to generate greater financial returns (Business Rates and Social Housing) will continue. Such initiatives have demonstrated positive financial fraud returns for Spelthorne (notional and cashable savings) and continue to do so. For high-risk public fraud areas, Internal Audit will continue to collaborate with Services to promote awareness and encourage take up of counter fraud measures (these incorporate preventative as well as detective and investigatory approaches). It remains the responsibility and decision of Group Heads and Service Managers to pursue/implement collaborative opportunities presented enabling sustained targeting of counter fraud measures. Some examples regularly promoted (with some taken effect) include enhanced pro-active vetting of Housing register applications (preventative measure), periodical County Wide Single Person Discount exercises led by Surrey to target Council Tax fraud, the use of Financial Investigator Resource to recover losses/assets (where appropriate), proactive fraud drives such as bulk data matching exercises with Registered Providers to target social housing fraud. There has been strong commitment across teams to pursue the bulk data matching initiative with A2D and this is explained in more detail in other reports along with positive anticipated returns.

18. Counter fraud measures targeting illegal sub-letting and other types of social housing fraud also contribute to the delivery of wider social benefits, enabling more social housing to be available to those people and members of the community who

are genuninely in need of a home, leading to a reduction in housing applicant waiting times, reduced temporary accommodation costs and ultimately the need for fewer houses to be built. Positive results (proven fraud) are publicised periodically to serve as a deterrent.

19. Whilst the Surrey Counter Fraud Board (SCFB) no longer meets on a regular basis, existing networks provide useful points of contact. This enables the sharing of best practice and approaches in tackling public fraud and provides opportunities to pursue joint counter fraud initiatives such as data matching. The importance of engaging with members of the public to join the fight against fraud is recognised. Periodical monitoring and analysis of Spelthorne's quantified fraud returns across categories and time intervals is included in Internal Audit reporting to Management Team and Audit Committee. These demonstrate financial savings (notional and where measurable cashable)/financial losses prevented for the Council and the wider public purse.

Awareness

20.The Council recognises the continuing effectiveness of the Counter Fraud, Bribery and Corruption Strategy depends largely on the awareness and responsiveness of Members and staff. It is essential that both Members and staff are made aware of the strategy when they join the Council for inclusion in their personal records and, in addition, have ready access to all other relevant documents, policies and procedures which regulate the Council's activities. Action will be taken on a regular basis to remind both Members and staff of the importance the Council places on preventing fraud and corruption and investigating irregularities. Effective methods for mandatory training and raising awareness including face to face and online shall be periodically explored and delivered. For those Services administering areas that present higher risk of public fraud occurrence, as well as Registered Providers, periodical awareness raising, and training is delivered by the Service Provider (Reigate and Banstead Council). This serves as a reminder of the prevalence of fraud in these areas using anonymised case studies to bring the training to life and encourage reasonably informed suspicions to be referred by officers for investigation through correct channels. This promotes a zero tolerance to fraud culture across the Council. Measures are taken to ensure the services procured from the external service provider continue to provide a targeted approach to counter fraud, proportionate to perceived risk.

21.In accordance with the Government's Serious and Organised Crime Strategy, local Police representatives have previously provided awareness raising sessions for staff and Members to identify areas where Spelthorne is at most risk of being targeted by serious and organised crime and highlight known vulnerabilities. During these sessions the importance of sharing intelligence with Law Enforcement Partners has been encouraged. Organised crime includes drug trafficking, human trafficking, child sexual exploitation, high value fraud and cyber-crime. Further consultation with the local police is ongoing and red flags /known risks will continue to be highlighted by the relevant Service Area (Community Safety) falling under Neighbourhood Services. Group Heads and Managers are responsible for assessing governance arrangements in place to combat risks in this area for their respective functions.

Audit Committee

19 March 2024

Title	**2023-24 Accounting Policies for both Spelthorne Borough Council and Spelthorne Group & its subsidiaries Knowle Green Estates Limited and Spelthorne Direct Services Ltd.**
Purpose of the report	To note
Report Author	Paul Taylor Chief Accountant
Ward(s) Affected	All Wards
Exempt	No
Corporate Priority	Services
Recommendations	**Committee is asked to note the 2023-24 accounting policies.**
Reason for Recommendation	

1. Summary of the report

What is the situation	Why we want to do something
• The 2023-24 Accounting Policies set out how the Council will deal with a variety of matters in the preparation of the Statement of Accounts	• As part of producing the 2023-24 Statement of Accounts the Accounting Policies set out how the Council will deal with key issues.
This is what we want to do about it	**These are the next steps**
• Review the 2023-24 Accounting Policies. • Question Finance Officers on the 2023-24 Accounting Policies	• To note the 2023-24 Accounting Polices for the Council and the Group, which includes the Council and its subsidiaries Knowle Green Estates Ltd and Spelthorne Direct Services Ltd.

1.1 This report sets out the Council's proposed accounting policies to be adopted for Spelthorne Borough Council and its subsidiaries for the financial statements for the year end 31 March 2024.

2. Key issues

2.1 The Council's accounting policies are the specific principles, conventions, rules and practices that are applied in the production and presentation of the annual Statement of Accounts.

2.2 These policies have to be fully disclosed as a note to the annual accounts and a copy of the policies for the Council (sole entity) and Group Accounts (Council and its subsidiaries) as shown in appendix A and B respectively.

2.3 There have been no changes to the accounting policies from 2022-23.

2.4 During the 2023-24 year end close down seminars, a number of commentators are advising that there is a general view that the accounting policies for Council's have become to complex and whilst they cover every item that is applicable to the council, they should perhaps reflect if these policies have a material impact on the statement of Accounts and where the answer is that they are immaterial, the accounting policies should reflect this.

2.5 Having considered this guidance and in view of the fact that the Council has not had any audit work carried out for five years, it is proposed that the council will start with the full list of accounting policies contained in the appendices below and refine the polices as the audit progresses to reflect the guidance.

3. Options analysis and proposal

3.1 As above.

4. Financial management comments

4.1 Explain the key financial headlines linked to appropriate data in appendices (if required).

5. Risk management comments

5.1 There are none.

6. Procurement comments

6.1 There are none.

7. Other considerations

7.1 There are none.

8. Equality and Diversity

8.1 There are none.

9. Sustainability/Climate Change Implications

9.1 There are none.

10. Contact details

10.1 Paul Taylor Chief Accountant p.taylor@spelthorne.gov.uk

11. Timetable for implementation

11.1 Effective immediately for the 2023-24 audit.

Background papers: There are none.

Appendices:
Appendix A – 2023-24 Spelthorne Borough Council Accounting Policies
Appendix B – 2023-24 Group Accounting Policies

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Accounting Policies

1.1 General Principles

The Statement of Accounts summarises the Council's transactions for the financial year and its position at the year-end and comply with the Code of Practice on Local Authority Accounting (The Code), issued by the Chartered Institute of Public Finance & Accountancy (CIPFA). Accounting policies and estimation techniques have been selected and used having regard to the accounting principles and concepts set out in International Financial Reporting Standards Framework for the Preparation of Financial Statements, specifically:

- The qualitative characteristics of financial information
- Relevance
- Reliability
- Comparability
- Understand ability
- Materiality
- Accruals
- Going concern

Where there is specific legislation, this will have primacy over any other provision. The accounts have been prepared under the historical cost convention modified by the revaluation of certain categories of non-current assets.

1.2 Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

1.2.1 Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser, and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

1.2.2 Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

1.2.3 Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.

1.2.4 Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

1.2.5 Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure based on the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

1.2.6 Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

1.3 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in a specified period, no more or less from the date of the balance sheet and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

1.4 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e., in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance.

Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

1.5 Charges to Revenue for Non-current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

1.5.1 depreciation attributable to the assets used by the relevant service

1.5.2 revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off

1.5.3 amortisation of intangible assets attributable to the service.

1.5.4 for Finance Leases, Minimum Revenue Provision (MRP) is equal to the write down of the liability

The Council is not required to raise Council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to either an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance (England and Wales).

Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance Minimum Revenue Provision (MRP), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

1.6 Council Tax and Non-Domestic Rates (England)

Billing authorities act as agents, collecting Council Tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting Council Tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e., the Collection Fund) for the collection and distribution of amounts due in respect of Council Tax and NDR.

Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

1.6.1 Accounting for Council Tax and NDR

The Council Tax and NDR income included in the Comprehensive Income and Expenditure Statement is the Council's share of accrued income for the year. However, regulations determine the amount of Council tax and NDR that must be included in the Council's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Council's share of the end of year balances in respect of Council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

1.7 Employee Benefits

1.7.1 Benefits Payable during Employment

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Council.

An accrual is made for the cost of holiday entitlements (or any form of leave, e.g., time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

1.7.2 Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service segment or, where applicable, to a corporate service segment at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

1.7.3 Post-employment Benefits

Employees of the Council are members of the Local Government Pensions Scheme, administered by Surrey County Council. The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

The Local Government Pension Scheme is accounted for as a defined benefits scheme.

The liabilities of the pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e., an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees.

Liabilities are discounted to their value at current prices, using a Corporate Bond yield curve constructed using the constituents of the iBOXxx AA corporate bond index.

The assets of Surrey Pension Fund attributable to the Council are included in the Balance Sheet at their fair value: quoted securities – current bid price

- quoted securities – current bid price
- unquoted securities – professional estimate
- unitised securities – current bid price

- property – market value.

The change in the net pensions liability is analysed into the following components:

1.7.3.1 Service cost comprising:

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.
- net interest on the net defined benefit liability (asset), i.e. net interest expense for the Council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

1.7.3.2 Re-measurements comprising:

- The return on pension plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- Contributions paid to the Surrey Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards.

In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

The negative balance that arises on the Pensions Reserve thereby measures the impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

1.7.4 Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

1.8 Events After the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

1.8.1 those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events

1.8.2 those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

1.9 Financial Instruments

1.9.1 Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid.

The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

1.9.2 Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics.

There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e., where the cash flows do not take the form of a basic debt instrument).

1.9.3 Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value.

They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement. However, the Council has made a number of loans to voluntary organisations at less than market rates (soft loans).

When soft loans are made, a loss is recorded in the CIES (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the CIES at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet.

Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the CIES to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments

Adjustment Account in the Movement in Reserves Statement. Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

1.9.4 Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost. The expected credit loss model also applies to lease receivables and contract assets.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

The Council indirectly gives a number of loans to local businesses, and particularly through Funding Circle. Since these loans are indirect, the Council does not have reasonable and supportable information that is available to support the measurement of lifetime expected losses on an individual instrument basis. It has therefore assessed losses for the portfolio on a collective basis.

1.9.5 Financial Assets Measured at Fair Value through Profit of Loss (FVPL)

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

1. Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date.
2. Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
3. Level 3 inputs – unobservable inputs for the asset.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. [Additional policy detail required where a Council decides to designate investments in equity instruments to FVOCI]

1.10 Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third-party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-specific Grant Income and Expenditure (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

The COVID-19 pandemic introduced another layer of complexity, requiring that all Councils assess each grant paid to them by Business Energy & Industrial Strategy (BEIS), as either principal or agent transactions. Where the Council deems that they are operating as principal, the transactions shall be included in its Comprehensive Income & Expenditure Statement (CIES) in accordance with the code. Where the Council is acting as an agent, transactions will not be reflected in the Council's statement of accounts.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

1.10.1 Community Infrastructure Levy

The Council has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the Council) with appropriate planning consent. The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects to support the development of the area.

CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure. However, a small proportion of the charges for this Council may be used to fund revenue expenditure.

1.11 Heritage Assets

1.11.1 Heritage Assets – General

Heritage assets are defined as assets which have historical, artistic, scientific, technological, geographical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture.

Heritage Assets include historical buildings, historic motor vehicles, civic regalia, museum and gallery collections and works of art.

Recognition and Measurement: Where the Council has information on the cost or value of a Heritage Asset the Council will include that value in its 2022/23 Balance Sheet. Where this information is not available, and the historical cost information cannot be obtained the asset can be excluded from the balance sheet. A de-minimis level will be set in accordance with our policy for Capitalisation of assets currently set at £10,000.

Heritage assets will normally be measured at fair value. Where, exceptionally, it is not practicable to obtain a fair value, heritage assets shall be measured at historical cost (less any accumulated depreciation, amortisation and impairment losses).

Valuations may be made by any method that is appropriate and relevant. There is no requirement for valuations to be carried out or verified by external valuers, nor is there any prescribed minimum period between valuations. However, where heritage assets are measured at fair value, the carrying amount shall be reviewed with sufficient frequency to ensure the valuations remain current.

Depreciation, Amortisation and Impairment: Depreciation or amortisation is not required on heritage assets which have indefinite lives. The carrying amount of an asset shall be reviewed where there is evidence of impairment, for example, where it has suffered physical deterioration or breakage, or new doubts arise as to its authenticity. Any impairment recognised shall be dealt with under the recognition and measurement requirements of section 4.7 of the Code.

1.12 Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council because of past events (e.g., software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s).

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the 'Movement in Reserves Statement' and posted to the Capital Adjustment Account and (for any sales proceeds greater than £10,000) the Capital Receipts Reserve.

1.13 Interests in Companies and Other Entities

The Council has material interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures and require it to prepare group accounts. In the Council's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

1.14 Inventories and Long-term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the [FIFO/weighted average] costing formula.

Long-term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

1.15 Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance.

However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve

1.16 Joint Operations

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Council in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the Council as a joint operator recognises:

- its assets, including its share of any assets held jointly
- its liabilities, including its share of any liabilities incurred jointly
- its revenue from the sale of its share of the output arising from the joint operation
- its share of the revenue from the sale of the output by the joint operation
- its expenses, including its share of any expenses incurred jointly.

1.17 Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant, or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

1.17.1 The Council as Lessee

1.17.1.1 Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease’s inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and

- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise Council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

1.17.1.2 Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e g. there is a rent-free period at the commencement of the lease).

1.18 Overheads and Support Services

The costs of overheads and support services are charged to service segments in accordance with the Council's arrangements for accountability and financial performance.

1.19 Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as property, plant, and equipment.

1.19.1 Recognition

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accrual's basis, if it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e., repairs and maintenance) is charged as an expense when it is incurred.

1.19.2 Measurement

Assets are initially measured at cost, comprising:

- the purchase price of any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Council does capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e., it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-specific Grant Income and Expenditure line of the Comprehensive Income and Expenditure Statement unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost
- dwellings – current value, determined using the basis of existing use value for social housing (EUV–SH)
- Council offices – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV), except for a few offices that are situated close to the Council's housing properties, where there is no market for office accommodation, and that are measured at depreciated replacement cost (instant build) as an estimate of current value
- surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective
- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

1.19.3 Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

1.19.4 Depreciation

Depreciation is provided for on all property, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e., freehold land and certain community assets) and assets that are not yet available for use (i.e., assets under construction).

Deprecation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer.
- vehicles, plant, furniture and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer
- infrastructure – straight-line allocation over 25 years.

Where an item of property, plant and equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

1.19.5 Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an asset held for sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on assets held for sale.

If assets no longer meet the criteria to be classified as assets held for sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as held for sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as assets held for sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e., netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of capital receipts relating to housing disposals is payable to the government. The balance of receipts remains within the Capital Receipts

Reserve and can then only be used for new capital investment [or set aside to reduce the Council's underlying need to borrow (the capital financing requirement) (England and Wales)]. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing.

Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

1.20 Provisions, Contingent Liabilities and Contingent Assets

1.20.1 Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement when the Council has an obligation and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g., from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

1.20.2 Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

1.20.3 Contingent Assets

A contingent asset arises where an event has taken place that gives the authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

1.21 Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then transferred back into the General Fund Balance so that there is no net charge against Council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, local taxation, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

1.22 Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of Council tax.

1.23 VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

1.24 Fair Value Measurement

The Council measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

a) in the principal market for the asset or liability, or

b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability.

1.25 Council Tax, Non-Domestic Rates and Business Improvement District levy

The Council acts as agent for the collection of Council Tax and Business Rates (NDR) on behalf of the major preceptors, including central government. The Council is required by statute to maintain a separate fund (i.e., the Collection Fund) for the collection and distribution of amounts due in respect of Council tax and NDR. Under these legislative arrangements, the Council, major preceptors and central government share proportionately the risks and rewards of the sharing arrangements.

The Council tax and NDR income included in the CI&ES represents the Council's share of accrued income for the year. Regulations determine the amount of Council tax and NDR that must be included in the Council's General Fund. The difference between the accrued income and the regulatory amount is included in the Collection Fund Adjustment Account; a reconciling item being included in the Movement in Reserves Statement.

The Council's balance sheet includes the Council's share of the end of year balances for Council tax and NDR relating to arrears, impairment allowances for doubtful debts, NDR appeals and overpayments and prepayments.

The Council also collects Business Improvement District (BID) levy on behalf of the Staines-upon-Thames BID.

1.26. Interests in Companies and Other Entities

The Council has a material interest in the wholly owned companies Knowle Green Estates Limited and Spelthorne Direct Services. Group accounts have been produced. The Council's accounts record transactions at cost.

Group Accounting policies

The Group Accounts have been prepared on the basis of a full consolidation of the financial transactions and balances of the Council and its subsidiaries and adopt the same accounting policies as set out in the Statement of Accounts of the single entity shown earlier and the additional policies highlighted below.

Any gains and losses arising from these companies are fully reflected in the Group Statements comprising of the Comprehensive Income and Expenditure Statement, Expenditure and Funding Analysis, Balance Sheet, Movement in Reserves Statement, Cash flow Statement and associated disclosure notes.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

1.1 Additional policies for Group Accounts

1.1.1 Taxation

Deferred Taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date.

1.1.2 Internal charges against the Group Comprehensive Income and Expenditure Reserve/intra group charges Cash and Cash Equivalents

There are intra-group charges which will be eliminated via consolidation such as Directors and Officer time allocations and other sundry transfer charges, dividend appropriations, loan interest and fee set up costs, and other ancillary intra-group charges as per agreed between the Directors of each subsidiary company.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council’s financial position or financial performance.

Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

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Audit Committee

19 March 2024

Title	*To note the audited financial statements for Knowle Green Estates (KGE) for the year end 31 March 2023*
Purpose of the report	To note
Report Author	*Paul Taylor Chief Accountant*
Ward(s) Affected	All Wards
Exempt	No
Corporate Priority	Community Addressing Housing Need Resilience Environment Services
Recommendations	**Committee is asked to note the report and in particular the unqualified audit report.**
Reason for Recommendation	The Board of Directors of Knowle Green Estates Ltd approved the accounts for the year ended 31 March 2023 on 18 October 2023 following a meeting with the External Auditors. The Auditors provided an unqualified audit report and the accounts have been filed at Companies House and with His Majesty's Revenue & Customs (HMRC), where there is no Corporation Tax to pay.

1. Summary of the report

What is the situation	Why we want to do something
• This Committee is responsible for the oversight over Knowle Green Estates (KGE). • Every year the accounts of KGE are subject to an independent audit and this report looks back over the trading year ended 31 March 2023.	• As part of good governance, this Committee manages the relationship with KGE on behalf of Council. • The KGE Board have discharged their duties and obtained an unqualified audit report for the year end 31 March 2023.

• Note that the external auditors gave an unqualified audit opinion for the year end 31 March 2023. • Whilst the company is trading at a loss, at the extraordinary Council meeting on 3 February 2023, council agreed to extend up to five years of financial support to KGE, whilst the Council suspends its direct housing delivery projects and seeks joint venture partners to complete the projects and deliver the much needed housing to the residents of the borough.	
This is what we want to do about it	**These are the next steps**
• To review the report and its appendices. • Question managers and the Directors about the results contained in the financial statements, the comments in the management letter and the Directors response in the Letter of Representation, noting that this was a straightforward audit assignment. • Focus on the figures for 2022-23, as the previous year has been noted by the Committee.	• That the Committee note the report.

2. Summary of the report

2.1 The unqualified audited accounts for the year ended 31 March 2023 were approved by the Knowle Green Estates (KGE) Board on 18 October 2023 and filed at Companies House and there was no Corporation Tax to pay.

2.2 A summary of the profit and loss account on page 6 of Appendix A is shown below, noting that under Company Law, losses are shown as a negative figure and profits are shown as a positive figure, which is the reverse situation when reporting under the Chartered Institute of Public Finance Accountancy Code for Local Authorities:

	2022-23	2021-22
Profit/(loss) for the year	(£896,857)	£144,334
Total Comprehensive Income/(Expenditure) for the year	£1,232,724	£3,464,975
Total equity	£4,411,839	£3,179,115

2.3 The main reasons for the loss being incurred was due to:

(a) An increase of (£499k) in the depreciation charge, as Benwell 1 and West Wing are now fully operational.

(b) An increase of (£700k) in loan interest charges following the transfer of the West Wing in the summer of 2022 and the delay in getting the tenants in to the property in December 2022.

(c) A repayment of (£163k) to HMRC in respect of VAT.

(d) Offset by an increase in rental income of £350k.

2.4 The main reason for the improvement in total equity performance from 2021/21 to 2022/23 is due to the improvement to the property valuations, based on full occupancy and strong rental streams from private renters and affordable housing.

2.5 The positive movement is reflected in the revaluation reserve, noting that this reserve is an unusable reserve, as defined by the CIPFA Prudential Code.

2.6 The above is in line with the financial information communicated to Council in respect of KGE.

3. Key issues

3.1 Following a meeting with Tracey Wickens, the Senior Statutory Auditor at MGI-Midgely Snelling, the KGE Board of Directors formally accepted and signed the accounts (Appendix A) on 18 October 2023.

3.2 Also attached is the Management Letter from the Auditor, See Appendix B, which states that:

(a) The was no change in the audit process.

(b) There were no significant findings coming from the audit.

(c) Some commentary on internal controls:

i) There are still some challenges with Bluebox (a Tenancy based application) when producing final accounts, as there has been little development work carried out by the Assets team to develop the software to deliver a recognisable trial balance from the system, making it a labour intensive process, and delaying the production of the audited accounts a consolidated Council accounts.

This is still being addressed by the Board of Directors.

ii) The two sums referred to come from the previous year, which was audited by Azets, and therefore, there should have been sufficient information in the audit files to deal with matter.

Officers subsequently review the journals from the previous auditors and ascertained that figures were as follows:

3.3 £10,793 – this was written off in year end 2021, by agreement with the auditors and the Board.

3.4 £4,134 – this was deferred income from 2021 and should be written to the profit and loss account.

However, these have not been reflected in the trial balance and the Chief Accountant is dealing with this matter in February.

Please note that both adjustments are favourable and under the company's materiality levels and will be adjusted accordingly going forward.

3.5 The auditors also provided confirmation:

(a) of an anticipated clean audit report being issued, subject to final checks and submissions.

(b) that the auditors agree with the Directors views on:

i) Going concern

ii) Accounting policies and disclosures

(c) that there were no related party issues.

(d) that all third-party confirmations were received.

(e) of MGI-Midgley Snellings independence.

3.6 As part of the normal audit process, the Directors discussed, reviewed and signed the Letter of Representation, (Appendix C).

3.7 This letter sets out key affirmations that the Directors have made during the audit process and is a standard request from external auditors.

3.8 Where adjustments are material, the Board requested that the financial statements were amended to reflect these adjustments, As a result of these adjustments the Spelthorne Borough Council Group accounts will need to be updated to reflect these favourable adjustments.

4. Financial implications

4.1 There are no further financial implications in respect of the financial accounts.

5. Risk considerations

5.1 The property valuations are based on a variety of data, and does not reflect the best valuation, i.e., an offer to buy the premises or company, which could be higher or lower than the asset carrying value included in the audited financial accounts for the year ended 31 March 2022.

5.2 The Bluebox financial system, is not widely recognised within the finance profession and it has been difficult for the Finance Team to support the Assets Team to deliver timely year end accounts, management accounts and budgets. Officers are in discussion to look at moving the accounts production to Centros, where greater resilience and support can be provided.

5.3 Delays to the Development Projects has put financial pressure on KGE, and at the Extraordinary Council Meeting it requested a refinancing package, including the purchase of equity shares, to match the potential Homes England Funding and reduce the Loan to Property Value to 50%, as current

PWLB interest rates are circa 5% and expected to rise further in mid-June, when the Bank of England meet to review the Base Rate.

5.4 The original projections approved by the KGE Board in June 2021, where prepared on the assumptions that Thameside House and Victory Place would be occupied from January 2024 and November 2023 respectively, as neither development has commenced yet, this is putting pressure on KGE, not only from a cashflow perspective, but also in its ability to establish a truly independent Board, as it is unable to generate the cashflow to support this additional expenditure.

5.5 Since the change of Council policy on 22 March 2022 – Transferring property to KGE at cost - this has ensured that there is no chance of a loss materialising upon transfer to KGE, in the Council's accounts.

5.6 To reduce the financial risk on KGE being unable to afford to manage any of the Council's development properties, since the last property was transferred in December 2021, viability assessment are now carried out on each development, which will include modelling over a 50 year period different scenarios, such as, changes in interest rates, loan term, rent increases and capital cost.

6. Options analysis and proposal

6.1 Not applicable

7. Financial management comments

7.1 As per section 2 and 3 above.

8. Procurement comments

8.1 There are no Procurement implications in this report

9. Legal comments

9.1 It is a requirement under section 441 of the Companies Act 2006 for accounts to be filed every year at Companies House.

9.2 As the sole shareholder of SDS, the Council should have sufficient oversight of the company's activities. This report assists with providing financial oversight and gives assurance that KGE is financially sound, with the continued support of the Council.

10. Other considerations

10.1 Detail any other considerations to be taken into account.

11. Equality and Diversity

11.1 Detail how the recommended proposals will impact equality and diversity and mitigation measures being taken.

12. Sustainability/Climate Change Implications

12.1 Detail how the proposal will support/impact sustainability/climate change issues.

13. Timetable for implementation

13.1 Set out a timetable, if required, showing when the proposal in the report will be implemented.

14. Contact

14.1 p.taylor@spelthorne.gov.uk

Background papers: There are none.

Appendices:
Appendix A – Signed Audited Accounts for Knowle Green Estates for the year end 31 March 2023.
Appendix B – Management Letter
Appendix C – Letter of Representation

Company registration number 10170860 (England and Wales)

KNOWLE GREEN ESTATES LTD

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023

KNOWLE GREEN ESTATES LTD

COMPANY INFORMATION

Directors	T Collier A Fillis D Levy L Nichols	 (Appointed 21 June 2023)
Secretary	F Hussain	
Company number	10170860	
Registered office	Council Offices Knowle Green Staines-Upon-Thames Middlesex TW18 1XB	
Auditor	MGI Midgley Snelling LLP Ibex House Baker Street Weybridge Surrey KT13 8AH	

KNOWLE GREEN ESTATES LTD

CONTENTS

KNOWLE GREEN ESTATES LTD

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2023

The directors present their annual report and financial statements for the year ended 31 March 2023.

Principal activities
The principal activity of the company continued to be that of providing affordable housing lettings for families, keyworkers and private individuals who are resident in the Borough of Spelthorne.

Directors
The directors who held office during the year and up to the date of signature of the financial statements were as follows:

T Collier	
S Buttar	(Resigned 30 May 2023)
A Fillis	
D Levy	
L Nichols	(Appointed 21 June 2023)
P Der Man	(Appointed 22 April 2022 and resigned 9 September 2022)

Statement of directors' responsibilities
The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of disclosure to auditor
So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the company's auditor is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditor is aware of that information.

Small companies exemption
This report has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemption.

KNOWLE GREEN ESTATES LTD

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2023

On behalf of the board

[redacted]
T Collier
Director

Date: 18/10/23

KNOWLE GREEN ESTATES LTD

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF KNOWLE GREEN ESTATES LTD

Opinion

We have audited the financial statements of Knowle Green Estates Ltd (the 'company') for the year ended 31 March 2023 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2023 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of our audit:

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with applicable legal requirements.

KNOWLE GREEN ESTATES LTD

INDEPENDENT AUDITOR'S REPORT (CONTINUED)
TO THE MEMBERS OF KNOWLE GREEN ESTATES LTD

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report. We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemption in preparing the directors' report and from the requirement to prepare a strategic report.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

In planning and designing our audit tests, we identify and assess the risks of material misstatements within the financial statements, whether due to fraud or error. Our assessment of these risks includes consideration of the nature of the industry and sector, the control environment and the business performance along with the results of our enquiries of management, about their own identification and assessment of the risks of irregularities. We are also required to perform specific procedures to respond to the risk of management override.

As a result of this assessment, we considered the opportunities and incentives that may exist within the company for fraud and identified that the greatest area of risk was in relation to management override and valuation of properties.

We have obtained an understanding of the legal and regulatory frameworks that the company operates in from discussions with the director and our knowledge of the company and its industry sector. We have focused on the provisions of those laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act and local tax legislation.

KNOWLE GREEN ESTATES LTD

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF KNOWLE GREEN ESTATES LTD

We performed the following audit procedures after consideration of the above risks which included the following:

- enquiry of management of actual and potential litigation and claims;
- reviewing correspondence with HMRC and the company's legal advisors;
- reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business;
- reviewing meeting minutes between the directors and employees during the year; and
- review of revaluation of properties owned by the company.

The engagement partner has assessed that all engagement team members were made aware of the relevant laws and regulations and potential fraud risks and were reminded to remain alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. The risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

A further description of our responsibilities is available on the Financial Reporting Council's website at: https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

[redacted]

Tracey Wickens
Senior Statutory Auditor
For and on behalf of MGI Midgley Snelling LLP

Date: 31/10/2023

Chartered Accountants
Statutory Auditor

Ibex House
Baker Street
Weybridge
Surrey
KT13 8AH

KNOWLE GREEN ESTATES LTD

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2023

		2023	2022
		£	£
Turnover		1,140,166	781,359
Administrative expenses		(1,357,254)	(536,373)
Operating (loss)/profit		(217,088)	244,986
Interest receivable and similar income		20	-
Interest payable and similar expenses	5	(812,389)	(100,652)
(Loss)/profit before taxation		(1,029,457)	144,334
Tax on (loss)/profit		132,600	-
(Loss)/profit for the financial year		(896,857)	144,334
Other comprehensive income			
Revaluation of tangible fixed assets		2,981,145	4,052,176
Tax relating to other comprehensive income		(851,564)	(731,535)
Total comprehensive income for the year		1,232,724	3,464,975

The profit and loss account has been prepared on the basis that all operations are continuing operations.

KNOWLE GREEN ESTATES LTD

BALANCE SHEET

AS AT 31 MARCH 2023

	Notes	2023 £	2023 £	2022 £	2022 £
Fixed assets					
Tangible assets	6		35,478,410		32,996,900
Current assets					
Debtors	7	145,889		78,679	
Cash at bank and in hand		21,297		155,855	
		167,186		234,534	
Creditors: amounts falling due within one year	8	(1,343,955)		(616,295)	
Net current liabilities			(1,176,769)		(381,761)
Total assets less current liabilities			34,301,641		32,615,139
Creditors: amounts falling due after more than one year	9		(28,439,303)		(28,704,489)
Provisions for liabilities			(1,450,499)		(731,535)
Net assets			4,411,839		3,179,115
Capital and reserves					
Called up share capital	10		1		1
Revaluation reserve	11		5,450,222		3,320,641
Profit and loss reserves			(1,038,384)		(141,527)
Total equity			4,411,839		3,179,115

These financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies regime.

The financial statements were approved by the board of directors and authorised for issue on 18-Oct-23 and are signed on its behalf by:

[redacted]

A Fillis
Director

Company Registration No. 10170860

KNOWLE GREEN ESTATES LTD

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2023

	Share capital	Revaluation reserve	Profit and loss reserves	Total
	£	£	£	£
Balance at 1 April 2021	1	-	(285,861)	(285,860)
Year ended 31 March 2022:				
Profit for the year	-	-	144,334	144,334
Other comprehensive income:				
Revaluation of tangible fixed assets	-	4,052,176	-	4,052,176
Tax relating to other comprehensive income	-	(731,535)	-	(731,535)
Total comprehensive income for the year	-	3,320,641	144,334	3,464,975
Balance at 31 March 2022	1	3,320,641	(141,527)	3,179,115
Year ended 31 March 2023:				
Loss for the year	-	-	(896,857)	(896,857)
Other comprehensive income:				
Revaluation of tangible fixed assets	-	2,981,145	-	2,981,145
Tax relating to other comprehensive income	-	(851,564)	-	(851,564)
Total comprehensive income for the year	-	2,129,581	(896,857)	1,232,724
Balance at 31 March 2023	1	5,450,222	(1,038,384)	4,411,839

KNOWLE GREEN ESTATES LTD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023

1 Accounting policies

Company information

Knowle Green Estates Ltd is a private company limited by shares incorporated in England and Wales. The registered office is Council Offices, Knowle Green, Staines-Upon-Thames, Middlesex, TW18 1XB.

1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006 as applicable to companies subject to the small companies regime. The disclosure requirements of section 1A of FRS 102 have been applied other than where additional disclosure is required to show a true and fair view.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £.

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of freehold properties at fair value. The principal accounting policies adopted are set out below.

1.2 Going concern

The directors have a reasonable expectation that the company has adequate resources and financial support from Spelthorne Borough Council to continue as a going concern for the foreseeable future.

The business plan for the company is to continue to increase their property portfolio including assured short-hold tenancies and affordable housing. The council's overall property strategy is part of the long-term objective of sustainable local regeneration and housing supported by good financial strength and stability.

The company remains integral to the council's strategy. As such, the company continues to adopt the going concern basis in preparing the annual report and financial statements

1.3 Turnover

Turnover is measured at the fair value of the consideration of rents received or receivable, net of discounts.

1.4 Tangible fixed assets

Land and buildings within fixed assets are initially measured at cost, comprising the purchase price and any costs attributed to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the company.

Land and buildings are then carried at fair value under the revaluation model, determined as the amount that would be paid for the asset in its existing use . Assets held at their fair value are revalued sufficiently regularly to ensure that their carrying value amount are not materially different from their fair value at the year end, as a minimum every five years.

Any aggregate surplus or deficit arising from the changes in fair value is recognised in other comprehensive income, with associated reserves recognised separately within revaluation reserves. Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Freehold land and buildings	over 50 years on a straight line basis

1.5 Cash and cash equivalents

Cash and cash equivalents are basic financial assets and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

KNOWLE GREEN ESTATES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2023

1 Accounting policies **(Continued)**

1.6 Financial instruments

Basic financial assets

Basic financial assets, which include debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

Basic financial liabilities

Basic financial liabilities, including creditors, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

1.7 Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of transaction costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

1.8 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

Deferred tax

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

KNOWLE GREEN ESTATES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2023

1 Accounting policies **(Continued)**

1.9 Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of stock or fixed assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

2 Judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

3 Exceptional item

	2023	2022
	£	£
Expenditure		
Backdated VAT - exceptional item	163,244	-

During the year, it was identified that VAT had been incorrectly reclaimed which was repaid to HMRC on discovery.

4 Employees

The average monthly number of persons (including directors) employed by the company during the year was:

	2023	2022
	Number	Number
Total	4	4

5 Interest payable and similar expenses

	2023	2022
	£	£
Interest payable and similar expenses includes the following:		
Interest payable to group undertakings	812,389	100,652

KNOWLE GREEN ESTATES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2023

6 Tangible fixed assets

	Land and buildings
	£
Cost or valuation	
At 1 April 2022	32,996,900
Revaluation	2,521,500
At 31 March 2023	35,518,400
Depreciation and impairment	
At 1 April 2022	-
Depreciation charged in the year	499,635
Revaluation	(459,645)
At 31 March 2023	39,990
Carrying amount	
At 31 March 2023	35,478,410
At 31 March 2022	32,996,900

The fair value of the properties has been arrived at on the basis of an independent valuation carried out in December 2022 by Wilks Head & Eve (WHE), RICS registered Chartered Surveyors. The surveyors completed the valuation report in accordance with the Existing Use Value (EUV) basis. A further valuation at the balance sheet date was deemed unnecessary where market conditions hadn't fluctuated since and appropriate and reliable market information existed for the directors to ascertain their own valuation.

Land and buildings are carried at valuation. If land and buildings were measured using the cost model, the historic cost amounts would have been £29,146,014 (2022: £29,146,014).

Value of land in the freehold land and buildings is £7,573,280 (2022: £7,068,980).

7 Debtors

Amounts falling due within one year:	2023	2022
	£	£
Trade debtors	25,020	33,088
Amounts owed by group undertakings	52,607	-
Other debtors	68,262	45,591
	145,889	78,679

KNOWLE GREEN ESTATES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2023

8 Creditors: amounts falling due within one year

	2023 £	2022 £
Trade creditors	6,551	10,459
Amounts owed to group undertakings	1,187,594	546,630
Taxation and social security	707	-
Other creditors	149,103	59,206
	1,343,955	616,295

9 Creditors: amounts falling due after more than one year

	2023 £	2022 £
Other creditors	28,439,303	28,704,489

The long term intercompany loans provided by Spelthorne Borough Council (Parent) are secured by fixed charges over all the assets of the company.

The tangible assets purchased in 2019 and 2022 were funded by loans from Spelthorne Borough Council. The loan agreements were entered in March 2019 and March 2022 for a period of 50 years, with the interest rate taken from the Public Works Loan Board lending facility.

Creditors which fall due after five years are as follows:	2023 £	2022 £
Payable by instalments	27,206,901	27,409,288

10 Called up share capital

	2023 Number	2022 Number	2023 £	2022 £
Ordinary share capital				
Issued and fully paid				
Ordinary share of £1 each	1	1	1	1

11 Revaluation reserve

	2023 £	2022 £
At the beginning of the year	3,320,641	-
Revaluation surplus arising in the year	2,981,145	4,052,176
Deferred tax on revaluation of tangible assets	(851,564)	(731,535)
At the end of the year	5,450,222	3,320,641

KNOWLE GREEN ESTATES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2023

12 Events after the reporting date

In February 2023, the Department of Levelling Up and Housing announced a package for grant funding to Local Authorities to obtain accommodation for families with housing needs who have arrived in the UK from Ukraine. Two properties were identified after the year end and these will be transferred to Knowle Green Estates Ltd upon exchange of contract.

13 Parent company

Knowle Green Estates Limited is a private company limited by shares and incorporated in England and is a wholly owned subsidiary of Spelthorne Borough Council who's registered office is Spelthorne Borough Council, Knowle Green, Staines-Upon-Thames, TW18 1XB.

KNOWLE GREEN ESTATES LTD

DETAILED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 MARCH 2023

	2023 £	2023 £	2022 £	2022 £
Turnover				
Sales		1,140,166		781,359
Administrative expenses				
Management charge	367,262		310,708	
Waste	1,983		1,750	
Landscape / gardening	12,572		11,774	
Unexpected property related costs	-		525	
Non exec directors fees	10,300		10,264	
Letting costs	24,420		25,435	
Security	602		-	
Rates	7,616		22,853	
Cleaning	22,995		18,238	
Pest control	2,962		427	
Power, light and heat	85,798		15,253	
Repairs and maintenance	93,181		51,030	
Legal and professional fees	22,712		1,470	
Accountancy	500		1,750	
Audit fees	12,900		18,600	
Bank charges	1,434		2,299	
Insurances	20,139		1,624	
Advertising	1,200		-	
Telecommunications	4,853		3,435	
Other office supplies	789		-	
Sundry expenses	157		-	
Depreciation	499,635		38,938	
Backdated VAT - exceptional item	163,244		-	
		(1,357,254)		(536,373)
Operating (loss)/profit		(217,088)		244,986
Interest receivable and similar income				
Bank interest received	20		-	
		20		-
Interest payable and similar expenses				
Interest payable to group companies		(812,389)		(100,652)
(Loss)/profit before taxation		(1,029,457)		144,334

mgi midgley snelling llp

CHARTERED ACCOUNTANTS

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Report to management
PRIVATE AND CONFIDENTIAL

Our ref: TKW/MP/S1160/643422

Board of Directors
Knowle Green Estates Limited
Council Offices, Knowle Green
Staines – Upon – Thames
TW18 1XB

16 October 2023

Dear Sir/Madam

REPORT TO MANAGEMENT – KNOWLE GREEN ESTATES LTD

During the course of our audit for the year ended 31 March 2023 a number of matters arose which we consider should be brought to your attention.

Accompanying this letter is a memorandum noting these points together with any recommendations we have for possible improvements which could be made.

These matters came to light during the course of our normal audit tests which are designed to assist us in forming our opinion on the financial statements. Our tests may not necessarily disclose all errors or irregularities and should not be relied upon to do so. However, if any irregularity did come to our attention during our audit tests, we would, of course, inform you immediately.

We have complied with the Financial Reporting Council's Ethical Standard and all threats to our independence, as identified to you in our planning communication letter dated 6 January 2023, have been properly addressed through appropriate safeguards. No additional facts or matters have arisen during the course of the audit that we wish to draw to your attention and we confirm that we are independent and able to express an objective opinion on the financial statements.

This report has been prepared for the sole use of the directors of Knowle Green Estates Ltd and must not be shown to third parties without our prior consent. No responsibilities are accepted by MGI Midgley Snelling LLP towards any party acting or refraining from action as a result of this report.

Finally, we would like to express our thanks to all of the company's staff who assisted us in carrying out our work.

Yours faithfully

[redacted]

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SIGNIFICANT MATTERS RELEVANT TO OUR AUDIT FOR THE YEAR ENDED 31 MARCH 2023

Audit approach

There were no changes to our audit approach as set out to you in our letter dated 8 June 2023.

Summary of significant audit findings

Significant risk area identified at planning	Findings and recommendations
Revenue recognition Under ISA (UK) 240 there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the company could adopt accounting policies or recognise sales in such a way as to lead to a material misstatement in the reported revenue position.	We carried out a review and testing of revenue recognition policies, including proof in total calculations for a sample of properties, cut off on invoicing was also checked. From the testing performed, no issues were identified.
Management override of controls Under ISA (UK) 240 there is a presumed risk that management and directors have the ability to process transactions or make adjustments to financial records outside of the normal financial control processes. Such transactions could lead to a material misstatement in the financial statements.	We carried out a review of accounting estimates, judgements and decisions made by management. We performed testing of journal entries, cash book entries and a review of unusual significant transactions. From the testing performed, no instances of management override of controls were identified.
Valuation of fixed assets The company holds property at a revalued amount in the accounts, which is subsequently depreciated until a new valuation of the property has been prepared. Incorrect valuation of the property may lead to overstatement of the balance sheet.	We have reviewed the property against valuations provided and the directors' review for the current year, as well as the movement in value of similar properties in the recent period. The depreciation rate has also been reviewed for fixed assets to confirm reasonable rates are used. From the testing performed and after discussions with management, no issues were identified on fixed asset valuation.
Other areas where issues were identified during the audit	**Findings and recommendations**
Going concern Under ISA (UK) 570, the company's going concern has been considered.	From our review of forecasts and after discussions with management, we concur with management's assessment that it is appropriate to continue to adopt the going concern basis and there are no material uncertainties relating to going concern which should be disclosed in the financial statements.

Security charges for the loans The loan agreements state that there are charges on them.	From a review of Companies House, we cannot see that the charges have been registered. Please ensure the charges are registered with Companies House to keep the register of charges up to date.

Internal controls

The purpose of the audit was for us to express an opinion on the financial statements. The audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. Our audit is, therefore, not designed to identify all control weaknesses and the matters reported below are limited to those deficiencies that we have identified during the audit.

Control weakness identified	Potential implications and recommendations
Accounting is all completed on Bluebox which is a tenancy management software. This does not operate well as a reliable financial reporting software and up to date financial information is not immediately available without adjustments made by spreadsheet.	Export of information from Bluebox into a more proprietary book keeping software would mean that reliable company financial information can be maintained without the need of using spreadsheets to reconcile information.
Included within the account are unknown figures, which should be reconciled. Within trade creditors is an unreconciled amount of £10,793. Within amounts due to parent company is an unknown debit amount of £4,134.	To reduce the risk of errors in the accounts, all closing balance sheet codes should be reconciled, any differences or unknown amounts should be investigated and corrected if necessary.
Included on the balance sheet is a VAT balance of £707.05. As the company has deregistered from VAT during the year, this account should be zero.	An unknown VAT balance is included on the balance sheet. As the company is deregistered for VAT no balance would be expected. To review and correct as necessary.

Summary of audit differences and draft letter of representation

We have attached a draft letter of management representations required in connection with our audit.

Attached to the letter of management representations is a schedule of all of the unadjusted misstatements noted during our work. We would be grateful if you could review these and confirm (as point 6 in the letter of representation) that you are satisfied that none of these need to be adjusted for in the financial statements.

Anticipated audit report

We anticipate that we will issue an unmodified audit report for the year, subject to the satisfactory clearance of any outstanding/unresolved the matters outlined in this report.

Going concern

We concur with management's assessment that it is appropriate to continue to adopt the going concern basis and there are no material uncertainties relating to going concern which should be disclosed in the financial statements.

Accounting policies, estimates and disclosures

The accounting policies used in preparing the financial statements are unchanged from the previous year.

Our work included a review of the adequacy of disclosures in the financial statements and consideration of the appropriateness of the accounting policies and estimation techniques adopted by the company. We found the disclosed accounting policies, significant accounting estimates and the overall disclosure and presentation to be appropriate for the company.

Related parties

We are not aware of any related party transactions which have not been disclosed.

Confirmations from third parties

All requested confirmations have been received.

Independence

In accordance with our profession's ethical guidance and further to our planning communication letter to you dated 8 June 2023 confirming audit planning arrangements there are no further matters to bring to your attention in relation to our integrity, objectivity and independence.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. We do not accept any responsibility for any loss occasioned to any third party acting or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

MGI Midgley Snelling LLP
Chartered Accountants
Ibex House
Baker Street
Weybridge
Surrey
KT13 8AH

Knowle Green Estates Ltd

18 October 2023

Dear Sirs

The following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience such as we consider necessary in connection with your audit of the company's financial statements for the year ended 31 March 2023. These enquiries have included inspection of supporting documentation, where appropriate, and are sufficient to satisfy ourselves that we can make each of the following representations. All representations are made to the best of our knowledge and belief.

General

1. We have fulfilled our responsibilities as directors, as set out in the terms of your engagement letter dated 31 March 2023 under the Companies Act 2006, for preparing financial statements in accordance with applicable law and United Kingdom Accounting Standards (UK Generally Accepted Accounting Practice), for being satisfied that they give a true and fair view and for making accurate representations to you.
2. All the transactions undertaken by the company have been properly reflected and recorded in the accounting records.
3. All the accounting records have been made available to you for the purpose of your audit. We have provided you with unrestricted access to all appropriate persons within the company, and with all other records and related information requested, including minutes of all management and shareholder meetings.
4. The financial statements are free of material misstatements, including omissions.
5. We have considered the adjustments in Appendix 1. We confirm that, in our judgement, these adjustments are appropriate given the information available to us. We further confirm that we have now made these adjustments to the financial statements.
6. The effects of uncorrected misstatements (as set out in the Appendix 2 to this letter) are immaterial both individually and in total.

Internal control and fraud

Knowle Green
Estates Ltd

7. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error, and we believe that we have appropriately fulfilled these responsibilities. We have disclosed to you the results of our risk assessment that the financial statements may be misstated as a result of fraud.
8. We have disclosed to you all instances of known or suspected fraud affecting the entity involving management, employees who have a significant role in internal control or others where fraud could have a material effect on the financial statements.
9. We have also disclosed to you all information in relation to allegations of fraud or suspected fraud affecting the entity's financial statements communicated by current or former employees, analysts, regulators or others.
Assets and liabilities.
10. The company has satisfactory title to all assets and there are no liens or encumbrances on the company's assts, except for those that are disclosed in the notes to the financial statements.
11. All actual liabilities, contingent liabilities and guarantees given to third parties have been recorded or disclosed as appropriate.
12. We have no plans or intentions that may materially alter the carrying value and, where relevant, the fair value measurements or classification of assets and liabilities reflected in the financial statements.
13. We confirm that the value of the properties owned by Knowle Green Estates Ltd are as follows;

Property name	**Amount (£)**
Churchill Way	£1,008,987
Bugle House	£3,084,781
82 Cranford Road	£521,586
42 Kingston Road	£411,556
West Wing	£9,689,000
Benwell Phase 1	£20,762,500

Accounting estimates
14. The methods, data and significant assumptions used by us in making accounting estimates, and their related disclosures, are appropriate to achieve recognition, measurement and disclosure that is reasonable in the context of the applicable financial reporting framework.

Knowle Green Estates Ltd, Council Offices, Knowle Green, Staines-upon-Thames, TW18 1XB
xxxxxxxxx@xxxxxxxxxxxxxxxx.co.uk Telephone: 01784 446296

Knowle Green Estates Ltd is a local authority company registered in England and Wales (number 10170860) controlled by Spelthorne Borough Council. Registered office at Council Offices, Knowle Green, Staines-upon-Thames, TW18 1XB.

Knowle Green Estates Ltd

Loans and arrangements

15. The company has not granted any advances or credits to, or made guarantees on behalf of, directors other than those disclosed in the financial statements.

Legal claims

16. We have disclosed to you all claims in connection with litigation that have been, or are expected to be, received and such matters, as appropriate, have been properly accounted for and disclosed in the financial statements.

Laws and regulations

17. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

Related parties

18. Related party relationships and transactions have been appropriately accounted for and disclosed in the financial statements. We have disclosed to you all relevant information concerning such relationships and transactions and are not aware of any other matters which require disclosure in order to comply with the requirements of company law or accounting standards.

Subsequent events

19. All events subsequent to the date of the financial statements which require adjustment or disclosure have been properly accounted for and disclosed.

Going concern

20. We believe that the company's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the company's needs. We also confirm our plans for future action(s) required to enable the company to continue as a going concern are feasible. We have considered a period of twelve months from the date of approval of the financial statements. We believe that no further disclosures relating to the company's ability to continue as a going concern need to be made in the financial statements.

Specific matters

21. In particular, we make the following representations in relation to the financial statements for the year ended 31 March 2023:

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Knowle Green Estates Ltd

a. We confirm that a balance of £29,574,290 is due to the parent, Spelthorne Borough Council as at 31 March 2023.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware.

Each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

[redacted] [redacted]

Signed on behalf of the board of directors

Dated 18/10/23

Knowle Green Estates Ltd, Council Offices, Knowle Green, Staines-upon-Thames, TW18 1XB

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Knowle Green Estates Ltd

Appendix 1

	Profit increase /(decrease)	Assets increase /(decrease)	Liabilities increase /(decrease)	Shareholders' funds
	£	£	£	£
Profit/(Loss) per draft financial statements	(778,599)			
Deferred tax liability	(718,964)		718,964	
Westwing loan adjustment to principal and interest	(5,948)	(8,036)	(2,088)	
Benwell House loan adjustment to principal and interest	50,809	75,305	24,496	
Reversing accruals	61,330		(61,330)	
Accruals adjustments	(150,227)		150,227	
Reallocating principal loan repayments to SBC	252,893		(252,893)	
Depreciation adjustment	(39,990)	(39,990)		
Bank difference corrected	(7,080)	(7,080)		
Electricity recharge to SBC	47,000		(47,000)	
Revaluation of property	2,521,500	2,521,500		
Total adjustments	2,011,323	2,541,699	530,376	
Revised profit/(loss) per the financial statements	1,232,724			-

Appendix 2

	Profit increase /(decrease)	Assets increase /(decrease)	Liabilities increase /(decrease)	Shareholders' funds
	£	£	£	£
Revised profit/(loss) per financial statements as presented to the Board	1,232,724			
Over accrual of Smith & Byford repairs	1,159		(1,159)	
Late posted invoices	(3,115)		3,115	
Total adjustments	(1,956)	-	1,956	-
Potential revised profit/(loss) per the financial statements	1,230,768			

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Audit Committee

19 March 2024

Title	*To note the audited financial statements for Spelthorne Direct Services Ltd (SDS) for the year end 31 March 2023*
Purpose of the report	To note
Report Author	*Terry Collier Chief Finance Officer*
Ward(s) Affected	All Wards
Exempt	No
Corporate Priority	Community Addressing Housing Need Resilience Environment Services
Recommendations	**Committee is asked to note the report, and particularly the unqualified audit report.**
Reason for Recommendation	The Board of Directors of Spelthorne Direct Services Ltd approved the accounts for the year ended 31 March 2023 on 14 December 2023. The Auditors provided an unqualified audit report and the accounts have been filed at Companies House and with His Majesty's Revenue & Customs (HMRC), where there is no Corporation Tax to pay.

1. Summary of the report

What is the situation	Why we want to do something
• This Committee is responsible for the oversight over Spelthorne Direct Services (SDS). • Every year the accounts of SDS are subject to an independent audit. • This report is a backward looking and focuses on the year to 31 March 2023. • Note that the external auditors gave an unqualified (no significant	• As part of good governance, this Committee manages the relationship with SDS on behalf of Council. • The SDS Board have discharged their duties and obtained an unqualified audit report for the year end 31 March 2023.

findings of concern) audit opinion for the year end 31 March 2023. • After depreciation and interest charges, the Company made a profit of £46k (2021-22: £10k) for the year to 31 March 2023.	
This is what we want to do about it	**These are the next steps**
• To review the report and its appendices. • Question managers and the Directors about the results contained in the financial statements, the comments in the management letter and the Directors response in the Letter of Representation, noting that this was a straightforward audit assignment. • Focus on the figures for 2022-23, as the previous year has been noted by the Committee.	• That the Committee note the report.

2. Summary of the report

2.1 The unqualified audited accounts for the year ended 31 March 2023 were approved by the Spelthorne Direct Services Ltd (SDS) Board on 14 December 2023 and filed at Companies House.

2.2 The was no Corporation Tax to pay.

2.3 A summary of the profit and loss account on page 5 of Appendix A is shown below, noting that under Company Law, losses are shown as a negative figure and profits are shown as a positive figure, which is the reverse situation when reporting under the Chartered Institute of Public Finance Accountancy Code for Local Authorities:

	2022-23	**2021-22**
Turnover	£373,587	£199,598
Profit/(loss) for the year	£35,316	£58,893
Total equity	£45,658	£10,342

2.4 The business continues to grow steadily, given that it is a start-up business and the main changes during the year were as follows:

(a) Turnover almost doubled in the year as a result of winning a substantial contract.

(b) During the year, a new vehicle was acquired, and depreciation increased by £24k.

(c) Direct cost increased by £83k.

(d) Wages increased by £67k.

As the business grows, costs tend to take on a stepped change model, i.e., when a new contract is obtained, it is important that the company takes on resources to deliver the contract, in doing so, this provides spare capacity that takes time to fully cover new cost base, until additional contracts are obtained.

Budget monitoring for 2023-24 is forecasting a significantly higher profit then budgeted as turnover is substantially ahead of budget, with no further stepped increase in costs.

3. Key issues

3.1 Following a meeting with Tracey Wickens, the Senior Statutory Auditor at MGI-Midgely Snelling, the SDS Board of Directors formally accepted and signed the accounts (Appendix A) on 14 December 2023.

3.2 Also attached is the Management Letter from the Auditor, which states that:

(a) The was no change in the audit process.

(b) There were no significant findings coming from the audit.

(c) There was feedback on the bank reconciliation, which highlight a small difference, upon review this issue was successfully resolved and no cash was at risk.

However, these have not been reflected in the trial balance and the Chief Accountant is dealing with this matter in February.

Please note that both adjustments are favourable and under the company's materiality levels and will be adjusted accordingly going forward.

3.3 The auditors also provided confirmation:

(a) of an anticipated clean audit report being issued, subject to final checks and submissions.

(b) that the auditors agree with the Directors views on:

i) Going concern

ii) Accounting policies and disclosures

(c) that there were no related party issues.

(d) that all third-party confirmations were received.

(e) of MGI-Midgley Snellings independence.

3.4 As part of the normal audit process, the Directors were asked to review and sign the attached Letter of Representation (Appendix C). This letter sets out key affirmations that the Directors have made during the audit process.

3.5 Where adjustments are material, the Board requested that the financial statements were amended to reflect these adjustments. As a result of these adjustments the Spelthorne Borough Council Group accounts will need to be updated to reflect these favourable adjustments.

4. Financial implications

4.1 There are no further financial implications in respect of the financial accounts.

5. Risk considerations

5.1 There are no significant risk issues to draw to this Committee's attention.

6. Options analysis and proposal

6.1 Not applicable

7. Financial management comments

7.1 Explain the key financial headlines linked to appropriate data in appendices (if required).

8. Procurement comments

8.1 There are no Procurement implications in this report.

9. Legal comments

9.1 It is a requirement under section 441 of the Companies Act 2006 for accounts to be filed every year at Companies House.

9.2 As the sole shareholder of SDS, the Council should have sufficient oversight of the company's activities. This report assists with providing financial oversight and gives assurance that SDS is financially sound.

10. Other considerations

10.1 Detail any other considerations to be taken into account.

11. Equality and Diversity

11.1 Detail how the recommended proposals will impact equality and diversity and mitigation measures being taken.

12. Sustainability/Climate Change Implications

12.1 Detail how the proposal will support/impact sustainability/climate change issues.

13. Timetable for implementation

13.1 Set out a timetable, if required, showing when the proposal in the report will be implemented.

14. Contact

14.1 T.Collier@spelthorne.gov.uk

Background papers: There are none.

Appendices:
Appendix A – Signed Audited Accounts for Spelthorne Direct Services for the year end 31 March 2023.
Appendix B - Management Letter
Appendix C – Letter of Representation

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Company registration number 12700913 (England and Wales)

SPELTHORNE DIRECT SERVICES LTD

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023

SPELTHORNE DIRECT SERVICES LTD

COMPANY INFORMATION

Directors	J C Taylor P L P Taylor	 (Appointed 19 July 2022)
Secretary	F I Hussain	
Company number	12700913	
Registered office	Council Offices Knowle Green Staines-Upon-Thames Middlesex TW18 1XB	
Auditor	MGI Midgley Snelling LLP Ibex House Baker Street Weybridge Surrey KT13 8AH	

SPELTHORNE DIRECT SERVICES LTD

CONTENTS

SPELTHORNE DIRECT SERVICES LTD

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2023

The directors present their annual report and financial statements for the year ended 31 March 2023.

Principal activities

The company's principal activity during the period is the collection, treatment and disposal of non-hazardous waste and combined facilities support support activities.

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

J C Taylor	
T M Collier	(Resigned 19 July 2022)
P L P Taylor	(Appointed 19 July 2022)

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of disclosure to auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the company's auditor is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditor is aware of that information.

Small companies exemption

This report has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemption.

On behalf of the board

[redacted]

J C Taylor
Director

Date: 14/12/2023

SPELTHORNE DIRECT SERVICES LTD

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF SPELTHORNE DIRECT SERVICES LTD

Opinion

We have audited the financial statements of Spelthorne Direct Services Ltd (the 'company') for the year ended 31 March 2023 which comprise the profit and loss account, the balance sheet and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:
- give a true and fair view of the state of the company's affairs as at 31 March 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of our audit:
- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with applicable legal requirements.

SPELTHORNE DIRECT SERVICES LTD

INDEPENDENT AUDITOR'S REPORT (CONTINUED)
TO THE MEMBERS OF SPELTHORNE DIRECT SERVICES LTD

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report. We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemption in preparing the directors' report and from the requirement to prepare a strategic report.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

In planning and designing our audit tests, we identify and assess the risks of material misstatements within the financial statements, whether due to fraud or error. Our assessment of these risks includes consideration of the nature of the industry and sector, the control environment and the business performance along with the results of our enquiries of management, about their own identification and assessment of the risks of irregularities. We are also required to perform specific procedures to respond to the risk of management override.

As a result of this assessment, we considered the opportunities and incentives that may exist within the company for fraud and identified that the greatest area of risk was in relation to management override.

We have obtained an understanding of the legal and regulatory frameworks that the company operates in from discussions with the directors and our knowledge of the company and its industry sector. We have focused on the provisions of those laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act and local tax legislation.

SPELTHORNE DIRECT SERVICES LTD

INDEPENDENT AUDITOR'S REPORT (CONTINUED)
TO THE MEMBERS OF SPELTHORNE DIRECT SERVICES LTD

We performed the following audit procedures after consideration of the above risks which included the following:

- enquiry of management of actual and potential litigation and claims;
- reviewing correspondence with HMRC and the company's legal advisors;
- reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business; and
- reviewing meeting minutes between the directors and employees during the year.

The engagement partner has assessed that all engagement team members were made aware of the relevant laws and regulations and potential fraud risks and were reminded to remain alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. The risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

A further description of our responsibilities is available on the Financial Reporting Council's website at: https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

[redacted]

Tracey Wickens
Senior Statutory Auditor
For and on behalf of MGI Midgley Snelling LLP

Chartered Accountants
Statutory Auditor

Date: 22/12/2023

Ibex House
Baker Street
Weybridge
Surrey
KT13 8AH

SPELTHORNE DIRECT SERVICES LTD

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 MARCH 2023

		2023	2022
		£	£
Turnover		373,587	198,588
Cost of sales		(109,401)	(26,851)
Gross profit		264,186	171,737
Administrative expenses		(235,039)	(107,607)
Operating profit		29,147	64,130
Interest receivable and similar income		2	-
Interest payable and similar expenses	4	(14,792)	(5,237)
Profit before taxation		14,357	58,893
Tax on profit		20,959	-
Profit for the financial year		35,316	58,893

The profit and loss account has been prepared on the basis that all operations are continuing operations.

SPELTHORNE DIRECT SERVICES LTD

BALANCE SHEET

AS AT 31 MARCH 2023

	Notes	2023 £	2023 £	2022 £	2022 £
Fixed assets					
Tangible assets	5		356,956		63,734
Current assets					
Debtors	6	76,229		25,857	
Cash at bank and in hand		118,956		77,654	
		195,185		103,511	
Creditors: amounts falling due within one year	7	(113,483)		(53,903)	
Net current assets			81,702		49,608
Total assets less current liabilities			438,658		113,342
Creditors: amounts falling due after more than one year	8		(393,000)		(103,000)
Net assets			45,658		10,342
Capital and reserves					
Called up share capital	9		1		1
Profit and loss reserves			45,657		10,341
Total equity			45,658		10,342

These financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies regime.

The financial statements were approved by the board of directors and authorised for issue on 14/12/2023 and are signed on its behalf by:

[redacted]

J C Taylor
Director

Company Registration No. 12700913

SPELTHORNE DIRECT SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023

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1 Accounting policies

Company information

Spelthorne Direct Services Ltd is a private company limited by shares incorporated in England and Wales. The registered office is Council Offices, Knowle Green, Staines-Upon-Thames, Middlesex, TW18 1XB.

1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006 as applicable to companies subject to the small companies regime. The disclosure requirements of section 1A of FRS 102 have been applied other than where additional disclosure is required to show a true and fair view.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £.

The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are set out below.

1.2 Going concern

At the time of approving the financial statements, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future given the continued support from Spelthorne Borough Council. The directors feel that this facility is sufficient to enable the company to continue to trade over the next twelve months from the date of signing the accounts.

1.3 Turnover

Turnover is recognised at the fair value of the consideration received or receivable for goods and services provided in the normal course of business, and is shown net of VAT and other sales related taxes. The fair value of consideration takes into account trade discounts, settlement discounts and volume rebates.

1.4 Tangible fixed assets

Tangible fixed assets are initially measured at cost and subsequently measured at cost or valuation, net of depreciation and any impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Plant and equipment	10 - 20% straight line basis
Computers	20% straight line basis

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is credited or charged to profit or loss.

1.5 Cash and cash equivalents

Cash and cash equivalents are basic financial assets and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

1.6 Financial instruments

Basic financial assets

Basic financial assets, which include debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

SPELTHORNE DIRECT SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2023

1 Accounting policies **(Continued)**

Basic financial liabilities

Basic financial liabilities, including creditors, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

1.7 Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of transaction costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

1.8 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

Deferred tax

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

1.9 Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of stock or fixed assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

1.10 Retirement benefits

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

SPELTHORNE DIRECT SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2023

2 Judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

3 Employees

The average monthly number of persons (including directors) employed by the company during the year was:

	2023 Number	2022 Number
Total	5	3

4 Interest payable and similar expenses

	2023 £	2022 £
Interest payable and similar expenses includes the following:		
Interest payable to group undertakings	14,792	5,237

5 Tangible fixed assets

	Plant and machinery etc £
Cost	
At 1 April 2022	76,880
Additions	324,845
At 31 March 2023	401,725
Depreciation and impairment	
At 1 April 2022	13,146
Depreciation charged in the year	31,623
At 31 March 2023	44,769
Carrying amount	
At 31 March 2023	356,956
At 31 March 2022	63,734

SPELTHORNE DIRECT SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2023

6 Debtors

Amounts falling due within one year:	**2023 £**	**2022 £**
Trade debtors	55,269	25,856
Other debtors	1	1
	55,270	25,857

Amounts falling due after more than one year:	**2023 £**	**2022 £**
Deferred tax asset	20,959	-
Total debtors	76,229	25,857

7 Creditors: amounts falling due within one year

	2023 £	**2022 £**
Trade creditors	12,989	17,244
Amounts owed to parent undertakings	16,936	24,708
Taxation and social security	14,864	4,413
Other creditors	68,694	7,538
	113,483	53,903

8 Creditors: amounts falling due after more than one year

	Notes	**2023 £**	**2022 £**
Amounts owed to parent undertakings		393,000	103,000

Amounts included above which fall due after five years are as follows:

Payable other than by instalments	393,000	103,000

9 Called up share capital

Ordinary share capital	**2023 Number**	**2022 Number**	**2023 £**	**2022 £**
Issued and not fully paid				
Ordinary share of £1 each	1	1	1	1

SPELTHORNE DIRECT SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2023

10 Financial commitments, guarantees and contingent liabilities

At the date of the balance sheet, the company had an outstanding commitment of £200 (2022: £Nil) due in relation to employers pension costs.

11 Capital commitments

Amounts contracted for but not provided in the financial statements:

	2023	2022
	£	£
Acquisition of tangible fixed assets	-	280,458

As at 31 March 2022 the company had a capital commitment of £280,458. The commitment related to the purchase of a waste refuse vehicle which was delivered in August 2022.

12 Parent company

Spelthorne Direct Services Limited is a private company limited by shares and incorporated in England and is a wholly owned subsidiary of Spelthorne Borough Council who's registered office is Spelthorne Borough Council, Knowle Green, Staines-Upon-Thames, TW18 1XB.

SPELTHORNE DIRECT SERVICES LTD

DETAILED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 MARCH 2023

	2023		2022	
	£	£	£	£
Turnover				
Sales		373,587		198,588
Cost of sales				
Purchases and other direct costs				
Direct costs	103,251		26,851	
Waste disposal	6,150		-	
Total purchases and other direct costs	109,401		26,851	
Total cost of sales		(109,401)		(26,851)
Gross profit		264,186		171,737
Administrative expenses				
Wages and salaries	99,219		32,241	
Social security costs	10,774		3,135	
Temporary staff	8,505		13,724	
Subcontract labour	-		1,313	
Staff training	4,525		345	
Staff pension costs	2,468		1,290	
Rent	600		-	
Cleaning	60		-	
Insurance	2,182		-	
Computer running costs	2,131		4,718	
Hire of equipment (not operating lease)	-		1,225	
Motor running expenses	39,190		18,693	
Travelling expenses	-		80	
Postage, courier and delivery charges	131		243	
Professional subscriptions	11,638		9,374	
Audit fees	10,000		3,500	
Bank charges	1,894		884	
Bad and doubtful debts	668		-	
Printing and stationery	1,680		445	
Advertising	2,967		4,888	
Telecommunications	1,090		950	
Entertaining	288		208	
Sundry expenses	2,206		892	
Storage costs	1,200		1,200	
Depreciation	31,623		8,259	
		(235,039)		(107,607)
Operating profit		29,147		64,130
Interest receivable and similar income				
Bank interest received	2		-	
		2		-

SPELTHORNE DIRECT SERVICES LTD

DETAILED PROFIT AND LOSS ACCOUNT (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2023

	2023		2022	
	£	£	£	£
Interest payable and similar expenses				
Interest payable to group companies		(14,792)		(5,237)
Profit before taxation		14,357		58,893

mgi midgley snelling llp
CHARTERED ACCOUNTANTS

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Baker Street
Weybridge
Surrey KT13 8AH

Tel: +44 (0) 1932 853 393
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email@midsnell.co.uk
www.midsnell.co.uk

Report to management
PRIVATE AND CONFIDENTIAL

Our ref: TKW/MP/S1160/643422

Board of Directors
Spelthorne Direct Services Limited
Council Offices, Knowle Green
Staines – Upon – Thames
TW18 1XB

7 November 2023

Dear Sir/Madam

REPORT TO MANAGEMENT – SPELTHORNE DIRECT SERVICES LTD

During the course of our audit for the year ended 31 March 2023 a number of matters arose which we consider should be brought to your attention.

Accompanying this letter is a memorandum noting these points together with any recommendations we have for possible improvements which could be made.

These matters came to light during the course of our normal audit tests which are designed to assist us in forming our opinion on the financial statements. Our tests may not necessarily disclose all errors or irregularities and should not be relied upon to do so. However, if any irregularity did come to our attention during our audit tests, we would, of course, inform you immediately.

We have complied with the Financial Reporting Council's Ethical Standard and all threats to our independence, as identified to you in our planning communication letter dated 10 August 2023, have been properly addressed through appropriate safeguards. No additional facts or matters have arisen during the course of the audit that we wish to draw to your attention and we confirm that we are independent and able to express an objective opinion on the financial statements.

This report has been prepared for the sole use of the directors of Spelthorne Direct Services Ltd and must not be shown to third parties without our prior consent. No responsibilities are accepted by MGI Midgley Snelling LLP towards any party acting or refraining from action as a result of this report.

Finally, we would like to express our thanks to all of the company's staff who assisted us in carrying out our work.

Yours faithfully

[redacted]

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MGI Midgley Snelling LLP is a Limited Liability Partnership incorporated in England and Wales registration number OC377248. A list of member's names is available at the above address. Registered to carry on audit work in the UK and Ireland and regulated for a range of investment business activities by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at www.auditregister.org.uk under reference C003336128

SIGNIFICANT MATTERS RELEVANT TO OUR AUDIT FOR THE YEAR ENDED 31 MARCH 2023

Audit approach

There were no changes to our audit approach as set out to you in our letter dated 10 August 2023.

Summary of significant audit findings

Significant risk area identified at planning	Findings and recommendations
Revenue recognition Under ISA (UK) 240 there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the company could adopt accounting policies or recognise sales in such a way as to lead to a material misstatement in the reported revenue position.	We carried out a review and testing of revenue recognition policies, including transaction testing from source documents and cut off testing. From the testing performed, no issues were identified.
Management override of controls Under ISA (UK) 240 there is a presumed risk that management and directors have the ability to process transactions or make adjustments to financial records outside of the normal financial control processes. Such transactions could lead to a material misstatement in the financial statements.	We carried out a review of accounting estimates, judgements and decisions made by management. We performed testing of journal entries and cash book entries, including a review of unusual significant transactions. From the testing performed, no instances of management override of controls were identified.
Other areas where issues were identified during the audit	**Findings and recommendations**
Going concern Under ISA (UK) 570, the company's going concern has been considered.	From our review of forecasts and after discussions with management, the company looks in a positive going concern position. We concur with management's assessment that it is appropriate to continue to adopt the going concern basis and there are no material uncertainties relating to going concern which should be disclosed in the financial statements.

Internal controls

The purpose of the audit was for us to express an opinion on the financial statements. The audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. Our audit is, therefore, not designed to identify all control weaknesses and the matters reported below are limited to those deficiencies that we have identified during the audit.

Control weakness identified	Potential implications and recommendations
Bank difference We noted during testing that there was a small difference on the bank.	Errors can creep into the accounts when bank account balances do not agree to bank statements, therefore we recommend a monthly reconciliation is prepared to ensure the bank per the accounting records are in line with the bank statement and any timing differences are identified.

Summary of audit differences and draft letter of representation

We have attached a draft letter of management representations required in connection with our audit.

Attached to the letter of management representations is a schedule of all of the unadjusted misstatements noted during our work. We would be grateful if you could review these and confirm (as point 6 in the letter of representation) that you are satisfied that none of these need to be adjusted for in the financial statements.

Anticipated audit report

We anticipate that we will issue an unmodified audit report for the year, subject to the satisfactory clearance of any outstanding/unresolved the matters outlined in this report.

Going concern

We concur with management's assessment that it is appropriate to continue to adopt the going concern basis and there are no material uncertainties relating to going concern which should be disclosed in the financial statements.

Accounting policies, estimates and disclosures

The accounting policies used in preparing the financial statements are unchanged from the previous year.

Our work included a review of the adequacy of disclosures in the financial statements and consideration of the appropriateness of the accounting policies and estimation techniques adopted by the company. We found the disclosed accounting policies, significant accounting estimates and the overall disclosure and presentation to be appropriate for the company.

Related parties

We are not aware of any related party transactions which have not been disclosed.

Confirmations from third parties

All requested confirmations have been received.

Independence

In accordance with our profession's ethical guidance and further to our planning communication letter to you dated 10 August 2023 confirming audit planning arrangements there are no further matters to bring to your attention in relation to our integrity, objectivity and independence.

Independence (continued)

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. We do not accept any responsibility for any loss occasioned to any third party acting or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

PLEASE TRANSFER TO COMPANY LETTER HEAD

MGI Midgley Snelling LLP
Chartered Accountants
Ibex House
Baker Street
Weybridge
Surrey
KT13 8AH

Dear Sirs

The following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience such as we consider necessary in connection with your audit of the company's financial statements for the year ended 31 March 2023. These enquiries have included inspection of supporting documentation, where appropriate, and are sufficient to satisfy ourselves that we can make each of the following representations. All representations are made to the best of our knowledge and belief.

General

1. We have fulfilled our responsibilities as directors, as set out in the terms of your engagement letter dated 31 March 2023 under the Companies Act 2006, for preparing financial statements in accordance with applicable law and United Kingdom Accounting Standards (UK Generally Accepted Accounting Practice), for being satisfied that they give a true and fair view and for making accurate representations to you.
2. All the transactions undertaken by the company have been properly reflected and recorded in the accounting records.
3. All the accounting records have been made available to you for the purpose of your audit. We have provided you with unrestricted access to all appropriate persons within the company, and with all other records and related information requested, including minutes of all management and shareholder meetings.
4. The financial statements are free of material misstatements, including omissions.
5. We have considered the adjustments in Appendix 1. We confirm that, in our judgement, these adjustments are appropriate given the information available to us. We further confirm that we have now made these adjustments to the financial statements.
6. The effects of uncorrected misstatements (as set out in the Appendix 2 to this letter) are immaterial both individually and in total.

Internal control and fraud

7. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error, and we believe that we have appropriately fulfilled these responsibilities. We have disclosed to you the results of our risk assessment that the financial statements may be misstated as a result of fraud.
8. We have disclosed to you all instances of known or suspected fraud affecting the entity involving management, employees who have a significant role in internal control or others where fraud could have a material effect on the financial statements.

9. We have also disclosed to you all information in relation to allegations of fraud or suspected fraud affecting the entity's financial statements communicated by current or former employees, analysts, regulators or others.

Assets and liabilities

10. The company has satisfactory title to all assets and there are no liens or encumbrances on the company's assets, except for those that are disclosed in the notes to the financial statements.
11. All actual liabilities, contingent liabilities and guarantees given to third parties have been recorded or disclosed as appropriate.
12. We have no plans or intentions that may materially alter the carrying value and, where relevant, the fair value measurements or classification of assets and liabilities reflected in the financial statements.

Accounting estimates

13. The methods, data and significant assumptions used by us in making accounting estimates, and their related disclosures, are appropriate to achieve recognition, measurement and disclosure that is reasonable in the context of the applicable financial reporting framework.

Loans and arrangements

14. The company has not granted any advances or credits to, or made guarantees on behalf of, directors other than those disclosed in the financial statements.

Legal claims

15. We have disclosed to you all claims in connection with litigation that have been, or are expected to be, received and such matters, as appropriate, have been properly accounted for and disclosed in the financial statements.

Laws and regulations

16. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

Related parties

17. Related party relationships and transactions have been appropriately accounted for and disclosed in the financial statements. We have disclosed to you all relevant information concerning such relationships and transactions and are not aware of any other matters which require disclosure in order to comply with the requirements of company law or accounting standards.

Subsequent events

18. All events subsequent to the date of the financial statements which require adjustment or disclosure have been properly accounted for and disclosed.

Going concern

19. We believe that the company's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the company's needs. We also confirm our plans for future action(s) required to enable the company to continue as a going concern are feasible. We have considered a period of twelve months from the date of approval of the financial statements. We believe that no further disclosures relating to the company's ability to continue as a going concern need to be made in the financial statements.

Specific matters

20. All In particular, we make the following representations in relation to the financial statements for the year ended 31 March 2023:

  a. We confirm that no holiday pay accrual is necessary for inclusion in the financial statements;

  b. We confirm that an amount of £409,936 is due to the parent company, Spelthorne Borough Council as at 31 March 2023.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware.

Each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

[redacted]

Signed on behalf of the board of directors

Dated 14|12|23

White House Depot, Kingston Road, Ashford, Surrey, TW15 3SE 01784 605620

VAT # - 353008528 Company Reg # - 12700913 www.spelthornedirectservices.co.uk

APPENDIX 1

Reconciliation of draft to final accounts

	Profit increase /(decrease)	Assets increase /(decrease)	Liabilities increase /(decrease)	Shareholders' funds
	£	£	£	£
Profit/(loss) per draft financial statements	34,373			
Depreciation on motor vehicles	(20,099)	(20,099)		
Depreciation adjustment on plastic bins	83	83		
Deferred Tax	20,959	20,959		
Total adjustments	943	943	-	-
Revised profit/(loss) per financial statements as presented to the Board	35,316			

APPENDIX 2

Unadjusted errors or differences

	Profit increase /(decrease) £	Assets increase /(decrease) £	Liabilities increase /(decrease) £	Shareholders' funds £
Revised profit/(loss) per financial statements as presented to the Board	35,316			
Difference on audit accrual	(750)		750	
Holiday leave accruals	(536)		536	
Retained earnings adjustment in accruals written off	(300)		300	
Total adjustments	(1,586)	-	1,586	-
Potential revised profit/(loss) per the financial statements	33,730			

SPELTHORNE DIRECT SERVICES
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Spelthorne Borough Council
Services Committees Forward Plan and Key Decisions

This Forward Plan sets out the decisions which the Service Committees expect to take over the forthcoming months, and identifies those which are **Key Decisions**.

A **Key Decision** is a decision to be taken by the Service Committee, which is either likely to result in significant expenditure or savings or to have significant effects on those living or working in an area comprising two or more wards in the Borough.

Please direct any enquiries about this Plan to CommitteeServices@spelthorne.gov.uk.

Spelthorne Borough Council

Service Committees Forward Plan and Key Decisions for 28 February 2024 to 31 July 2024

Anticipated earliest (or next) date of decision and decision maker	Matter for consideration	Key or non-Key Decision	Decision to be taken in Public or Private	Lead Officer
Audit Committee 19 03 2024	External Audit Update	Non-Key Decision	Public	
Audit Committee 19 03 2024	Grant Thornton Audit Plan	Non-Key Decision	Public	Terry Collier, Deputy Chief Executive
Audit Committee 19 03 2024	Spelthorne response to the consultation on external audit arrangements	Non-Key Decision	Public	Terry Collier, Deputy Chief Executive
Audit Committee 19 03 2024	Updated Review of Self Assessment against CIPFA Financial Management Code	Non-Key Decision	Public	Terry Collier, Deputy Chief Executive
Audit Committee 19 03 2024	2023-24 Accounting Policies	Non-Key Decision	Public	Paul Taylor, Chief Accountant
Audit Committee 19 03 2024	Corporate Risk Management	Key Decision It is significant in terms of its effect on communities living or working in an area comprising two or more wards	Public	Punita Talwar, Internal Audit Manager
Audit Committee 19 03 2024	Counter-Fraud, Bribery and Corruption Strategy	Key Decision It is significant in terms of its effect on communities living or working in an area comprising two or more wards	Public	Punita Talwar, Internal Audit Manager

Date of decision and decision maker	Matter for consideration	Key or non-Key Decision	Decision to be taken in Public or Private	Lead Officer
Audit Committee 19 03 2024	KGE Accounts	Non-Key Decision	Public	Paul Taylor, Chief Accountant
Audit Committee 19 03 2024	SDS Accounts	Non-Key Decision	Public	Paul Taylor, Chief Accountant
Audit Committee 25 07 2024	Internal Audit Annual Plan 2024/25	Non-Key Decision	Public	Punita Talwar, Internal Audit Manager
Audit Committee 25 07 2024	Annual Governance Statement 2023-24	Non-Key Decision	Public	Terry Collier, Deputy Chief Executive
Audit Committee 25 07 2024	Procurement Progress Update	Non-Key Decision	Public	Hilary Gillies, Interim Corporate Procurement Manager
Audit Committee 25 07 2024	Corporate Risk Management	Key Decision It is significant in terms of its effect on communities living or working in an area comprising two or more wards	Public	Punita Talwar, Internal Audit Manager
Audit Committee 25 07 2024	External Audit Update	Non-Key Decision	Public	
Audit Committee	Operational Risk Registers	Non-Key Decision	Public	Punita Talwar, Internal Audit Manager
Audit Committee	Master List of Policies	Non-Key Decision	Public	Punita Talwar, Internal Audit Manager

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